KEY DETERMINANTS OF EFFECTIVE BOARDS OF DIRECTORS - EVIDENCE FROM NIGERIA

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Business Administration

by

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ABSTRACT

The 2008 financial crisis that led to the collapse of companies and economic recession in most countries has also increased the concern for transparency, accountability and regulatory oversight and once more put corporate governance and board effectiveness on the front burner of big business issues all over the world. The board is seen as a key player in governance of companies and there is need for a better understanding of how this body works. Majority of the research work in these areas has been in developed economies and not much work has been done in the area of board effectiveness in the emerging markets of Africa.

This thesis examines the relationship between key board characteristics and board effectiveness. It also explored the impact of certain mediators on this relationship. Unlike most studies on board which focus on firm performance and mostly in developed markets, this study was conducted in an emerging market and the focus was on board effectiveness.

Based on the work done by other researchers in developed economies the researcher developed a theoretical framework and a set of hypotheses to examine the relationship between board characteristics and board effectiveness and the impact of certain mediators on this relationship. Board characteristics considered in this research include board size, CEO duality, board independence, and board diversity. In addition, the impact of board human capital on board effectiveness was also considered. Additionally, the researcher examined if the relationships between board characteristics and board effectiveness will be affected by organization type, ownership, age and size.

The empirical examination of the hypotheses developed from the theoretical framework presented in this study show that board characteristics, apart from professional human capital, do not have any significant impact on board effectiveness. Board professional human capital was found to have a positive relationship with board operations and board cohesiveness and also with board effectiveness.

The results show that in Nigeria, board diversity and human capital are the most important board structural factors that impact board effectiveness. They also show that board processes of operations, cohesiveness and decision making have significant impact on board effectiveness. Finally the results show that board process factors are more important than board structural factors in determining board effectiveness. The study shows that these relationships were not significantly affected by organization type, ownership, age or size.

The study contributes to understanding of board effectiveness in an emerging market where board roles and processes are still developing; by examining both traditional variables such as board size, CEO duality, board independence and other organizational attributes such as board job related diversity and board professional human capital variables. In addition, this is the first study to examine board effectiveness in publicly quoted companies in Nigeria. The study will also contribute to better governance practices in Nigeria, where lack of good governance has been blamed for the slow economic development and growth.

The theoretical framework and the findings of this thesis are expected to stimulate scholars for further research into identifying the characteristics that boards must possess if they are to be active and effective. They should also stimulate practitioners and scholars of strategy, organizational behaviour and corporate governance to examine boards and their activities from many perspectives, particularly from the process side.

DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree of qualification of this or any other university or other institute of learning.

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DEDICATION

I wish to honour the memories of my beloved father (Obi Onweazu Ogbechie) and mother (Felicia Ogbechie) by dedicating this thesis to them. They influenced my life and shaped my values and aspirations. May God grant them eternal rest.

Above all, in gratitude, I dedicate this work to Almighty God who made this thesis possible at this stage of my life.

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CHAPTER 1: INTRODUCTION

1.1 Overview

In today's globalized world, the market place has become particularly challenging where good players must be firms who operate on rule-based systems rather than on relationship-based[1] ones. This brings to fore, the importance of corporate governance, which applies to both private and public institutions in a country. Both formal and informal institutions together govern the relationship between the people who manage corporations (management) and all others who invest resources in corporations in a country. These institutions include the country's corporate laws, securities laws, accounting rules, generally accepted business practices and prevailing business ethics (Oman, C., Fries, S., and Buiter, W., 2003). Thus, the institutions of corporate governance serve as a platform for regulating appropriate behaviour in any given economy. Shleifer and Vishny (1997, p. 737) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". John and Senbet (1998, p. 372) propose the more comprehensive definition that "corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected".

Since the mid 1980s, the issue of corporate governance has attracted a very significant level of attention both in academic research and in practice. The scandals at big global businesses such as Enron, WorldCom, Parmalat, Lehman Brothers and International News Corporation, in the last 10 years, have placed the corporate governance systems of modern corporations under close scrutiny. Each round of corporate scandals over the years sets off a fresh round of debate and corporate governance enhancements. The Asian financial crisis in the late 1990s led to the focus on insider trading. The Enron and WorldCom scandals led to the focus on the roles of audit committees and external auditors and board independence. The global financial crisis that erupted after the collapse of Lehman Brothers led to the focus on executive remuneration. At the heart of these corporate governance reforms and enhancements is a common interest in the effectiveness of boards of directors.

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1 Relationship-based systems are prone to conflict of interests and possible abuse, particularly in emerging markets, such as Nigeria.

The 2008 financial meltdown that led to the collapse of companies and economic recession in most countries has also increased the concern for transparency, accountability and regulatory oversight and once more put corporate governance and board effectiveness on the front burner of big business issues all over the world.

In the wake of corporate failures, numerous suggestions have been made about how to improve the governance of companies in order to rebuild trust. These corporate governance reforms focus primarily on the makeup and the working of the board (Van den Berghe and Levrau, 2004). The board is seen as a key player in governance of companies and as such there is the need for a better understanding of how this body works. Most of the research work in these areas has been in developed economies and not much work has been done in the areas of corporate governance and board effectiveness in the emerging markets of Africa.

Prior research on corporate governance in an African context include board characteristics and the financial performance of Nigerian quoted firms (Ujunwa, 2012), studies of SMEs (Kyereboah-Coleman and Biekpe, 2006; Abor and Adjasi, 2007), the impact of board attributes on capital structure and financial decisions (Abor and Biekpe, 2007), governance standards (Okike, 2007), perceptions of governance (Wanyama et al., 2009), board characteristics and involvement in strategic decision making – the Nigerian perspectives (Ogbechie et al., 2009), corporate governance practices of publicly quoted companies in Nigeria (Ogbechie and Koufopoulos, 2007), financial distress (Muranda, 2006), effects on capital markets (Kibuthu, 2005), overviews of corporate governance in Africa (Nganga et al., 2003), and studies of governance in the Nigerian context (Oyejide and Soyibo, 2001; Sademola and Soyibo, 2001).

There is a need for further research to understand better, document and operationalize board variables and board effectiveness especially in African markets like Nigeria. This thesis seeks to identify and examine the key factors that lead to effective boards of directors, which in turn impacts firm performance.

1.2 Importance of Boards

A lot of work and discussions on corporate governance involve boards of directors and highlight their importance to the success of the organizations they govern. Governance issues arise whenever ownership of an entity is separated from its management. Adam Smith in his 'Wealth of Nations' demonstrated that the concept of corporate governance was known as early as the eighteenth century, even though the phrase was not in use. According to him,

the directors of companies, being managers of other people's money, are not expected to watch over it with the same vigilance as they will over their own. This is the basis of agency theory proposed almost eighty years ago by Berle and Means (1932). Berle and Means (1932) in their influential treatise on the separation of shareholders' ownership and management's control in a corporation stated that agency problems arise when the principal (shareholders) lacks the necessary power or information to monitor and control the agent (managers). Agency problems still exist in the business world because the interests of firms' owners and managers (agents) are usually divergent (Dalton et al., 2007: 1) and hence potential for "managerial mischief".

According to Burlaka (2006), there are three types of problems that shareholders encounter when they seek to exercise their control over managers. First, small shareholders frequently lack the expertise and funds to monitor and assess the work of managers who have enormous information at their discretion. Second, large shareholders may have a conflict of interest, which can undermine their incentive to maximize firm value. Third, large shareholders may themselves be part of organizations that face governance problems.

Agency theory has been very popular in explaining the role of boards in mitigating the costs resulting from sub-optimal performance by agents, termed as agency costs (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983; Dalton et al., 2007). Other theoretical perspectives on corporate governance such as stewardship, resource dependency and stakeholder theories also enhance the understanding of the role of boards (Hillman and Dalziel, 2003; Hendry and Kiel, 2004; Freeman, Wicks and Parmar, 2004).

Stewardship theory views agents (managers) as stewards who manage their firm responsibly to improve the performance of the firm (Donaldson and Davis, 1991; Muth and Donaldson, 1998). Resource dependency theory considers agents (management as well as the board) as a resource since they would provide social and business networks and influence the environment in favour of their firm (Pfeffer and Salancik, 1978; Pearce and Zahra 1992; Johnson, Daily and Ellstrand, 1996; Carpenter and Westphal, 2001). While Stakeholder theory expects boards to take into consideration the needs of an increasing number of different stakeholder groups, including interest groups linked to social, environmental and ethical considerations (Freeman, 1984; Donaldson and Preston, 1995; Freeman et al., 2004). A good understanding of the different theoretical perspectives will give better insights into the contribution of boards to firm governance and performance.

The importance of role of the board in ensuring good corporate governance has been recognised in all the codes of corporate governance and laws that have been enacted in different parts of the world. After the Enron saga, the US government enacted The Sarbanes-Oxley Act of 2002, which puts pressure on the board to ensure adherence to regulations and standards leading to transparency and integrity. The penalties for non-compliance are aimed at improving oversight function of the board (Moeller, 2004).

In the UK, the Cadbury report on the financial aspects of corporate governance (1992), Greenbury report on directors' remuneration (1995), Hampel report on corporate governance (1998), Turnbull report on guidance of directors (1999), Higgs report on role and effectiveness of non-executive directors (2003), Combined Code on corporate governance (2003, 2008, 2010) and Walker report (2009) on financial institutions highlighted the role of the boards in good governance. South Africa released its first code of corporate governance, King Report I, in 1994, which coincided with the re-integration of South Africa with the rest of the world (Naidoo, 2002). A revised edition of the code was issued in 2002, King Report II, to keep in line with emerging trends in other parts of the world (Naidoo, 2002). A further revised edition, King Report III, was released in 2009 after the global financial crisis kicked off and these reports also stressed the role of boards in good governance.

In Nigeria the Securities and Exchange Commission (SEC) released a code of corporate governance (2003) for publicly quoted companies, which highlighted the role of boards in good governance. The Nigerian code was revised in 2010 to have more bite and bring it in line with global best practices. The new code applies to all publicly quoted companies in Nigeria and all other companies seeking to raise funds from the capital market through the issuance of securities or seeking listing by introduction. The code is not mandatory as companies are expected to comply or explain if they do not. It recommends a formal and rigorous annual evaluation of the board, the committees, and each individual director.

International organizations such as Organization for Economic Cooperation and Development (OECD) and International Corporate Governance Network (ICGN) have also developed guidelines for corporate governance with focus on the role of boards. The OECD first released its guidelines "Principles of Corporate Governance" in 1998 and revised it in 2004. The ICGN has provided a forum to facilitate international dialogue for major institutional investors, investor companies, financial intermediaries, academics and other parties interested in the development of global corporate governance practices (ICGN, 1999).

These principles have given rise to best practices that are being endorsed by G-7 countries, International Monetary Fund, the World Bank, International Finance Corporation, the United Nations and other international organisations (ICGN, 1999). The common denominator of all these codes and practices is their emphasis on the importance of an independent and competent board (Carlson, 2001).

A good board can play a significant role in ensuring good firm performance. Boards can provide link between the firm and its environment, secure critical resources (Williamson, 1996; Hillman et al., 2000). The board has an important role to play in helping management make strategic decisions (Fama and Jensen, 1983, Davies, 1999; Kemp, 2006). Another important role of boards is to act as a mechanism of internal governance and monitoring of management (Barnhart, Marr and Rosenstein, 1994; Shleifer and Vishny, 1997). By performing these roles, an effective board is likely to help the firm achieve superior performance (Hawkins, 1997; Gompers, Ishii, and Metrick, 2003). It is therefore important to study and understand what makes boards of directors effective.

1.3 Renewed interest in Boards

Recent corporate governance scandals in various parts of the world have again put the spotlight on board of directors. These scandals which include Enron, WorldCom, Tyco International in the United States, HIH insurance in Australia, Parmalat in Italy, Saytem in India and Air New Zealand's disastrous experience with Ansett Australia highlighted the inadequate role played by the boards and failure of corporate governance processes (France and Carney, 2002; Weekend Herald, 2003, Economist, 2003; Lockhart, 2004). The public uproar after the Enron collapse led to enactment of 'The Sarbanes-Oxley Act 2002' in the US (Moeller, 2004) and similar regulations or corporate governance codes in many other countries. The pressure is now on boards to live up to their responsibilities and reduce or eliminate corporate governance abuses.

In the last few years there has been more pressure on boards to show how they govern and add value to their companies. How to enhance board effectiveness has become a focus of attention and debate amongst corporate governance experts and researchers.

There has been renewal of interest in understanding the roles of boards and top management and how they could be made more effective. First, there has been a deep sense of dissatisfaction amongst shareholders regarding the poor performance of corporations, raising questions about the competency of boards, corporate greed and falling shareholder

value (Sherman and Chaganti, 1998; Vint, Gould and Recaldin, 1998). Second, there has been a phenomenal growth in the number of institutional investors such as pension funds, mutual funds, banks, and insurance companies, who have the necessary resources and expertise to perform their fiduciary duty of ensuring good governance and returns by monitoring the board decisions (Hawkins, 1997; Sherman and Chaganti, 1998; Becht, Bolton, and Roell, 2003). Third, there has been an increasing realisation on the part of corporations that a good board is a source of strength in several ways such as attracting investment capital, improving valuations and share price performance, and providing better long-term shareholder returns (Vint et al., 1998; Lee, 2001; Carlsson, 2001). Good governance practices are now recognised to serve as sources of economic growth in many countries (Healy, 2003).

The performance of a company generally reflects the quality of its directors and the effectiveness of its board. According to Nicholson and Kiel (2004) an effective board and an effective management team should produce positive performance. In a similar fashion, poor board effectiveness and poor management effectiveness will lead to poor corporate performance. Sufficient insight into the complex web of criteria which enables boards of directors to be effective in conducting their roles and ultimately creating shareholder wealth has not been fully explored. In this respect, Zahra and Pearce (1989) argued that there is "a growing awareness of the need to understand better how boards can improve their effectiveness". Since then several governance literatures have rekindled interest in understanding the effectiveness of boards. The impact of these studies is reflected in recommendations put forward in the Codes of Good Governance published in most developed and emerging countries. Recommendations such as reducing board size, including outsider board members and independent directors, encouraging committees on the board and proactive meetings, or separating the positions of chairman and CEO, have been put forward. So far, concise models of how boards should function have not yet been found (Hermalin and Weisbach, 2003). More recent research studies have tried to seek optimal solutions to the problem of governance by modelling board behaviour (Adams and Ferreira, 2007; Drymiotes, 2007; Gillete et al., 2007; Hermalin and Weisbach, 2007; Harris and Raviv, 2008).

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1.4 Past studies on Board Effectiveness

Empirical studies on boards of directors have to a large extent been driven by the question of how much the board can influence firm performance. Various researchers have

examined the direct impact of different board attributes on firm performance. Using financial performance as a proxy, they have explored boards' effectiveness in protecting shareholders' interests, but have mostly shown inconclusive results (Coles, et.al. 2001).

Another group of research work has investigated the influence of board attributes on the performance of board roles, suggesting an indirect causal relationship between boards of directors and company performance (Deutch, 2005). A common feature of all these studies however, is the focus on a limited number of characteristics related to board composition, such as outsiders' representation, board size and CEO duality. There are other studies which try to examine the impact of board committees (Kesner, 1988), director characteristics (van der Walt and Ingley, 2003) and board processes (Cornforth 2001). Insight into how boards of directors operate effectively in creating shareholder wealth is still of interest for further exploration. Nicholson and Kiel (2004) developed a framework for diagnosing board effectiveness but has not been tested empirically. Levrau and Van den Berghe (2007) have also developed a process-oriented model for determining board effectiveness. This model, which is yet to be tested empirically, strongly relies on the input-process-output approach used in research frameworks for studying organizational teams.

1.5 Board Research in Emerging Markets

Emerging markets play an increasingly important role in the global economy, given their high economic growth prospects and their improving physical and legal infrastructures. For some investors, emerging markets offer an attractive opportunity, but they also involve multifaceted risks at the country and company levels. These risks require investors to have a much better understanding of the firm-level governance factors in different markets.

Corporate governance is the most researched aspect of boards in the emerging market. For the past three years, approximately 1,000–1,200 papers are published each year on the Social Sciences Research Network with the term "corporate governance" appearing as a key word in the abstract. Most of these researches have concentrated in the developed economies while less than 1 per cent focus on emerging markets. These numbers indicate a relatively limited scholarly focus on emerging markets, possibly due to data limitations. Equally noteworthy is that much of the work done so far has focused on board structures, for which data are relatively more available. Work on board processes, performance and effectiveness have been quite scanty, especially in the specific case of Nigeria, which is the second largest

economy in Africa and an important potential economic power in emerging markets. This research is aimed at gaining further insights into the concept of board effectiveness. This is informed by the belief that board effectiveness is determined by a large and interrelated set of variables which have to be better understood through further board research. The focus is on understanding the key determinants of effective board of directors employing evidence from publicly quoted companies in Nigeria. The motivating question is how do boards of publicly quoted companies in Nigeria operate and what factors determine their effectiveness?. Also explored are the interrelationships between those/ determinants, board characteristics and board effectiveness.

The fact that different companies operating in Nigeria, in the same industry/sector and market environment and under the same regulatory arrangements generate different outcomes can be explained in terms of differences in the way they are run. How these companies are run is usually determined by their boards and this has generated interest in understanding how these boards operate or function.

1.6 Research Problem

1.6.1 Corporate Governance Challenges and Board Effectiveness

The various global corporate governance failures in the last 10 years and the global financial crisis of the last 4 years have put pressure on boards to live up to their responsibilities. Most countries in the world, including emerging markets, had to take stock of how they fared. Walker (2009) reviewed corporate governance in UK banks and came up with recommendations which included improving the quality of boards, their functions, performance evaluation, remuneration and risk management capabilities. In South Africa, the King III code emerged and in Nigeria, the Securities and Exchange Commission (SEC) code was revised. Whilst these changes were aimed at making corporate boards more effective, there are still challenges as to how these boards are constituted and structured, how they operate in terms of processes and how they perform their various roles.

1.6.2 Research Questions

Using Nigeria as the contextual setting for emerging markets, the development of effective boards could be achieved through the provision of the following research questions:

RQ1. What are the effects of board characteristics on board cohesiveness, board decision-making, and board operations?

RQ2. What are the effects of board human capital on board cohesiveness, board decision-making, and board operations?

RQ3. What are the effects of board cohesiveness, decision-making and operations on board effectiveness (board control, service, and strategic roles)?

1.6.3 Research Objectives

Controlling for various covariate factors such as industry and sector similarities and market and environmental sameness, we argue that disparities in outcomes can be explained in terms of differential board characteristics. How companies perform is seen as a function of the way they are run given the type of boards and their effectiveness in performing their roles.

The most discussed issues regarding boards of directors are how to organize them and what characteristics they need to posses if they are to function effectively. With regard to the factors that influence board effectiveness, Carter and Lorsch (2003, p. 8) explain that ‘‘structure, composition, and processes are the explicit design choices every board must make.”

This dissertation therefore seeks to identify and examine the key factors that lead to effective boards of directors, which eventually contribute towards firm performance. In the process of conceptualising board effectiveness and operationalizing board performance in an emerging market, this study aims to achieve the following objectives:

- Develop a conceptual framework of board effectiveness and test it empirically. This will assist in gaining a more profound insight into the concept of board effectiveness. This is based on the belief that board effectiveness is determined by a large and interrelated set of variables which have not been fully explored in mainstream board research.
- Determine the factors that influence board effectiveness. This study is focused on understanding the key determinants of effective boards of directors and the drivers of these determinants, using data from publicly quoted companies in Nigeria.

1.7 Motivation for the Research

Corporate governance becomes particularly important in developing and emerging-markets, like Nigeria, because of the prevalence of relationship-based institutions in both the economic and political spheres, since the various legal institutions tend to be weak. This scenario has given rise to countless abuse of corporate privileges by corporate insiders and their allies, which has resulted in the expropriation problem[2].

In the last ten years, corporate governance has become one of the most debated business issues in Nigeria. In 2003 the Securities and Exchange Commission (SEC) of Nigeria came up with a code of Best Practices for Public Companies in Nigeria, SEC (2003)[3] and this was reviewed in 2010. In 2006, the Central Bank of Nigeria[4] came up with corporate governance code for banks operating in Nigeria arising from the consolidation exercise in the industry. Furthermore, recent developments[5] in the Nigerian banking industry, which forced the Central Bank of Nigeria to intervene in 8 banks, have added more interest to the discussion on corporate governance and board effectiveness in Nigeria.

Weak legal institutions in Nigeria have further reinforced the need for strong and effective boards to ameliorate these weaknesses. The effectiveness of boards in Nigeria will therefore have a significant impact on the state of corporate governance at firm level and also in the country. The need to understand the issues that make these boards more effective in performing their roles is therefore a pressing one.

Prior to an academic career, the researcher had worked as the marketing director of a big multinational company in Nigeria and currently sits on several boards that include public and private companies. The researcher has over twenty five years of board experience and has encountered several governance challenges on these boards and these have led him to see how best to put some theoretical perspective into the practical experiences that have been encountered on these boards. This is a critical motivation for this study and thesis

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2 That is corporate insider use of their effective control over resources to exploit other investors and generate corporate control rents to their advantage

3 See www.sec.ng

4 See www.cbn.org

5 Many banks in Nigeria had liquidity problems arising from toxic assets in margin trading and downstream petroleum business.

1.8 Theoretical Framework

The research is based on the theoretical framework below (figure 1), which is adopted from the work by Nicholson and Kiel (2004) and Levrau and Van den Berghe (2007).

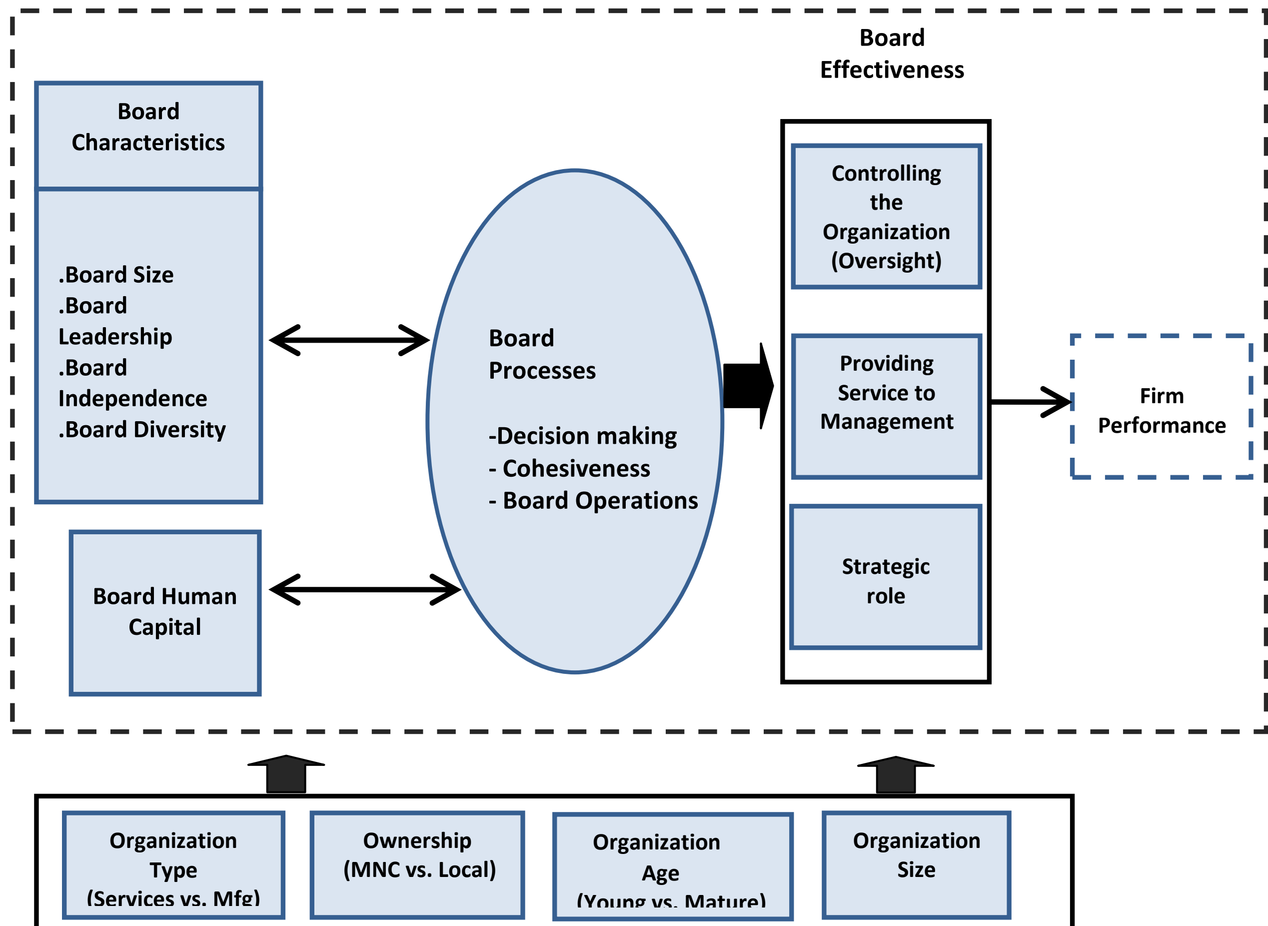

Figure 1.1: Theoretical Framework

The framework is based on the premise that board characteristics and board human capital have impact on board processes, which in turn have impact on board effectiveness. Board human capital is the individual knowledge, skills and abilities possessed by directors (Nicholson & Kiel, 2004). Board effectiveness is determined by how well board control (monitoring), board service and board strategic roles are carried out. The board characteristics in the framework are board size, board leadership, board independence, and board diversity. The board processes considered are board decision-making, board cohesiveness and board (administrative) operations. The study investigates the impact of various board characteristics on board decision-making process, cohesiveness and the operations undertaken by the board to serve the firm. It also considers the impact of these board characteristics, board decision

making, cohesiveness and operations on board effectiveness. The framework does not include firm performance. However, it is assumed that board effectiveness will lead to good firm performance.

1.9 Research Methodology

The vast majority of studies on boards of directors have relied upon quantitative data gathering techniques (Daily et. al.2003). These techniques include mainly large archival data; while a subset of board studies have also used questionnaires. Levrau and Van den Berghe (2006), in their study of Belgium boards used a mixed method design (Teddlie and Tashakkori, 2003). They opted for a sequential exploratory design (Creswell et. al., 2003), which is a two phase approach whereby the collection and analysis of qualitative data in an initial phase is followed by a phase of quantitative data collection and analysis.

In this study the quantitative approach was adopted because of the difficulty of engaging top executives in interviews as a result of their busy schedules. The quantitative research instrument was developed from the materials that other researchers had developed. Structured questionnaires, accompanied by a personalized letter, were mailed to the chairpersons and directors of all publicly quoted companies in Nigeria. Follow up phone calls and reminder mail waves were used to ensure good response rate.

Principal component analysis (PCA) was used to extract the relevant factors that were employed in a simple least squares regression methodology to analyse the data.

1.10 Contribution of the Study

This study has developed a framework that is more applicable to an emerging market and has gone beyond theoretical framework to testing the framework empirically, which is a step beyond what most researchers in this area have done. This thesis therefore, fills an empirical gap in the literature. It contributes to the body of knowledge on board of directors' performance and effectiveness, particularly in emerging markets. It also contributes to a better understanding of board dynamics and gives salient insights into key considerations for appointing directors in emerging markets such as Nigeria.

1.11 Outline of the Thesis

The thesis consists of nine chapters. Chapter one gives an overview of the study and explains the importance of the study. It also discusses the motivations for undertaking the study and the contribution it makes to the body of knowledge.

Chapter two gives a comprehensive description of Nigeria as a means of having a good understanding of the context of the study.

Chapter three provides detailed review of relevant literature. It first discusses the various models of boards and corporate governance in general. Then the chapter looks at different theoretical perspectives relating to boards and their effectiveness. The chapter further reviews the literature related to board characteristics and effectiveness.

Chapter four presents the theoretical framework and hypotheses for explaining the relationships between board characteristics, board human capital, board processes and board roles/tasks.

Chapter five gives the methodology adopted for this research, along with the research design. It describes the sample, data sources, data collection, variables and the statistical tools used for data analyses. The last section of this chapter discusses the context of the study (Nigeria) and peculiar problems associated with data collection in Nigeria.

Chapter six focuses on the descriptive statistics employed in analysing the data collected. Chapter seven presents the results of factor analysis of the data and narrowing down on the new dependent, independent and mediator constructs and variables.

Chapter eight presents the results of the correlation and regression analyses of the data and implications of the results for theory development, board formation, professionals and policy makers.

Chapter nine concludes the thesis by summarising the main findings and the contributions for practitioners and academia. This chapter also identifies the limitations of the current study and concludes with a set of recommendations for future research.

1.12 Summary

This introductory chapter presents a synopsis of the entire thesis. Starting with a background overview of corporate governance and board performance, it then explores the importance of boards and the renewed interest in boards arising from the governance scandals in various parts of the world. The overview of past studies in board effectiveness sets the

stage for the introduction of the research problem and objectives. The research methodology and the contribution of the study are then introduced followed by the thesis outline.

CHAPTER 2: NIGERIA – CONTEXT OF THE THESIS

2.1 Introduction

This chapter discusses the context of the thesis research, which is Nigeria. First section looks at the geography and socio-economic issues of the country. Corporate governance development in the country is discussed in the second section. The third section reviews board in Nigeria and the fourth section reviews the structure of the Nigerian stock market.

2.2 Overview of Nigeria

The research for this thesis was carried out in Nigeria and so it is important to have a good understanding of the country in terms of political, economic, social and cultural factors. Nigeria is a country in West Africa with land area of 923,773 square metres and an estimated population of 163 million[6]. The country, which is a former British colony, is an assemblage of people of different tribes, cultures, languages and religions, necessitated by the colonial interests of the then British government to ease the governance of the country. The predominant ethnic groups and languages in Nigeria are the Hausas in the north, Yorubas in the west and Ibos in the east. The country's government and politics have been conditioned and be-deviled by the problems of accommodating several diversities: ethnic, linguistic (there are between 250 and 400 distinct languages), geopolitical, religious (there is a deepening cleavage between Christians and Muslims), and class. English is however the official language and medium of communication in schools and in business.

The Nigerian economy is largely dependent on its oil sector, which supplies about 95% of its foreign exchange earnings. Despite its rich natural resources, Nigeria has a per capita income of around US$1460 per annum and life expectancy of 48.4 years (UNDP Human Development Report 2010[7]).

Nigeria is a leading power on the continent of Africa given its sheer size and resource base. The country is a large supplier of oil to the US, although the growing exploitation of

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6 See http://www.doingbusiness.org

7 http://hdr.undp.org

unconventional oil and gas supplies in North America will mean that Nigeria will need to look for alternative markets over the longer term.

Over the last few years the Nigerian government had operated with significant deficit budget every year and this deficit had been around the 3 - 5% of GDP level. Deficits of this level are considered sustainable, provided that the efficiency of expenditure is steadily increased and translate into higher longer-term economic growth. The deficit had been financed largely by domestic borrowing but in 2010 the government indicated its intention to borrow a greater share of the debt from external sources. This was to allay fears locally that government borrowing was crowding out the private sector. A debut US$500m Eurobond was launched successfully in January 2011 and based on that success the government might return to international capital markets in the future.

Going forward, the government is targeting more prudent fiscal policy, and the generally favourable oil price environment will make this possible via strong revenue. However, expenditure control will prove more difficult. Economic expansion will be buoyed by robust performance in the non-oil sector and real GDP growth is expected to average above 7% in the near future. Tighter monetary and fiscal policy should help control inflation but stronger growth and higher commodity prices could see it increase.

However, the public sector is very weak and, on top of this, corruption threatens to crumble the country. As such, compared with the Western standard, there is a near collapse of governance in Nigeria. Corruption has increased the cost of doing business in the country. The 2012 Transparency International Corruption Report[8] ranked Nigeria 139 out of 174 countries in its corruption index.

In sum, businesses wishing to operate in Nigeria face many constraints, including poor infrastructure, particularly poor and inadequate road networks and electricity supply; inadequate physical security; corruption; weak enforcement of contracts, and the high cost of finance. These factors have deterred foreign entrepreneurs from investing in Nigeria and induced many Nigerians to take their money and skills abroad (NEEDS 2005: xv). The World Bank Report "Doing Business 2012[9]", rates Nigeria 131 out of 185 countries (125 in 2010) in terms of ease of doing business. The World Bank, in an investment assessment in that report, showed that 80 per cent of businesses in Nigeria offer bribes to government officials. It also

8 http://cpi.transparency.org
9 http://www.doingbusiness.org

added that the country remains the most attractive investment destination in Africa despite the high rate of corruption.

2.3 History and Development of Corporate Governance in Nigeria

Present Nigerian firms as institutions of socioeconomic production and exchange originated within the context of colonial imperialism and have therefore evolved in the context of modernisation and contact with the Western world. Nigeria gained independence from Britain in 1960. Before the contact with the West the mode of production was largely agrarian and peasantry in nature. The first generation of Nigerian firms evolved towards the end of the slave trade. The United Africa Company (UAC), founded by George Goldie in 1879, was one of the earliest modern firms that operated in the area that later became Nigeria.

The first company law in Nigeria was the Companies Ordinance of 1912, which was a local enactment of the Companies (Consolidation) Act 1908 of England; even the current company law of Nigeria (now known as the Companies and Allied Matters Act 1990, CAMA) is largely modelled on the UK Company Act 1948 (Guobadia, 2000). As a result, issues relating to the conduct and governance of Nigerian corporations have their roots in the country's colonial past (Okike, 2007). Nigeria thus inherited the British corporate governance system.

At the assumption of independence, expatriates dominated the investment opportunities and sources of capital accumulation in Nigeria. This inhibited the accumulation and reinvestment of capital by Nigerian investors who were not economically strong to compete with the foreign investors and multinational corporations. These inabilities to compete made the Nigerian investors to become mere intermediaries between the foreign entrepreneurs and the Nigerian state, or, were finally made to turn to the state as a source of capital. This resulted in an increased intervention of the state in investment and entrepreneurship, which in turn arrogated to the state and the members of the political class a huge advantage of monopoly over economic investments and highly profitable government contracts. Politics has also become one of the primary sources of capital accumulation by Nigerians. All these have fuelled corruption in the country with rulers dipping their hands in the treasury of the country with a high level of impunity.

The post-independence (after 1960) Nigerian economy was public sector-driven with government at both Federal and state levels investing in most sectors. In the 1970s the

government embarked on a massive indigenization program which aimed at achieving some level of economic independence by getting more Nigerians involved in the private sector at the expense of foreign investors in all sectors of the economy. The 1980 and 90s was the era of privatization, with government divesting from businesses and moving the economy to become private sector-driven. This did not result in dispersion of ownership but rather created companies with core and dominant investors. These dominant investors determined the composition of the boards of the companies they own.

In Nigeria, most businesses in the formal sector are not publicly listed and only about 213 companies are listed in the Nigerian Stock Exchange (NSE). All the others, over 500,000, are operating outside the legislation governing the capital market. These companies are mainly small and family owned. In contrast to the Anglo-Saxon world, where corporate ownership is typically dispersed among many shareholders, a high percentage of listed companies in emerging markets such as Nigeria have dominant shareholders (Barton and Wong, 2006). This ownership structure has significant effect on corporate governance practice as the dominant shareholders tend to have control over top management and board appointments.

The basic law that guides the operations of companies in Nigeria is the Companies and Allied Matters Act (CAMA) of 1990. It clearly specifies the duties and responsibilities of directors and recognises the board of directors as the most important body that can ensure good corporate governance practices in a firm. The CAMA 1990 requires every private company registered in Nigeria to have at least two directors on its Board (one-tier model). The directors have a statutory duty to act at all times in what they believe to be the best interests of the company as a whole so as to preserve its assets, further its business and promote the purposes for which the company is formed. They must prepare financial statements, which reflect a "true and fair" view of the company's affairs during the financial year and must be presented to shareholders for their approval at the annual general meeting (AGM).

The directors must also prepare a Directors' Report providing an overview of the company's development, its principal activities during the year and any significant changes in those activities. These provisions are aimed at ensuring the effectiveness of boards and their accountability to shareholders and other stakeholders.

An interesting thing about boards in Nigeria is the degree of diversity arising from the need to reflect a national character. In Nigeria the agitation for even and fair distribution of national resources amongst the various ethnic groups transformed into the entrenchment in the constitution of the country the Federal Character concept. The concept implies that appointments in government organizations and institutions should reflect the diversity of the country as all sections should be represented. Federal character and quota system in Nigeria is similar to the affirmative action policy in America.

The letter and spirit of Federal Character imply the composition of the government of the federation or any of its agencies and the conduct of its affairs shall be carried out in such a manner as to reflect the Federal Character of Nigeria and the need to promote national unity, and also to command national loyalty, thereby ensuring that there shall be no predominance of persons from a few states or from a few ethnic or other sectional groups in that government or in any of its agencies. This should also be extended to the states of the country. This concept has also filtered into the private sector even though the constitution does not demand it.

The importance of true and effective implementation of federal character in public appointments to reflect the multi-variables of a multi-cultural, multilingual, multi-religious Nigeria's national development cannot be over emphasised. It is important, particularly, in a plural society such as Nigeria, that all citizens feel a sense of equal voice, equal representation and equal participation. No citizen or group of citizens should feel marginalized. The sectional polarization has in recent times manifested itself in what is now known as "ethnic militias" that have led to several social unrests in the country. These groups emerged to protect their collective ethnic or regional interests.

The adverse effect of Federal Character is the promotion of mediocrity or neglect of merit in appointments. This is because professionals and experienced individuals could be over-looked due to the fact that they are more in one part of the country than the order. In addition Ethnicity and Religion are two issues that have also played dominant roles in the way of life and governance in Nigeria and Africa in general. The corporate governance implications of Federal Character in board appointments include having directors that are not competent and knowledgeable, and allegiance to shareholders that are responsible for their appointment.

2.3.1 The Code of Corporate Governance Best Practices for Public Companies in Nigeria

The global concern for good corporate governance has also been extended to Nigeria as a result of various corporate governance problems that have arisen in some publicly quoted companies over the past ten years. This has made corporate governance one of the most debated business issues in Nigeria and has prompted a number of regulatory organizations to set up corporate governance structures. In 2001 the Securities and Exchange Commission (SEC) of Nigeria set up a committee that came up with a code of Best Practices for Public Companies in Nigeria ("the Code") that became operational in 2003. The review of the code began in 2010 and finally became operational in March 2011.

In 2005 the Institute of Directors of Nigeria set up a Center for Corporate Governance to champion the cause of good corporate governance amongst its members. Furthermore in March 2006, the Central Bank of Nigeria (CBN) issued corporate governance guidelines for banks operating in Nigeria.

The Nigerian code of Corporate Governance is primarily aimed at ensuring that managers and investors of companies carry out their duties within a framework of accountability and transparency. This should ensure that the interests of all stakeholders are recognized and protected as much as possible.

The code of Best Practices for Public Companies in Nigeria ("the code") is voluntary even though it is recommended that all Nigerian public companies comply with the code and are required to state reasons for non-compliance should they at any time fail to comply with it. The code has as its main target the boards of Directors of all public Companies operating in Nigeria, but the Securities and Exchange Commission (SEC) of Nigeria who put together the code is encouraging as many Companies as possible to adopt the code.

The code outlines the main duties and responsibilities of the board to include balancing the interests of the stakeholders, ensuring that the Company performs to high business and ethical standards and providing sound advice to management.

The code recommends that the Board of Directors shall be composed of Executive and non-Executive Directors under the leadership of a Chairman, so as not to exceed 15(fifteen) persons or be less than 5(five) persons in total. The code recommends that the

roles of the chairman and the CEO should be separate and where the Chairman is also the Chief Executive, it is important to have a ”strong independent element” on the board. It also recommends that the number of non-executive directors should be more than the number of executive directors and the appointment of at least one independent director to ensure further independence of the board. However, many governance experts are of the opinion that one independent director is too minimal for this purpose.

The code recommends that members of the Board should be individuals with, upright personal characteristics, relevant core competences and entrepreneurial spirit. They should have a record of tangible achievement and should of knowledgeable in Board matters. Members should possess a sense of accountability and integrity and be committed to the task of good corporate governance.

Another interesting recommendation of the code is that directors should not be members of Boards of companies in the same industry to avoid conflict of interest, breach of confidentiality and misappropriation of corporate opportunity.

The code recommends the establishment of the following board committees the Audit Committee, Governance/Remuneration Committee and Risk Management Committee and such other committees as the Board may deem appropriate depending on the size, needs or industry requirements of the company.

The code recommends that the Board should establish a system to undertake a formal and rigorous annual evaluation of its own performance, that of its committees, the Chairman and individual directors. The evaluation system should include the criteria and key performance indicators and targets for the Board, its committees, the Chairman and each individual committee member

2.3.2 Code of Corporate Governance for Banks in Nigeria

At the end of the consolidation exercise in the Nigerian banking industry, the Central Bank of Nigeria (CBN), in March 2006, released the Code of Corporate Governance for Banks in Nigeria, to complement and enhance the effectiveness of the SEC code, which was implemented at the end of 2006. The three major governance issues that attracted the attention of the regulators are directors’ dealings, conflict of interest and creative accounting. The main objective was to restore public confidence through the enthronement of good governance.

The CBN code is mandatory and all banks are expected to compile and CBN inspectors are expected to enforce the compliance. The code recommends a board size of 5 to 20 directors, the separation of the positions of the CEO and chairperson, majority non-executive directors, and the appointment of 2 independent directors. The code also recommends tenor limit for CEO (10 years) and directors (12 years), a recommendation that is not in the SEC code.

The code also recommends annual performance evaluation of the board and individual directors and the evaluation report presented to the shareholders at the annual general meeting and a copy sent to the CBN. The establishment of the following committees are recommended by the code, Audit, Credit, Risk Management, and Governance.

The Central Bank of Nigeria code is also being reviewed as a result of corporate governance failures that led to the near collapse of ten of the twenty four banks operating in Nigeria in 2009.

2.3.3 Corporate Governance Mechanism

Corporate governance mechanisms are the processes and formal systems by which a country's corporate laws, regulations and corporate governance codes are enforced. The most important aspect of a country's corporate governance mechanism is the monitoring process – the inbuilt surveillance system that ensures that the corporations are complying with the law (Reed, 2002). The effectiveness of any corporate governance mechanism depends largely on the country's regulatory frameworks and public governance systems (Wilson, 2006). Nigeria is one country where public accountability is seriously hampered by the political elite (Kifordu 2010) and the country's corporate governance mechanism are driven more by political considerations. The extent to which the laws are enforced is largely dependent on the disposition of the political party in power.

When a country's corporate laws and governance codes are enforced by regulatory agencies independent of political influences, the professional bodies will readily collaborate with government institutions and the capital market regulators or vice versa (Reed, 2002; Wilson 2006). The fact that Nigeria has many corporate governance codes raises question about the effectiveness of its corporate governance mechanisms. A situation where a bank owns a stock brokerage firm and an Insurance agency and a mortgage company raises a question on which corporate governance code is most applicable since all these industries

have their own corporate governance codes. The confusion arising from which code supersedes the other also makes enforcement almost impossible.

The significant levels of corruption, corporate misdemeanours and insider abuses of corporate privileges in Nigeria are indications of weak corporate governance environment. The mechanisms for ensuring good corporate governance exist in Nigeria but the major challenge lies in the weakened, inefficient and inadequate regulatory agencies responsible for ensuring enforcement and monitoring compliance (Amaeshi *et al* 2006, Okike, 2007). In Nigeria, the Corporate Affairs Commission (CAC) is the prime government agency that is saddled with the responsibility of regulating, controlling and supervising all companies' related matters but this agency is deliberately weakened by government negligence and is perfunctory in performing its duties (Okike 2007). Legal Compliance can only be ensured by a virile and well-funded agency.

It has been widely acknowledged that good corporate governance helps most developing countries and emerging markets to attract domestic and foreign direct investments, build their markets competitiveness, restore investors' confidence, promote economic growth and boost national development (Armstrong, 2003; Koufopoulous, 2006). However, there are still many major challenges to good corporate governance in these developing countries (Li and Flier, 2007; Wilson, 2006) especially when the corporations are caught in the dilemma of surviving or being ethical, which is the case in Nigeria. The decision to stay alive and remain viable no matter what it takes is making most businesses in Nigeria to close their eyes to governance, ethical, social and environmental issues.

That the boards of directors of eight Nigerian banks were dismissed in 2009 for bad corporate governance, insider abuse and mismanagement of shareholders and depositors funds, just three years after the introduction of the CBN's mandatory code, showed the difficulties of enforcement in Nigeria. Although these banks, which are listed companies, were reporting incredible economic performances and receiving accolades and awards locally and internationally, the CBN could not ensure that the integrity of the figures that the banks were reporting to the public.

Nigeria is a country where the government has persistently reneged on its many promises to provide infrastructures and ensure rapid economic development. The citizens of Nigeria do not rely on the government for the most basic of amenities such as potable water,

electricity, schools and security. Everyone tries to cut corners and provide the amenities at very high personal cost. It is the same with corporations as they are more inclined to breaking the laws and disrespecting the people's rights so that they can survive the harsh business environment. It is therefore easy for firms to operate unethically, exploiting the natural resources, polluting the environment and refusing to pay taxes as part of the survival processes in Nigeria

2.4 Key Issues on Board Development in Nigeria

Shareholder vigilance in Nigeria is rather weak and external pressure on corporate management is also weak. Boards are therefore required to be major drivers of good corporate governance in Nigeria. The general roles played by boards, including those in Nigeria, can be classified into three broad categories. First, directors are expected to monitor senior executives, select and dismiss them, evaluate their performance and design their compensation package. Second, directors should be part of defining, selecting and implementing corporate strategy. Third, directors should perform ceremonial functions that enhanced the company’s legitimacy (Pearce and Zahra, 1992; Stiles And Taylor, 2001).

In the last few years there has been more pressure on boards to show how they add value to their companies. How to enhance board effectiveness has become a focus of attention and debate amongst corporate governance experts and researchers. In Nigeria the debate is even stronger, following the Cadbury Nigeria recent scandal[10]. The Cadbury Nigeria scandal has exposed the limited knowledge of boards in Nigeria and has brought to question the effectiveness of the board and individual directors.

In Nigeria, like most developing countries, good corporate and public governance are critical to economic survival and growth. It is therefore important to understand the role of boards in ensuring good governance practices. Recent and current developments in Nigeria’s financial services industry have added more pep to the discussion on board effectiveness and

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10 Cadbury Nigeria deliberately overstated its financial position over a number of years (2004-2006) to the tune of between N13 and N15 billion ($1 = N120). Over this number of years, Cadbury Nigeria had assigned itself an ambitious growth target. To achieve these targets, several systems abuses occurred and the overstatements were directly traceable to these systems abuses.

good corporate governance. A number of financial failures, frauds and questionable business practices had adversely affected investors' confidence and customers' trust in the industry.

Most of the research activities on boards in Nigeria have focused on board characteristics and firm performance (Ujunwa, 2012; Ogbechie and Koufopoulos, 2007; Okike, 2007; Sanda, Mikailu and Garba, 2005). No significant work has been done in understanding the way Nigerian boards operate and how effective they are.

In Nigeria, the institutions that help guard against corporate malfeasance – Securities Exchange Commission, Nigeria Stock Exchange, the Judiciary, Institutional Investors, Professional Associations, and a probing Media – are still relatively weak or lack critical mass. Boards may therefore be the most reliable line of defence for good corporate governance. It is therefore important to understand how boards function and how best to make them effective and add value to the firm.

Many companies in Nigeria, particularly quoted companies, are responding to pressure from regulators for higher standards of corporate governance. Boards now appoint truly independent directors; have board committees such as audit, risk management, nomination (governance) and remuneration committee (Ogbechie and Koufopoulos, 2007).

2.5 Research Population and Frame

Although it would have been desirable to study the entire population of boards of businesses (quoted, private, and family) in Nigeria, it will be impossible because of the closed nature of most family and private companies. The researcher therefore decided to restrict the study to only publicly quoted companies in the Nigerian Stock Exchange as they have formal boards and provide information of their operations in the public domain. As at May 1, 2010 there were 213 quoted companies in the Nigerian Stock exchange with 199 in the first (1st) tier and 14 in the second (2nd) tier market. The 2nd tier securities market, which is now known as alternative securities market are for indigenous (local Nigerian) companies; while the 1st tier securities market is for both indigenous and foreign companies. Table 2.1 shows the characteristics of both markets.

	1st Tier	2nd Tier
1	Company must be registered as a Public Limited Liability Company under the provision of Companies and Allied Matter Act 1990.	Company must be registered as a Public Limited under the federal Inland Revenues Service.
2	Must submit its financial statements / business records of **past 5 years** to the Nigerian Stock Exchange on registration.	Must submit its financial statements / business records of **past 3 year** to the Nigerian Stock Exchange on registration.
3	Date of last audited accounts must not be more than 9 months.	Date of last audited accounts must not be more than 9 Months.
4	Amount of money that can be raised in the market is **unlimited.**	Amount of money that can be raised may not exceed **N100 million**.
5	Annual quotation fee is based on the Market Capitalization of the company.	Annual quotation fee is a flat rate of N30,000.
6	At least **25% of share** capital must be offered to the public.	At least **15% of share** capital must be offered to the public.
7	Number of shareholders must not **be less than 300.**	Number of shareholders must not be **less than 100.**
8	After listing, company must submit **quarterly, half-yearly and annual** accounts to SEC.	After listing, company must submit **half-yearly and annual** accounts to SEC.
9	Securities must be fully paid up at the time of allotment.	Securities must be fully paid up at the time of allotment.
10	Un-allotted Securities must be sold on NSE trading floors.	Un-allotted Securities must be sold on NSE trading floors

Source: Nigerian Stock Exchange – Monthly Stock Market Review, July 2010 Edition

Table 2.1: Differences between the 1st and 2nd tier Securities Market in Nigeria

The companies in the Nigerian Stock Exchange are classified as follows:

1. Aviation and road transportation
2. Commercial services
3. Construction and real estate
4. Financial services
5. Healthcare
6. Hotel and tourism
7. Information and Communication Technology
8. Media, Printing and Publishing
9. Petroleum Marketing
10. Manufacturing

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

This chapter reviews literature relating to corporate boards, the various models and their effectiveness. The literature review has been organised in the following sections. First section discusses the various models of boards and the corporate governance implications, then a review previous studies that have been undertaken on boards of directors in the second section. The third section reviews and summarises perspectives of popular theories relating to board performance and effectiveness.

3.2 Models of Board of Directors – Governance Structure

There are three leading approaches to the organization of corporate boards and hence corporate governance systems: the Anglo-US one-tier board model, the continental European two-tier board model, and the Japanese model. The Anglo-Saxon model is used in the US, the UK and Canada, while the continental European model is used in European countries such as Germany, Switzerland, Austria, Finland and Netherland. The Japanese model is used mainly in Japan and some other Asian countries such as Korea. Each model has implications on the number and size as well as the composition of the monitoring boards. Ownership structure and business structure, which are part of corporate governance, are different for each of the systems. The differences in legal and political institutions of these corporate governance systems will affect managerial behaviour.

3.2.1 Anglo-US Model

The Anglo-US model is an outsider model of governance system (Gugler, Muller and Yurtoglu, 2004), in which ownership is dispersed and owners exercise indirect control on management by electing representatives to the board that monitors management.

The Anglo-US model is characterised by share ownership of individual and institutional investors not affiliated with the corporation (known as outside shareholders). Equity financing is the common method of raising capital for corporations in the UK and the US. The three major players in the Anglo-US model are management, directors and shareholders and they form the "corporate governance model (figure 3.1).

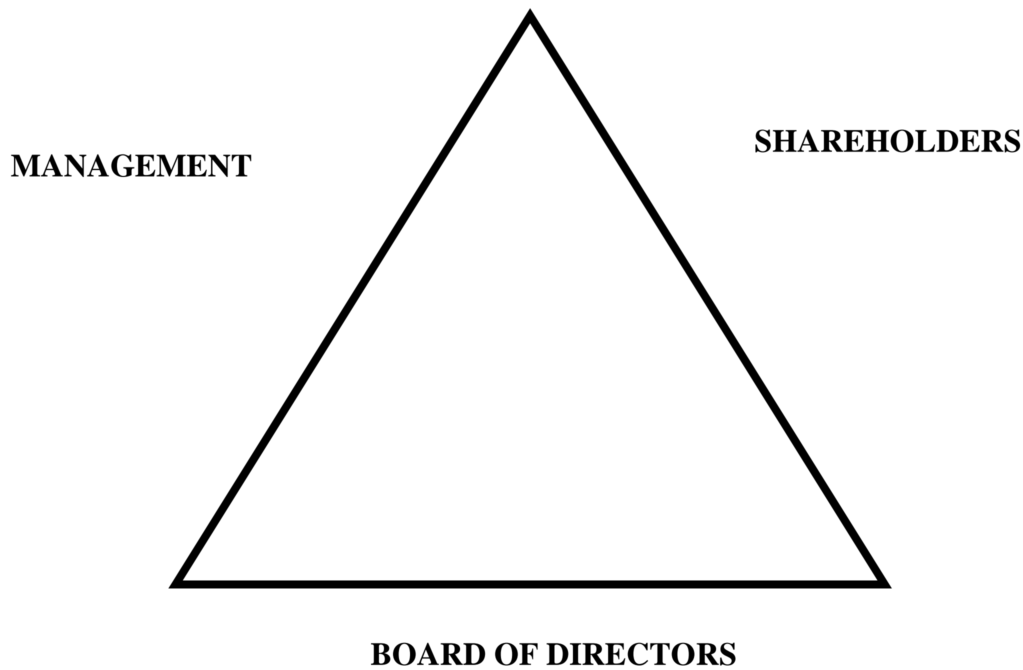

Figure 3.1: The Corporate Governance Triangle

The Anglo-US system, from which many elements of governance are taken and imitated by others (Witt, 2004), emphasizes the primacy of shareholders (Shleifer and Vishny, 1997) and presumes that top executives' primary responsibility is to maximize shareholder wealth (Jensen and Meckling, 1976). This Anglo-American model focuses on a number of governance mechanisms including the separation of ownership from control, financing through the stock market, and the use of independent directors (Dalton et al., 1998).

In this system, the board of directors' main tasks are to appoint and dismiss the managers, approve payments and acquisitions and decide on important strategies. Executive directors (who are members of management) and non-executive directors (who are outsiders) operate together in one organizational layer that constitutes the board. Boards are elected by the shareholders at their annual general meetings. As a result of the various corporate governance regulations in these countries, the non-executive directors constitute the majority on the board. However, many of the companies still have boards that operate with a board leadership structure that combines the roles of the CEO and the chairman (called CEO-duality). While most companies in the UK have board leadership structure that separates both positions, there still a few boards in the US that practice CEO-duality. One-tier boards also make use of board committees such as audit, remuneration and nomination committees. In

addition the board of directors is in charge of both decision management and decision control.

This system of corporate governance is also referred to as "stock market capitalism" and it relies on external monitoring mechanisms. However, the Enron-type scandals have shown that these external monitoring mechanisms are not sufficient for controlling the discretionary power of top executives (Gomez, 2004). Managers tend to be disciplined by market-based rewards and punishments through capital markets in this system.

3.2.2 Continental European Model

The Continental European model of corporate governance, also referred to as the German model, differs significantly from the Anglo-US model. This model is based on a two-tier principle that distinguishes a management board and a supervisory board with no overlapping membership between them. The management board (a more collegial version of the CEO and senior management of the Anglo-American firm) consists of executives who manage the company, and the supervisory board is responsible for appointing and supervising the management board. Seats on the supervisory board are held in varying proportions by representatives of shareholders and employees. For example in companies with between 500 and 2000 employees, one third of the supervisory board members are employee representatives, while in companies with more than 2000 employees the law stipulates that labour should take half the seats on the board.

An additional organizational layer has been included in this model to separate the executive function of the board from its monitoring function, to form a two-tier board. The supervisory board, which is the upper layer, is entirely composed of non-executive supervisory directors who are usually representatives of labour, government and/or institutional investors. The management board, which is the lower layer, is usually made up of executive directors. The CEO has no seat on the supervisory board and this ensures some degree of independence. In this model, the supervisory board is in charge of decision control, while the management board is in charge of decision management. This form of corporate governance is also referred to as "welfare capitalism" (Buck & Shahrim, 2005). The supervisory board plays the role of outside directors of U.S. and UK companies and it has a limited range of rights. It can only control managers of the corporation in extreme circumstances by not renewing their contract or blocking proposed mergers.

In countries that practice this model, bank financing is traditionally preferred to equity financing, and so banks and corporations are the dominant shareholders. The major players in this model are banks, corporate players and labour unions. In Germany the banks have strong influence within firms as they carry out lending activities and sometimes act as agents for other shareholders (Vitols, 2004). According to Vitols (2005), German banks therefore play an important monitoring role in corporate governance, at least when compared with the UK or the US. This prominent role by banks is attributable to their importance in corporate financing, particularly for capital-intensive manufacturing, significant direct share ownership in nonfinancial firms, proxy voting on behalf of their customers, and to the nomination of bank managers as directors to the supervisory boards of nonfinancial firms. However, such a role may not be in the interest of shareholders as the bank's main interest is not likely to be maximisation of shareholder value.

This form of corporate governance model embraces a wider conception of corporate governance that refers to the means by which stakeholders (creditors, employees, government, etc.) may impose control over firms, decisions (Chizema, 2010).

3.2.3 One-tier versus Two-tier Board Models

In recent literature, the question of whether a one-tier or two-tier board system is superior has been the subject of considerable debate. One of the key concerns is whether board members are more likely to be under the influence of management, undermining their ability to monitor, under one system or the other. On the one hand, non-executive directors in the one-tier model are often closer to management and hence less likely to be objective when it comes to corrective actions (Becht, Bolton, and Roell, 2003). On the other hand, Almazan and Suarez (2003) argue that under certain circumstances, weak (one-tier) boards may actually be optimal. Graziano and Luponini (2005), in contrast, argue that in the presence of large shareholders (more concentrated ownership), as is the case in many European countries, the two-tier board system may be optimal because it can limit the interference of a large shareholder, encouraging managers to exert effort. Adams and Ferreira (2007) develop a model of boards in which they are able to analyze differences between one-tier and two-tier board structures. In their model, under certain conditions shareholders would prefer a two-tier board structure, which entails a separation between the advisory role (management board) and the monitoring role (supervisory board). They find that board independence is particularly valuable for a supervisory board in the two-tier board structure, but it may not be

valuable in the one-tier system due to the conflicting advisory and monitoring roles. In their model, which board structure is optimal depends on the level of managerial control benefits: under high benefits, the two-tier structure is better. Adams and Ferreira conclude that the choice of board structure should depend on shareholder preferences.

The one-tier and two-tier board models can therefore be seen as alternative organizational approaches to support the role of boards of directors to align the diverging interests of managers, shareholders and other stakeholders.

The Anglo-US model of board structure is the model being used in Nigeria, and the board of directors is expected to be responsible for the direction and supervision of the affairs of the company.

3.2.4 Japanese Model

Corporate ownership in Asia is typically concentrated, with controlling owners (La Porta et al., 1999) who usually have voting rights in excess of cash flow rights. These controlling owners have the power and incentive to influence strategic decisions by participating in or personally monitoring management (Grossman and Hart, 1988). In Japan, which is a typical Asian country, the corporate governance model (Japanese model) is characterised by a single large board of directors that is dominated by managers (insiders) and it is not as widely spread as the other two models earlier discussed.

In Japan, conglomerates, called ***Keiretsu,*** are important and the companies that make up a conglomerate are linked together through interlocking directors. These companies are supported by cross-holdings of one another's shares. Financial institutions and/or banks belong to the conglomerates that hold shares in those companies. Furthermore, the main bank and some other financial institutions are represented on the conglomerate's supervisory board. An important aspect is the multi-directional control, where each company belonging to the *'Keiretsu'* is able to exercise some control over the companies that control it (Rychlewski, 2010). Additionally, there is a single board of directors that is dominated by managers; over three quarters of a board's members are managers.

In this model, the four major players are: main bank (a major inside shareholder), affiliated company (a major inside shareholder), management and the government. The conglomerate's (*keiretsu's*) main bank will become important when a company of this

conglomerate has a problem, with cash infusion, restructuring plan, or engineering management change (Gugler et al., 2004, p. 140).

The same model is also found in South Korea, where the business groups are characterised by controlling owners known as *chaebols,* which are legally independent sets of firms that are bound together by a constellation of formal and informal ties (Ma et al., 2006). The global performance of big Korean companies such as Samsung, LG, etc. has generated more interest in the Korean model.

Gugler et al. (2004, p.132) describe the Korean model as being *"a hybrid between the German corporate pyramid and the Japanese keiretsu"*. The top position of the structure is filled by the founding family, who can perpetuate their empires through cross-shareholdings among the member companies that result in an imbalance between control and ownership rights. Furthermore, the founding families can maintain their power, thus control by the fact, that banks and other financial institutions do not play a monitoring role in the company. In such firms the controlling owners tend to exploit minority shareholders (Young et al., 2008) and this constitutes a serious governance problem. Claessens and his colleagues (2000) found that in over 80 per cent of large Korean firms, the largest and controlling shareholder or family members were also represented among top executives. Controlling shareholders also selected most of the directors on the board (Young et al., 2008), thereby rendering the internal governance system ineffective. The selected directors are not likely to oppose the views of the controlling shareholders.

Before the Asian financial crisis of 1997, neither the *chaebol* ownership structure nor Korean legal institutions encouraged effective corporate governance. In 1996, the controlling shareholders of the large *chaebol* owned an average of 23% of the outstanding shares, but effectively controlled 68% of the votes through various forms of cross- and circular-holdings in subsidiaries and related firms (Kim and Kim, 2008). Such disproportionate control gave the *chaebol* owners the power to appoint the top managements and boards of their affiliated firms. This meant that minority shareholders could not be protected and insider trading was more likely to take place.

After the Asian crisis, governance reforms sought to improve transparency, the disclosure of financial and corporate information and the financial health of *chaebols* (Joh, 2003). One of the conditions that the International Monetary Fund (IMF) suggested when it lent emergency funds to the Korean government was to carry out corporate board reform

(Joh, 2003), including the appointment of outside directors. Before the introduction of outside directors in 1998, the board of directors in the Korean company was generally composed of insider executives who were effectively neutralized by the controlling shareholder. Reforms were also aimed at ensuring the effectiveness of the board system, the main thrust of the governance shake-up in Korean companies. The best governance practices in Korea could be seen mainly in three kinds of corporations: (1) newly privatized companies; (2) large corporations run by professional management; and (3) banks with substantial equity ownership in the hands of foreign investors. The governance practices of many of these companies meet the global standard (Kim and Kim, 2008).

Chizema and Kim (2010) found that Korean firms, which are known for adopting the Japanese board-model, now appoint outside directors to the boards. . They also found that larger firms that are under stricter control by the government have higher representation of outside directors on the board. This is an example of corporate governance convergence on the Anglo-American model, where higher levels of outside director representation on the board are the norm.

The concept of outside directors has been highly contested in Korea, with some questioning its effectiveness (Kim, 2007), others arguing that 'independent' directors help to monitor owner-managers and to minimize agency problems (Cho and Kim, 2007) of the principal–principal form (Young et al., 2008). Opponents of this innovation have argued that because Korea has a different institutional environment to the USA and/or UK, outside directors would be ineffective in Korea (Aguilera and Jackson, 2003).

3.3 Research on Board of Directors

The global financial crisis that began in 2008 brought into question the effectiveness of the governance mechanisms in many large companies. Less than ten years after Enron scandal, the world was faced again with the fallout of bad corporate governance, particularly in the financial services industry. The consequences of poor governance practices in the financial services industry had harmful effect on many other industries. This was not a surprising outcome as the financial industry is a cornerstone of the economy of most countries (Merton and Bodie, 2005). These corporate failures have often been blamed on the board of directors and many governments and investors have put the board on their search light.

The board of directors is at the apex of the organization and plays an important role in the affairs of a company. According to Nicholson and Kiel (2004) the board of directors is the organ of a company vested with the complex task and power over overseeing a company's strategy and leadership, monitoring its financial results and ensuring compliance with regulations. The board of directors is undoubtedly one of the main mechanisms for controlling a company. It has all the powers necessary for managing, directing and supervising the management of the business and affairs of the company. How boards interpret their roles and how they operate are key to their effectiveness (Ashburner, 1997 and Carter and Lorsch, 2004).

Corporate governance codes, governance experts, institutional investors, and activists have long advocated changes in the board structure (Monks and Minow, 2001) that will enable them be more effective as governance agents. The changes include, among others, the appointment of independent directors, having board committees that could check conflicts of interest, and a separation of the roles of CEO and chairman of the board (Van den Berghe and De Ridder, 1999; Weil, Gotshal and Manges, 2002). These structural measures are assumed to be important ways of enhancing the power of the board, protect shareholders' interest and hence increase shareholder wealth (Westphal, 1998; and Becht et al., 2003).

Boards of directors are of interest to scholars, the investment communities, the business world, regulators and society at large. According to Cadbury (1999) this attention is understandable, given the fact that boards of directors serve as a bridge between the shareholders, who provide capital, and management in charge of running the company. At the heart of the corporate governance debate is the view that the board of directors is the guardian of shareholders' interest (Dalton et.al., 1998). However, over the years, boards are being criticized for failing to meet their governance responsibilities. Major institutional investors put pressure on directors they perceive to be incompetent and have long advocated changes in the board structure that will ensure better performance (Monks and Minow, 2001). Their call has been strengthened by many corporate governance reforms resulting from major corporate failures. These reforms put great emphasis on formal issues such as board independence, board leadership structure, board size and committees (Van den Berghe and De Ridder, 1999; Weil, Gotshal and Manges, 2002). These structural measures are assumed to be important means to enhance the power of the board, protect shareholders' interest and hence increase shareholder wealth (Westphal, 1998; Becht et.al., 2003). The executive remuneration

scandals that emerged from the 2008/09 global economic/financial crisis were to some extent blamed on the ineffectiveness of boards.

Over the years the performance of boards of directors has been studied extensively from an agency theory perspective (Fama and Jensen, 1983; Dalton et al., 2007) and also from resource-dependency perspective (Zaid, 1967; Pfeffer, 1972; Pfeffer and Salancik, 1978). However, some empirical researches are available on the governing performance of boards and most of them measure board performance by the company's financial performance (Vance, 1964; Baysinger and Butler, 1985; Chaganti, Mahajan, and Sharma, 1985). It is therefore not likely that a company's financial performance is dependent solely on board performance as there are numerous endogenous and exogenous factors that influence a company's financial performance.

The interest of the investment and business community, and regulators in the effectiveness of corporate boards has stimulated academic research in this area. Empirical studies on boards of directors are to a large extent driven by the need to find out whether the board of directors can influence a firm's performance. These however, have met with mixed results (Kang and Sorensen, 1999; Daily, Dalton, and Cannella, 2003). Early research on US boards concluded that boards of directors were rather passive and dominated by management and as such had minimal impact (Mace, 1971; Drucker, 1974; Lorsch and MacIver, 1989). Some researchers have examined the direct impact of board attributes on firm performance by using a firm's financial performance as a proxy. However, many of these studies have shown inconclusive results (see the reviews by Dalton et.al., 1998 and Coles et.al., 2001). Another group of researchers has investigated the influence of board attributes on the performance of board roles, suggesting an indirect causal relationship between boards of directors and company performance (see the reviews by Johnson et.al. 1996 and Deutch, 2005; Finegold et al., 2007). A common feature of all these studies is the focus on a number of characteristics related to board composition namely outside directors, board size, board diversity and CEO duality. There are other studies which try to examine the impact of board committees (Kesner, 1988), director characteristics (Vance, 1978, van der Walt and Ingley, 2003) and board processes (Gabrielsson and Winlund, 2000; Cornforth 2001). More of the researches focus on structural factors and only a few on process factors.

There seems to be some agreement in literature, over the years, that progress in the field will largely depend on a better understanding of the inner workings of a board of

directors (Pettigrew, 1992; and Hermalin and Weisbach, 2000). Already a small number of empirical studies have attempted to understand actual board conduct by exploring the dynamics of power and influence as well as the behavior of board members and their relationship with management (Pettigrew and McNulty, 1995; Huse and Schoning, 2004; Leblanc and Gillies, 2005; and Roberts et al., 2005). Some other scholars have also attempted to model the dynamics of boards theoretically (Forbes and Milliken, 1999; Sundaramurthy and Lewis, 2003; Nicholson and Kiel, 2004a; and Huse, 2005).

Efforts are still being made by researchers to gain sufficient insight into the complex web of criteria which enables boards of directors to be effective in performing their roles and ultimately ensuring positive firm performance thereby creating shareholder wealth. In this respect, Zahra and Pearce (1989) argued that there is "a growing awareness of the need to understand better how boards can improve their effectiveness as instruments of corporate governance". There is the need for more research that entails extensive field work to understand better, document and operationalize board variables.

A review of the various theories that attempt to explain the operations of boards could provide good insight into how to tackle the research questions.

3.4 Theoretical Perspectives

Several theories have been developed by researchers over the years to explain to some extent the roles of boards, their performance and the behaviour of directors. The theories include managerial hegemony, agency, stewardship, stakeholders, and resource dependency.

3.4.1 Theory of Managerial Hegemony and Board Effectiveness

The theory of managerial hegemony describes the board as a legal fiction: a co-opted appendage institution that, despite its formal governing power over management, is in fact dominated by corporate management and, hence, ineffective in alleviating conflicts of interest between management and shareholders (Galbraith, 1967; Mace, 1971; Herman, 1981; Vance, 1983; Wolfson, 1984). As a result, the board's role in corporate governance is seen as a passive and compliant "rubber stamp" for management's proposals and decisions (Herman, 1981). This view of corporate boards is consistent with the traditional managerialist theory of corporate control, which emphasizes managements' growing control of corporate affairs as corporate ownership becomes more dispersed among many small shareholders (Berle and Means, 1932; Williamson, 1964; Winter, 1964).

According to the managerial hegemony theory, the board's lack of detachment is a result of management's control over the selection of outside board members (Mace, 1971; Williams, 1979), which leads to directors that are loyal to management and are expected to rubber-stamp their polices (Herman, 1981; Wolfson, 1984). The directors' passive board behaviour is further attributed to their relative lack of knowledge about the company's affairs (Estes, 1980), their dependence on information and insights that are provided by the company's top management (Bacon and Brown, 1975; Wolfson, 1984). In situations where management influence the appointment of directors, these directors are expected to refrain from overt criticism of management's behaviour in order not to jeopardize their board seat and its associated benefits, such as compensation and the prestige and status that are associated with board memberships. This will have an adverse effect on the board's monitoring and control function.

For effective corporate governance it is therefore important to have a board that is dominated by independent outside directors who have not been appointed by management or have social links with them. This is to ensure that the directors are not controlled by management and this will help militate against the managerial hegemony theory.

In an emerging market like Nigeria, this theory implies that for a board to be effective in its oversight function and control of management, the board must be made up of directors that are independent and beyond the control of management.

3.4.2 Agency Theory and Board Effectiveness

The advent of Modern Corporation created a separation between ownership and control of wealth (Berle and Means, 1932). This is because as firms grow beyond the means of a single owner, who may be incapable of meeting the rapidly increasing obligations of the firm, there is the tendency that the ownership structure of the business will grow also with the attraction of new investors. As the firm continues to grow, the owners of the enterprise employ some professional executives to help them run the enterprise efficiently on a day to day basis. This arrangement creates a relationship in which the owners of the business become the principals and the executives, whom they contracted to help manage their firms, the agents. This relationship between the business owners (principal) and their managers (agents) has been described as "Pure Agency Relationship" because it is associated with separation of ownership from control (Jensen and Meckling, 1976).

Organizational theories and business policies have been strongly influenced by agency theory, which depicts top managers in large modern corporations as agents whose interests may diverge from those of their principals, the shareholders, (Jensen and Meckling, 1976).

Agency theory argues that as firms grow in size the shareholders (principals) lose effective control, leaving professional managers (agents) with specialized knowledge to manage the affairs of the business, and in so doing, these agents over time gradually gain effective control over the business (Mizruchi, 1983). Often times, this transfer of firm's control from principals to agents over time leaves the agents free to pursue their own selfish aims to the detriment of the principals. This situation provides potential for "managerial mischief" (Dalton et al., 2007).

In modern corporations, agents and principal are motivated by opportunities that advance their own personal gains. While principals invest their wealth in companies and design governance systems in ways that maximize their utility, agents accept the responsibility of managing the principal's investment (wealth) because they perceive the possibility of gaining more utility with this opportunity than by accepting other opportunities (James Davis et al, 1997). When the interests and utility functions of the self-serving agents coincide with those of the principals, agency problem will not exist. However, when there is divergence, agency costs are incurred by the principals because the agents will want to maximize their own utility at the expense of the principals'.

The objective of agency theory is then to reduce the agency costs incurred by the principals by imposing internal control measures to keep these self-serving agents in check (Jensen and Meckling, 1976). To this end, agency theorists have suggested some internal and external control mechanisms that will help check the excesses of the agents. Having a board of directors, who are independent of management in place, will provide the necessary internal control. For board effectiveness according to Fama and Jensen (1983), it is suggested that decision management (initiation and implementation of decisions) be separated from decision control (ratification and monitoring decisions). Decision management is the role of the manager (agents) while decision control is a board's role. The board helps control the corporate agency problem by governing management's decisions and assessing their impact on shareholders' wealth (Alchian and Demsetz, 1972; Fama and Jensen, 1983). Another

internal control mechanism that has gained substantial literary attention is the executive compensation scheme (Demsetz and Lehn, 1985; Jensen and Meckling, 1976). Financial incentive schemes provide rewards and punishments that are aimed at aligning principal-agent interest. If the managers receive rewards or incentives that are subject to successful completion of shareholders' interests or objectives (e.g. long-term rewards tied to firm's performance), they will be motivated to behave in manner that is consistent with shareholders' interest. If however, these suggested internal control mechanisms fail, some expensive external measures like acquisitions, divestitures, and ownership amendments are suggested to control the self-serving managers (Walsh and Seaward, 1990). Nevertheless, internal control mechanisms are generally preferred to the external measures because of the costs associated with the external measures (Walsh and Seaward, 1990). The application of these control mechanisms does not imply that all managers' decisions will result in increased wealth for the principal rather it implies that the managers will strive to attain outcome that are favourable to the principals.

Agency theory, which has historically dominated research on corporate boards, emphasises monitoring and control of management. The monitoring function of the board is vital and can be better performed by having a board chair that is independent of the CEO, number of outside directors being more than inside directors and using incentives to bind CEO and top management team interests to those of shareholders.

The board's effectiveness in monitoring management is critical for the survival of all corporations that are characterized by the separation of ownership and decision making (Fama and Jensen, 1983). The effectiveness of the board will depend on how well they carry out their oversight functions and their understanding of shareholders' interests.

In a recent review, Dalton et al. (2007) summarized the three principal means of minimizing agency problems as: firstly board independence, which entails ensuring that the board has more outside directors than inside directors and also that the chairperson and CEO is not the same person. This will help in better control and monitoring of management. Secondly, external control could be achieved through merger and acquisition, as this could discipline mischievous managers and they stand the risk of losing their jobs. Thirdly, agent equity ownership, which ensures that managers who share ownership of their firm work towards protecting shareholder interests and creating value for them.

Agency theory defines the monitoring effectiveness of the board in terms of size and independence. Agency theory proponents argue that a substantial increase of the board size could result in a slowdown in decision making and an increase in costs (Callen, Klein and Tinkelman, 2003; O'Regan and Oster, 2005; Yermack, 1996). The directors' independence assures their objectivity when monitoring the management team, thus reducing the managers' opportunistic behaviour and increasing the organizations' efficiency (Baysinger and Hoskisson, 1990; O'Regan and Oster, 2005).

However, exclusive reliance on agency theory is undesirable because the complexities of organizational life are ignored. This according to Doucouliagos (1994) calls for additional theory to explain this agent-principal relationship based on other non-economic assumptions. This call has given rise to other theories like stewardship and stakeholders' theories.

3.4.3 Stewardship Theory and Board Effectiveness

Stewardship theory was introduced as a means of defining the manager-agent relationships based upon other behavioural premises (Donaldson and Davis, 1989). The theory defines situations in which managers are not motivated by individual goals but rather see themselves as stewards whose motives are aligned with the objectives of the principals, owners of the business.

Stewardship theory, which has its roots in psychology and sociology, was designed for researchers to examine the situations in which executives, as stewards, are motivated to work in the best interest of their principals, the shareholders (Donaldson and Davis, 1991). In stewardship theory, the steward seeks to attain the objectives of the organization which will in turn benefit all the other stakeholders in the business. This is because the steward believes that his interests are aligned with those of his principals, thus he maximizes his personal interests by ensuring that he protects and maximizes the shareholders' wealth through excellent performance. This creates the perception that utility gained from collective and pro-organizational behaviours of managers is higher than the utility that can be gained from individualistic and self-serving behaviours.

While agency theory advocates independent board leadership that discourages duality role of the chief executive officer (CEO), (Gillan, 2006; Rhoades et al., 2001 and Weir and Laing, 2001), stewardship leadership favours duality role for the CEO in which the steward's executive also chairs the board (Ju and Zhao, 2009; Peng, Zhang, and Li 2007; Adams,

Almeida, and Ferreira, 2005; Shen, 2003; Tian and Lau 2001; Finkelstein and D'Aveni, 1994 and Donaldson and Davis, 1991). The theory posits that the delegation of corporate control by owners to professional managers may be a positive development towards managing the complexity of modern corporations. Having control empowers managers to maximize corporate goals. Stewardship theory is therefore not favoured in modern corporate governance practices where CEO duality is frowned upon.

3.4.4 Stakeholder Theory and Board Effectiveness

The emergence of stakeholder theory, according to Gay (2002) was prompted by the growing recognition by boards of the need to take account of the wider interest of the society. He lists the essential premises upon which the stakeholder theory rests, citing Jones and Wicks (1999) as being: that the corporation has relationships with many constituent groups (stakeholders) that affect, and are affected by its decisions; that the theory is concerned with the nature of these relationships in terms of both processes and outcomes and focuses on managerial decision making ; that the interest of all legitimate stakeholders have intrinsic value and no set of intrinsic value is assumed to dominate the other. The "stakeholder approach" according to Hutton (1995), holds that a range of corporate constituencies – customers, employees, suppliers, creditors, communities – should have a say in the running of the firm. A stakeholder, according to this point of view, is one who has an interest in the enterprise and is at risk it if fails. An employee who may find it difficult to secure another employment if the enterprise closes; a creditor whose claims will not be met in full if the company enters insolvency; suppliers with close ties to a particular producer; and a community which has come to depend upon a large local employer, are all in a position where they have a stake in the enterprise's sustainability. The corporate enterprise cannot be maintained without the inputs of a series of constituencies; investors, lenders, suppliers, managers, workers, unions, communities. Thus corporate governance is an exercise in "team production", in which the issue is how voluntary cooperation between the different stakeholder groups is to be achieved (Blair and Stout, 1999).

This theory maintains that the objectives of the firm should be derived by balancing the conflicting aims of the various stakeholders in the firm: managers, workers, stockholders, suppliers, vendors. This theory implies that a board will be mainly interested in performance of the company in terms of meeting the expectations of stakeholders. Such a board should be made up of directors with the right background and experience for effectiveness of their

service function. Board human and social capitals become important with the stakeholders' theory approach to corporate governance.

A few authors have criticized the stakeholders' theory on certain grounds. For instance, Giles Slinger (1998) posited in his work that: 'Stakeholder theory discards the objective basis for evaluating business action…. it provides no guidance at all as to how competing interests, are to be ranked or reconciled. And it consequently provides no effective standard against which business can be judged'.

3.4.5 Resource Dependency Theory and Board Effectiveness

In resource dependency theory, organizations attempt to exert control over their environment by co-opting resources needed to survive. This implies appointing directors that can bring their social capital and competences to the firm, as this is one of the most valuable attributes that a director can bring to a board (D'Aveni, 1990; Hillman, 2005; Stevenson and Radin, 2009).

Social capital refers to a person's socially valuable personal attributes and network connections (Nahapiet and Ghoshal, 1998; Lester et al., 2008). These attributes and connections benefit the firm (Haunschild, 1993; Lester et al., 2008; Payne et al., 2009). For instance, directors who are famous and prestigious in their professions and communities can be a source of timely information for business executives. They therefore become actively involved in helping the organization by influencing their constituencies on behalf of the focal organization (Price, 1963). According to Pfeffer and Salancik (1978), 'when an organization appoints an individual to the board, it expects the individual to support the organization with his business contacts and expertise. This assistance will hopefully improve the organization's performance and in turn increase returns to shareholders.

Proponents of resource dependence theory argue that organizational survival is dependent on the ability to access critical resources from the environment (Casciaro and Piskorski, 2005; Pfeffer and Salancik, 1978). Firms actively manage their resource environments by maintaining external linkages to organizations on which they depend for critical resources (Hillman, 2005; Westphal et al., 2006). Boards also react in the same way, for example by adding a representative of a critical resource to the board constitutes a way of managing this dependence and benefiting the firm. After the global financial crisis of 2008, most banks needed to include directors with risk management expertise on their boards. Once appointed

to a board, the directors will support, identify with, and work to assist the firm (Hillman and Dalziel, 2003). Researchers argue that directors with high social capital can bring information about the external environment, other firms' strategies, and prospective managerial talent to the firm (Certo, 2003; Davis, 1991; Haunschild, 1993).

Ultimately, these ties can impact on the performance of the board and hence of the firm (Nahapiet and Ghoshal, 1998). Modern boards are therefore composed on the basis of the resources the directors will bring to the board, and that is why diversity has become an important board characteristic.

Another aspect of the resource dependency theory is the level and use of human capital on the board. The level of human capital on the board is also a resource that is available to the firm. Boards use their human capital to perform their roles of monitoring and resource provision. The resource provision role includes a variety of activities such as providing advice to management on major strategic actions

Resources dependency also takes a broader view of organizational resources focusing on the firm's competencies and capabilities of coordinating productive resources that are not transaction specific (McWilliams and Gray, 1995; Poppo and Zenger, 1998). Resource dependency theory implies that the skills and knowledge of directors are resources that could be used to help the firm perform better. They therefore have some impact on the effectiveness of the board.

Resource dependency theory implies that for effectiveness a board should be composed of directors with the right background and experience, have the right social capital and are on other boards.

Hillman and Dalziel (2003) propose a model that integrates agency and resource dependence perspectives. They argue that greater levels of "board capital" (a combination of directors' human capital and social capital) not only should enable boards to secure more resources and provide superior advice (as has been shown in prior research, e.g., Boyd, 1990; Westphal, 1999), but also enable boards to be more effective monitors of company performance (firm performance may best be ascertained through multi-variable measures). However, they contend that the extent to which boards exercise these capacities will depend upon the incentives given to directors, with greater pay in stock and more board

independence predicted to generate greater attention to both monitoring and providing resources to the firm.

3.4.6 Summary of different theories

Each of the theories gives credence to a particular aspect of the board's activity or role. Table 3.1 presents a summary of the five theories discussed above.

	Managerial Hegemony	**Agency**	**Stewardship**	**Stakeholder**	**Resource Dependence**
Board Role	Board 'a legal fiction'	Ensure match between managers and shareholders' managerial control	Ensure stewardship of corporate assets Managerial empowerment	Inclusive pursuit of all stakeholder interests	Reduce uncertainty; boundary spanning Co-optation
Representative Studies	Mace (1971) Lorsch and Maclver (1989) Stiles (2001)	Jensen and Meckling (1976) Fama and Jensen (1985) Kosnik (1987) Ang et al. (2000) Fosberg and Rosenberg (2003) Levrau and Van den Berghe (2007)	Donaldson and Davis (1991) Donaldson and Davis (1994) Davis, et al. (1997) Huse (2007, p. 55) Levrau and Van den Berghe (2007) Kim, et al. (2009) Lan and Heracleous (2010)	RSA (1995) Blair (1995) Babic (2010)	Pfeffer (1972) Pfeffer and Salancik (1978) Hilman and Dalziel (2003) Davis and Cobb (2010) Pugliese, et al. (2009) Nicholson and Newton (2010)

Table 3.1: Theoretical Perspective
(Derived from Philip Stiles, 1997)

Agency theory contends that a key activity of the board is monitoring management on behalf of shareholders and that effective monitoring can improve firm performance by reducing agency costs. Resource dependence theory sees the board as a provider of resources,

such as advice and counsel and links to other organizations, to management and the firm, for better performance. Stewardship theory views managers as stewards who will work towards the success of the firm and encourages the empowerment of management by the board. Stakeholder theory explores the dilemma regarding the interest of different groups of stakeholders and it encourages the board to take account of the wider society. Managerial hegemony theory sees the board as being dominated by corporate management and ineffective in alleviating interest between management and shareholders.

Among various theories discussed, the agency theory is the most popular and has received so much attention from academics (Jensen and Meckling, 1976; Fama and Jensen, 1983) as well as practitioners. It provided the basis for governance standards, codes and principles developed by many institutions (OECD, 1999, 2004; ICGN, 1999, 2005). Boards are appointed by the shareholders to monitor and control managerial decision making to protect the shareholders' interest. In particular, this monitoring role is expected to be effectively performed through independent non-executive directors and that the positions of Chairman and CEO should be held by different persons (Cadbury, 1992; OECD, 1999; ICGN, 1999, Combined Code, 2006). However, other theories such as stewardship theory, resource dependency theory and stakeholder theory have become prominent over the recent times. Other scholars (e.g. Boyd, 1995; Hillman and Dalziel, 2003) have taken a different approach and have not limited themselves to a particular distinctive perspective. Boyd (1995) argues that the seemingly opposing perspectives of both agency and stewardship theories can be correct, but under different environmental conditions, by using a contingency approach. Hillman and Dalziel (2003) integrated the agency and resource dependency perspectives and argued that each board has board capital and it affects both board monitoring (agency perspective) and the provision of resources (resources dependency perspective) and that board incentives moderate these relationships. Hendry and Kiel (2004) explain that the choice of a particular theoretical perspective depends on 'contextual factors' such as board power, environmental uncertainty and information asymmetry. Though there are different perspectives regarding the firm, "many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory" (Daily et al., 2003, p. 372). Review of different perspectives clarifies that there is need to take an integrated approach rather than a single perspective to understand the effect of corporate governance on board effectiveness. While agency theory places primary emphasis on shareholders' interests, stakeholder theory

places emphasis on taking care of interests of all stakeholders, and not just the shareholders. To gain a greater understanding of board process and dynamics, as discussed on this section, there is need to integrate different theories rather than consider any single theory. Such an approach was supported by Stiles (2001) who calls for multiple theoretical perspectives and Roberts et al. (2005) who suggests theoretical pluralism. The next section utilizes the above four theoretical perspectives to identify specific board characteristics and their influence on board effectiveness.

3.5 Board Characteristics

Researchers over the years have established that the performance of a board is influenced by the characteristics of the board. These characteristics include board size, CEO duality (leadership), board composition (independence), board committees and diversity.

3.5.1 Board Size

Board size refers to the total number of directors on the board of any corporate organization. Determining the ideal board size for organizations is very important because the number and quality of directors in a firm determines and influences the board functioning and hence corporate performance.

The association between board size and corporate performance is still ambiguous as conflicting results have been found by various researchers (Yermack, 1996; Haniffa and Hudaib, 2006). While Yermack (1996); Anderson et al. (2004); Coles, et al. (2008); Guest (2008) found a positive relationship between board size and a firm's market value, Randoy and Jenssen (2004) and Zahra and Stanton (1988), found that board size was not significantly associated with financial performance. Singh and Davidson III (2003) found out that larger boards are inversely related to firm's performance. Table 3.2 below shows a compilation of studies on board size and firm performance.

Study	Country	Time period	No. of firms	Results
Ibrahim and Samad, 2011	Malaysia	99-05	474	Find a strong relationship between firms with smaller boards and firm value
Yasser et al, 2011	Pakistan	08-09	30	Positive relationship between it and return on equity
Jackling and Johl, 2009	India	05-06	180	Larger board size has a positive impact on performance
Coles, et al., 2008	US	92-01	Not reported	Positive relationship between board size and a firm's market value
Guest, 2008	UK	81-02	2,746	Positive relationship between board size and a firm's market value
Haniffa and Hudaib, 2006	Malaysia	96-00	347	Positive correlation with accounting performance. And, a negative correlation with the market performance
Bozec, 2005	Canada	76-00	25	Finds that board size has a significantly negative effect on sales margin but not profitability
Sanda et al., 2005	Nigeria	96–99	93	Firm value is positively correlated with small, as opposed to large boards
Beiner et al., 2004	Switzerland	01	165	Find no negative impact between board size and firm performance
Lasfer , 2004	UK	90-91/ 96-97	1,424	Finds that board size has a significantly negative effect firm value
Randoy and Jenssen, 2004	Sweden	96–98	120	Board size was not significantly associated with financial performance
Postma et al., 2003	Holland	97	94	Find that board size has a significantly negative effect firm value and profitablity
Singh and Davidson III, 2003	US	92-94	118	Firm performance is increased by smaller boards
Vafeas , 1999	US	90-94	307	Positive relationship between board size and a firm's market value
Yermack, 1996	US	84-91	452	Positive relationship between board size and a firm's market value
Zahra and Stanton, 1988	US	80-81	100	Board size was not significantly associated with financial performance

Table 3.2: The Effect of Board Size on Firm Performance – Summary of Previous Studies

The proponents of large board size believe it provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. They are also capable of reducing the dominance of an overbearing CEO (Forbes and Milliken, 1999). The board's monitoring and supervising capacity is increased as more and more directors join the board (Jensen, 1993). These proponents also find support from stakeholder theory which suggests a positive association between larger boards and effective decision making, furthermore, a larger board may enhance the quality of advice given to corporate management (Forbes and Milliken, 1999; Cohen *et al*., 2002; Haniffa and Hudaib, 2006).

However, there are authors who believe that large board size adversely affects the performance and well-being of any firm. Larger boards are difficult to coordinate, and are very prone to fractionalization and coalitions that will delay strategic decision making processes (Forbes and Milliken, 1999). The proponents of small board size have support among agency theorists who argue that as board size increases, control and monitoring functions are impaired (Yermack, 1996), cohesion and coordination deteriorates (Jensen, 1993; Forbes and Milliken, 1999), decision making suffers (Lipton and Lorsch, 1992), and discussions of managerial performance become less candid (Vafeas, 1999). In a Nigerian study, Sanda et al. (2005) reported that firm value is positively correlated with small, as opposed to large boards. The argument is that large boards are less effective and are easier for a CEO to control. The cost of coordination and processing problems is high in large boards and this makes decision making difficult.

A board should be large enough to include a diversity of the competencies it needs to exercise its responsibilities but small enough to engage in active strategic discussion, make timely strategic decisions that will move the organization forward and bond together as a team. In the light of this, Hilb (2004) however, recommended a small, legally accountable, and well-diversified board comprising a maximum of seven members (including an independent chairman, independent members and the CEO) as the ideal board size for publicly quoted firms.

3.5.2 Board Composition (Board Independence)

Board composition refers to the distinction between inside and outside directors, and this is traditionally measured as the percentage of outside directors on the board (Goergen and Renneboog, 2000). For Baysinger and Butler (1985), composition may be easily differentiated into inside directors, affiliated directors and outside directors. This distinction is derived from the extent of their participation in firm management. Inside directors are those directors that are also managers and/or current officers in the firm while outside directors are non-manager directors. Among the outside directors (also known as external or non-executive directors), there are directors who are affiliated, and others that are independent. Affiliated directors are non-employee directors with personal or business relationship with the company while independent directors are those that have neither personal nor business relationships with the company. Although inside and outside directors have their respective merits and demerits, most authors favour boards that are dominated by

outside directors (Andres et al, 2005). It is argued that outside directors provide superior performance benefits to the firm as a result of their independence from firm's management (Baysinger and Butler, 1985). They can bring to the board a wealth of knowledge and experience, which the company's own management may not possess. They can increase the element of independence and objectivity in board's strategic decision-making, and also help in providing independent supervision of the company's management (Department of Trade, 1977; Fama and Jensen, 1983). Table 3.3 below shows a compilation of studies on the effect of board independence on firm performance.

Study	Country	Time period	No. of firms	Results
Khan and Awan, 2012	Pakistan	10	91	Find that having independent directors in board composition ensures greater ROA and ROE (firm performance).
Dey and Liu, 2011	US	97 -06	200	Find that firms with directors on the board and audit committee who have social and professional connections to the CEO are associated with lower operating performance, lower value relevance, lower accruals quality and higher probability of restatements
Pathan et al, 2011	US	97-04	212	Find negative relation between board independence and performance
Bermig and Frick, 2010	Germany	98-07	294	Find that board composition have no pronounced effect on firm valuation and performance
Rashid et al, 2010	Bangladesh	05-09	90	Find no significant relationship between board composition in the form of representation of outside independent directors and firm performance
Bhabra and Li, 2009	China	01-03	929	Find positive relationship board independence between firm performance for both SOE and non-SOE
Jagg et al, 2009	Hong Kong	98-00	391-399	Find that firms with a higher proportion of independent directors on corporate boards are associated lower earnings management
Hashim and Devi, 2008	Malaysia	04	200	Find a positive significant result of board independence when firms undershoot target earnings
Kajola, 2008	Nigeria	00-06	20	Finds no significant relationship between ROE and board composition (independence)
Sarkar et al, 2008	India	03	500	Find that board independence has a significant influence on opportunistic earnings management
Boone et al , 2007	US	88-92	1,019	Find that board independence is negatively related to the manager's influence and positively related to constraints on such influence.

Garg, 2007	India	97-03	200	Finds mixed evidence that independent directors add value and improve the performance of the firm
Kam, 2007	Hong Kong	00-02	869	Finds no significant association between the proportion of independent non-executive directors on the board and earnings management.
Arslan et al, 2006	Turkey	97 -05.	999	Find that board independence has no effect on accounting performance, But the stock market perceives board independence positively
Randoy and Jenssen, 2004	Sweden	96–98	120	Find that board independence is not associated with firm performance based on accounting measures
Ryan and Wiggins, 2004	US	97	1,018	Find that when a CEO's bargaining power increases over the board, compensation provides weaker incentives to monitor.
Erickson et al, 2003	Canada	93-97	66	Find that board independence had has a negative influence on firm value
Gompers and Baker, 2003	US	78 -87.	1,116	Find that longer-serving CEOs have more power to control board composition
Klein, 2002	US	91-93	400	Finds that board and audit committee independence are both negatively correlated with earnings management.
Vafeas, 200	US	90-94	307	Finds that board composition is not significantly associated with firm performance.
Postma et al, 1999	Holland	1996	94	Find a negative relationship between the size and composition (number of outsiders) of the supervisory board and firm performance.

Table 3.3: The Effect of Board independence on Firm Performance – Summary of Previous Studies

Proponents of inside directors have posited that a board that is dominated by inside directors has a number of advantages, which include having access to important and relevant information about the operational activities of the company and industry environments in which the firm operates. In addition, their vast industry experience can help improve firm's performance (Bhagat and Black, 1998).

While independence of the board is considered a key criterion in the governance of firms, there is no robust evidence that board independence improves firm performance (Adams et al., 2010). Vafeas (2000), Dalton, Daily and Ellstrand (1998) and Zahra and Stanton (1988) each found that board composition is not significantly associated with firm performance. Randoy and Jenssen (2004) found that board independence (board compositions) is not associated with firm performance based on accounting measures.

However, in a difference-in-differences estimation, Duchin, Matsusaka and Ozbas (2010) find that increases in director independence improve performance in those firms in which the costs of obtaining information are low, while performance worsens in firms in which information costs are high.

An important issue that is highlighted in recent research on board independence is that increased independence also comes at a cost – the possibility of breakdowns in communication between the CEOs and directors (Adams and Ferreira (2009).

A few recent papers also challenge the notion of independence, and document that boards that are independent on paper can be ineffective monitors when the directors are socially or professionally connected to the CEO (Hwang and Kim (2010); Dey and Liu (2010).

Prior research finds evidence consistent with the influence of CEO bargaining power over board independence: Baker and Gompers (2003), Boone et al. (2007) and Ryan and Wiggins (2004) find that successful CEOs are able to bargain for less independent boards.

A reliable and meaningful measure of board independence is difficult to obtain. Some previous studies consider the proportion of outside directors on the board as only a proxy for independence.

3.5.3 CEO Duality (Board Leadership)

CEO duality exists when a firm's CEO also serves as the chairman of the board of directors. Holding the highly symbolic position of board chair would provide the CEO with a wider power base and locus of control (Boyd, 1994). A couple of decades ago, organizations across the globe usually combine the position and functionality of the chairman and CEO of the board of directors. In the UK for instance, it was commonplace for leading firms to have a chairman of the board who also doubles as the CEO until recently. While some organizational scholars advocate the combination of both positions (Anderson and Anthony, 1986; Harrison et al, 1988), others propose the separation of both positions (Lorsch and Mclver, 1989; Kesner and Johnson, 1990). The proponents of this duality role believe that allowing just one person to function as the chairperson and CEO of the board will provide a beneficial platform that is not potentially detrimental (Anderson and Anthony, 1986). For example, the greater levels of information and knowledge possessed by a joint CEO/Chairperson will enable him or her to better manage and direct the board's discussions and agenda (Lorsch and Mclver, 1989). Studies have found out that such strong and

unambiguous leadership can help a firm to easily adapt to changes in environmental demands (Chandler, 1962; Mintzberg and Waters, 1982). Others have suggested that this duality role is more efficient and therefore, more sensible form of governance (Williamson, 1985).

Because of the recent corporate scandals, regulators and reformers are increasingly demanding that the role of the CEO be separated from that of the Chair (Wilson 2008, Lorsch and Zelleke 2005). This demand had been on for over 20 years, for moves aimed at separating the roles and functioning of these two positions had received considerable attention (Lorsch and Mclver, 1989; Dobrzynski, 1992) in the UK, US and Australia. In the UK, the Cadbury Committee report of 1992 recommended that there should be a clear division of responsibilities at the head of the company, implying that the roles of chair and CEO should not be combined. As Jensen (1993) noted, for board to be effective, it is very important to separate roles, as it avoids CEO entrenchment. It establishes independence (autonomy) between the board and corporate management. Without an independent chair, a board will not be able to perform its monitoring role effectively (Finkelstein and D'Aveni, 1994; Wilson 2008).

Advocates claim that CEOs become more effective leaders when the two positions are separated because it allows them to concentrate on the firm's operations while empowering the board (Wilson 2008). Kajola (2008) also argued that concentration of decision management and decision control in one individual hinders boards' effectiveness in monitoring top management.

Stakeholder theory holds that duality seriously impedes the overall stakeholder orientation of Board members (Sonnenfeld, 1981). Separating the functions of CEO and Chair of the Board may enhance the Board of Directors' monitoring and control ability, and improve Directors' information processing capacities (Sanders and Carpenter, 1998).

CEO duality may reduce the effectiveness of the board and may create a conflict between management and the board (Solomon, 2007) and hence reduce the board's ability to exercise its governance function. Balsam and Upadhyay (2009) found that firms separating the positions of chief executive officer (CEO) and board chair perform better and are more highly valued by the market.

It is likely the benefits, if any, of having a separate board chair depends on the characteristics of the firm. For example, Palmon and Wald (2002) find "small firms benefit from the clarity and decisiveness of decision-making under a single executive, while large

firms benefit more from the checks and balances of having two executives". Table 3.4 below shows a compilation of studies on the impact of CEO duality on firm performance.

It could therefore be argued that the combination of the role of the Chairman and the Chief Executive is a considerable concentration of power that could endanger the effectiveness of the Chairman and whole board, with the potential adverse effects on the interests of the other stakeholders. In this regard, many codes of corporate governance, including the Nigerian code, recommend that the two roles should be separate, and where the Chairman is also the Chief Executive, it is important to have a "strong independent element" on the board.

Study	Year	Positive	Negative	Insignificant /No Relationship
Mahmood and Abbas	2011		Yes	
Mathur and Gill	2011	Yes		
Rashid	2010			Yes
Belkhir	2009	Yes		
Chen et al	2008			Yes
Kaymak and Bektas	2008		Yes	
Ponnu	2008			Yes
Elsayed	2007			Yes
Peng et al	2007	Yes		
Dahya	2005			Yes
Sanda et al.	2005		Yes	
Abdullah	2004			Yes
Bai et al.	2004		Yes	
Kiel and Nicholson	2003	Yes		
Dalton et al	1998			Yes
Brickley et al	1997			Yes
Baliga et al	1996			Yes

Pi and Timme	1993		Yes	
Rechner and Dalton	1991		Yes	
Anderson and Anthony	1986	Yes		
Fama and Jensen	1983		Yes	

Table 3.4: The Impact of CEO Duality on Firm Performance – Summary of Previous Studies

3.5.4 Board Committees

The effectiveness of boards will also depend on the quality of board committees that are operational. Corporate governance best practices suggest that at least the following board committees should be in existence in a firm: Audit Committee, Corporate Governance or Nomination Committee, and Remuneration or Compensation Committee. In addition any business exposed to high risk that could quickly destroy it can make a case for a specialist board committee to focus on that risk.

3.5.4.1 Audit Committees

In the USA, the Security and Exchange Commission (SEC) first suggested in 1940 that all public companies should have audit committees (SEC, 1940). In 1972, the SEC endorsed the establishment of audit committees in all public companies (SEC, 1972), and in 1978 the New York Stock Exchange (NYSE) recommended that its member firms establish audit committees made up of outside (non-executive) directors. This was reinforced in 1987 by the Treadway Commission (NCFFR, 1987) which recommended that all public companies should be required by SEC rules to establish audit committees consisting of just non-executive directors.

An audit committee has been defined in terms of a subcommittee of largely non-executive directors whose work encompasses matters relating to audit, financial reporting and internal control (Spira, 1998). The audit committee's role is perceived as undertaking detailed review on behalf of the main board of directors, both to free up main board time and to enable the particular expertise of non-executive directors to be usefully employed.

During the last two decades audit committees have become a common mechanism of corporate governance internationally. The audit committee has been looked upon as the body that can check the excesses of top management and also ensure accurate financial reporting.

According to Reinstein and Weirich (1996), many large firms use audit committees as protection against fraud, mis-management and financial liability.

Major international institutions such as the OECD and SEC, have advocated for the setting up of audit committees comprised mainly of non-executive directors in public corporations (Hermes, 1999; IGCN, 1999). Nevertheless, the various financial frauds and corporate governance scandals across the globe, in the last 10 years, imply that the audit committees were either under-performing or better still inefficient in discharging their responsibilities (Sommer, 1992; Levitt, 1999). This indeed, necessitated the various amendments that have been released by regulatory bodies and institutions across the world. The amendments were aimed at making the audit committees more effective and efficient in the discharge of their responsibilities, devoid of any manipulation by dominant Chief Executive Officers (CEOs).

Two monitoring advantages can be gained from having audit committees, namely, independence and board efficiency. Independence is achieved by having both the external and internal auditors report to the audit committee. This reporting relationship will ensure that management will not have undue influence on the internal and external auditors and so are likely to be more objective in discharging their duties. The efficiency of the board of directors can be improved by assisting the board in monitoring management performance.

The spate of financial-reporting scandals in the US in the early 2000s led to the passage of the Sarbanes-Oxley Act, a sweeping federal law with broad corporate governance implications (Sarbanes-Oxley Act, 2002). Similar efforts to improve corporate governance and audit committee performance have occurred in numerous other countries (e.g. Bosch Report, 1995; Business Sector Advisory Group on Corporate Governance, 1998; Canadian Institute of Chartered Accounts, 1997; Hampel Report, 1997; Peters Report, 1997).

3.5.4.2 Remuneration Committee

Remuneration committee is one of the powerful monitoring mechanisms for controlling the excesses of dominant CEOs and fostering good corporate governance (SEC, 2002). Its absence throws up an avenue or opportunity for senior executives to award themselves pay raises that are not congruent with shareholders' interest. The absence of this committee according to Williamson (1985) is akin to the chief executive writing his employment contract with one hand, and then signing it with the other. The role of

remuneration committee is basically, to determine the appropriate design of reward structures for management and aligning management and shareholders' interests. (Main and Johnson,1993; Fisher 1986).

In order to protect shareholders from managerial self-interest, the members of the remuneration committee should be independent directors who are not managers of the firm (Kesner, 1988; Kesner, 1994). These non-management committee members are expected to act as objective decision makers who will ensure that the CEO and the other directors' compensation are set at appropriate levels (Bowen, 1994; Mangel and Singh, 1993; Singh and Harianto, 1989). Indeed, the argument by many analysts that the remuneration committee should be composed largely of outside directors is consistent with Agency Theory, which advocates the separation of management from control (Fama and Jensen, 1983). On the contrary however, Finkelstein and Hambrick (1989) posited that the number of outside directors in the remuneration committee has no bearing with the structuring of pay package for the top executive officers in an organization. To them, chief executive's compensation is not related to the percentage of outside directors on the remuneration committee or even the board as a whole.

Many authors and analysts have however posited that the effectiveness of the remuneration committee could still be undermined even if it is largely composed of non-executive directors. For instance, Singh and Harianto, (1989) noted that the CEOs might offer non-executive directors attractive contracts and consulting agreements so as to build personal relationships with stronger sense of obligation with these directors. Elson (1993) opined that remuneration committee's objectivity might be undermined when the component directors feel as if they owe their board seats to executive privileges, as may be the case with independent directors. Elson clearly asserted that non-executive directors feel some sense of loyalty to CEOs because they feel that these CEOs largely influence their nomination to the board. Indeed, some CEOs are actually taking advantage of their position to influence boards to award excessive salaries (Finkelstein and Hambrick, 1989; O'Reilly and Wade, 1995). Such an action is likely to have an adverse effect on the oversight function of the board.

3.5.4.3 Succession Committee

Succession planning is believed to help organizational governance structures prepare for executive turnover in an orderly and thoughtful manner, evaluate internal resource needs,

and train qualified candidates for appointments to executive positions (Bruce et al, 2005). For Kesner and Sebora (1994), having a succession committee and plan in place is critical for organizational success. Early identification of heir-apparent not only smoothens the routine CEO succession process, but also provides insurance should anything unexpected happen to the incumbent (Vancil, 1987; Lorsch and Maclver, 1989). Succession process usually is a complex one. Although there are often identifiable internal candidates, high executive sensibilities, as very few CEOs who are willing to relinquish power in a timely manner (Cannella and Shen, 2001), can complicate the process even further. Succession planning is quite often characterized by severe internal political manipulations and power struggles (Pfeffer, 1981), largely determined by distribution of power among the parties involved (Boeker and Goodstein, 1993; Zajac and Westphal, 1996).

One of the major roles of the board is to ensure continuity of the firm. One way of achieving this is to have an effective succession planning process that will ensure the right leadership pipeline.

3.5.4.4 Nominating Committees

Having the right calibre of directors in terms of skills, knowledge, experience, and social capital is important for the effectiveness of the board in adding value to the firm. The nominating committee is the body that can make this happen. The nominating committee, through its selection of directors, will also provide checks and balances and avoid any illogical and self-fulfilling CEO-led selection process. This will inject a greater degree of independence in the board itself. The process of nominating and selecting directors is one of the critical factors in determining how effectively a corporation is governed. If the process is handled well, a strong board will be built, and the organization's long-term interest will be well served. But if the process is poorly handled, as it too often is, the organization ends up with a weak, insulated and self-perpetuating board that leaves the organization vulnerable to catastrophic decisions and losing strategies (Leighton and Thain, 1993).

The independence of the nominating committee is the key to this process and in recent times, some US State laws have come up with provisions that allow shareholders to affect board's composition of the nominating committee by conducting an election contest, upon which a candidate is recommended to the nominating committee or nominated at the Annual

General Meeting (SEC, 2003). The composition, mandate and operation of the nominating committee should, at all times, be subject to clear and open terms of reference. This is because the nominating committee is a key board committee and also a key to sound corporate governance.

Study	Country	Study period	No. of firms	Results
Lary and Taylor (2012)	Australia	04 - 09	180	Results reveal that stronger AC independence and competence, but not diligence, is significantly related to a lower incidence and severity of financial restatements (i.e. to a higher integrity of financial statements)
Heenetigala and Armstrong (2011)	Sri Lanka	03 - 07	37	Reported a significant relationship between board committees and firm performance
Boyle and Xu (2011)	New Zealand	95-10	86	Found that audit committees have also become increasingly dominated by independent directors
Horstmeyer (2011)	US	05-09	1500	Documents that high demand and strong performing directors have a greater likelihood of serving on the nominating committee
Baxter (2010)	Australia	01	200	Found that in the time period absent of audit committee regulation, there was strong support for the influence of the board of directors on the composition and activity of the audit committee
Kang et al (2010)	Australia	08	288	Found a significant association between audit committee independence, expertise and activity and lower earnings management
Waweru, Kamau (2008)	Kenya	04	29	audit committees had greatly enhanced the independence of the internal audit function by ensuring that internal audit recommendations were implemented
Joshi and Wakil (2004)	Bahrain	03	30	Found that audit committees appear to be used more in larger firms and where there are a higher proportion of non-executive directors in it
Weir and Laing (2001)	UK	94 - 96	311	Found that remuneration committees had no effect on firm performance.
Klein (1999)	US	92–93	472	Found evidence that the presence of remuneration committees were positively associated with firm performance
Reinstein and Weirich (1996)	US	Not Stated	247	Found that many large firms use audit committees as protection against fraud, mis-management and financial

				liability

Table 3.5: Summary of Previous Studies on Board Committees

3.5.5 Board Diversity

The diversity literature suggests that diversity adversely impacts group dynamics, but improves group decision-making. Diversity can either be observable, such as gender, age, race and ethnicity, or non-observable such as knowledge, education, values, perception, affection and personality. Most research on diversity and its effects on board performance focus on observable or demographic diversity.

Diversity is a factor that is considered in the evaluation of board performance and effectiveness. Board diversity implies that the directors have different skills, knowledge and experience. They are also from different age groups and social status. Some researchers suggest that diversity leads to a greater knowledge base, creativity, higher quality decision making and innovation because of the diverse experience of members of the group, and therefore becomes a competitive advantage (Watson et al., 1993; Bilimoria and Wheeler, 2000).

Simons and Pelled (1999) in their study on executive diversity found that both educational level and cognitive diversity were associated with positive effects on organizational performance. However, they argued that experience diversity had a negative impact on return on investment and overall organizational performance due to informal communication among top teams. Even though the study was targeted at top management team, the results could be extrapolated to boards.

Hambrick et al. (1996) found that homogeneous top-management teams actually outperformed heterogeneous ones. They also reported that heterogeneous teams were slower in their actions and responses and less likely than homogeneous teams to respond to competitors' initiatives. The explanation they offered was that in a heterogeneous group individuals were more likely to disagree, thereby weakening the team consensus. The board of directors can therefore be regarded as a top management team and so Hambrick's findings can be applicable to the board. The implication of this result for boards is that a highly diverse board might not lead to better board effectiveness.

Erhardt et al. (2003), in their research with Fortune 1000 companies in the United States of America, concluded that diversity was associated with effectiveness in the oversight function of boards of directors. They opined that the oversight function may be more effective if conflict emerges which allows for a broader range of opinions to be considered.

Boards exhibit a considerable degree of diversity on the dimensions of functional background, industry background, and educational background. In their review of the literature on the effects of diversity in organizational groups, Milliken and Martins (1996) note that diversity is a “double-edged” sword for groups; although it increases the aggregate level of resources at the group’s disposal, it is also associated with higher levels of conflict interaction difficulties, and lower levels of interaction. Table 3.6 below shows a compilation of various studies the impact of board diversity on firm performance.

Authors	No. of Firms	Positive	Negative	Insignificant /No Relationship
Darmadi, 2011	169		Finds that both accounting and market performance have significant negative associations with gender diversity	
Tibben, 2010	126	Found a significant influence of TMT diversity on firm performance.		
Carter et al, 2010	641			Find no significant relationship between the gender or ethnic diversity of the board, or important board committees, and financial performance for a sample of major US corporations.
Marinova et al, 2010	186			Found no evidence that there is a relationship between board gender diversity and firm performance.
Adams and Ferreira, 2009	638	Found that Tobin’s Q is positively related to the percentage of women in the top management teams		
Eklund et al, 2009	105		Gender diversity has a small but negative effect on investment performance	
Wilson and Altanlar, 2009	900,000	Found that having at least one female board director reduces the risk of bankruptcy		

Campbell and Minguez-Vera, 2008	68	Find that board gender diversity has a positive effect on firm value as measured by Tobin's Q.		
Dezso and Ross, 2008	1,500	Find a positive association between firm performance and female participation below the CEO level		
Rose, 2007	443			Found no significant link between gender, nationality, and educational diversity and firm performance, measured by Tobin's Q.
Francoeur, Labelle and Sinclair-Desgagné, 2007	500	Found that firms operating in complex environments generate positive and significant abnormal returns of 0,17% monthly when they have a high proportion of female directors		
Bøhren and Strøm, 2007	203		Found that TMT homogeneity in terms of gender is associated with higher firm performance	
Randøy et al, 2006	500			find no significant diversity effect of gender, age, and nationality on stock market performance or on ROA
Smith et al, 2006	2500		find a negative relationship between gender diversity of the board and gross profits to sales	
Farrell and Hersch, 2005	300			Found that adding a woman to the board of directors does not result in value creation or destruction
Carter et al, 2003	1,066	Found that nationality diversity is positively related with firm performance		
Erhardt et al, 2000	127	Found evidence for a positive influence of gender and nationality diversity on financial performance measured by return on equity and return on assets		
O'Reilly, 1993	200		TMT homogeneity in terms of tenure is associated with higher firm performance	

Table 3.6: The Impact of Board Diversity on Firm Performance: Summary of Previous Studies

Several scholars have emphasised that one of the main functions of the board of directors is to provide quality support and advice to the CEO otherwise unavailable from other corporate staff (Hillman and Danziel 2003; Dalton et al. 1998; 1999; Lorsch and MacIver 1989; Zahra and Pearce. 1989). The effectiveness of this role of the board depends on the board's cumulative human capital that is often linked to various board demography characteristics, such as tenure, professional diversity, etc. Boards that are composed of directors with different backgrounds may be more effective in terms of bringing important expertise, experience and skills to facilitate advice and counsel. A number of studies argue that board diversity in terms of directors' professional experiences should lead to more efficient service/expertise/counsel roles of the board and, as a result, to better performance (Carpenter and Sanders, 2002; Wagner et al. 1998; Westphal 1999; Baysinger and Hoskisson 1990; Kaplan and Reishus 1990).

3.6 Board Human Capital

Human capital is the individual knowledge and skills, which develops typically through investments in education, trainings and various experiences Becker in (Yusoff and Fauziah; 2010). The collective human and social capital of corporate board members, referred to as board capital, is seen as a proxy for the ability of the board to govern the corporation and is associated with firm performance (Hillman and Dalziel, 2003). Board human capital is an intangible asset of an organization, which comprises of individuals' knowledge, skills and expertise, including intuitions, rules of thumbs and unconscious values (Hitt et al., 2001) experience, reputation and expertise (Hillman and Dalziel, 2003). They serve as a director's capability to perform his functions effectively in a variety of situations.

In examining prior literature, two theories are employed. First, resource dependency theory was used to examine the essential resources that are needed by any firm to maximize its performance. Resource dependency theory postulates that firms' performances rely on their abilities and capacities to secure crucial resources from the environment (Hillman et al., 2000; Brown, 2007). In this regard, this theory posits that members of board of directors are one of the most important resources for a firm. In particular, their knowledge and experience in business is found to be essential for the effectiveness of the boards and firm performance (Hansell, 2003). For instance, (Huse 2007; Kroll, Walters and Le, 2007; Arthurs, Hoskisson, Busenitz and Johnson, 2008) stated that board members contribute to effective governance primarily by utilizing information and expertise that can be used to enhance creativity and coherence in the decision-making process. Therefore, to be effective, firms need to have

boards made up of members who possess functional or firm-specific knowledge and skills, in accordance with firms' activities (Milliken and Martins, 1996; Forbes and Milliken, 1999).

Second, human capital theory was employed to explore the advantage of having diversity of individual's expertise to an organization (Becker, 1993; Baron and Armstrong, 2007). It was argued that the greater the human-capital intensity of the board members, the greater percentage of high value-added performance contributed by the board to the success of company strategy (Stewart, 1997). This can be explained because directors who possesses relevant knowledge and skills found to be effective, particularly in analyzing different viewpoints of other directors (Nicholson and Kiel 2003), and engaging in strategic processes (Offstein and Gnyawali, 2006).

The two theories indicate that human capital of company directors, played important roles in effective governance. Therefore, to be effective, firms need to have boards composed of directors who possess expertise, knowledge and skills, which are relevant to their business activities.

3.7 Board Effectiveness

There are multiple approaches to determine the concept of board effectiveness, which depends on the scholar's background and research objectives (Kuo, 2004; and Van den Berghe and Levrau, 2004). Board effectiveness is mainly concerned with "task" outcomes and occurs by fulfilling a role set (Nicholson and Kiel 2004). The approach is, however, still subject to considerable debate in the literature. The role set is often not defined as an integrated set of activities. In contrast, based on diverging theoretical assumptions, the role of the board is conceptualized in a multiple, and in some cases, contradictory way (Johnson et al., 1996; and Hung, 1998). Board roles have been the focus of numerous authors' research since the 1980s (e.g., Donaldson and Davis, 1991; Weir, Laing, and McKnight, 2002; Denis and McConnell, 2003; Babić, 2010). The roles of boards of directors are commonly classified as: ***control, service and strategic role*** (Zahra and Pearce, 1989; and Maassen, 1999). Some authors refer to the control role as oversight or monitoring, and the service role as advisory.

3.7.1 Board Control Role (Oversight or Monitoring)

The control, which is also referred to as oversight or monitoring role, of the board consists of controlling the managerial behavior to avoid the investors' wealth expropriation (Fama and Jensen, 1983). Regarding the control role, the board of directors, which represents

an organization's owners, has a legal duty to provide oversight and is expected to carry out this duty with sufficient loyalty and care. Particularly, in Anglo-American countries (like Nigeria), it is emphasized that the board has a fiduciary duty to oversee the company's operations and monitor top management performance in order to protect shareholders' interests (Lorsch and MacIver, 1989).

The board is responsible for adopting control mechanisms to ensure that management's behaviour and actions are consistent with the interests of the owners. The important control mechanisms are the selection, evaluation and if necessary removal of a poorly performing CEO and top management, the determination of managerial incentives and the monitoring and assessment of organizational performance (Johnson et al., 1993; Mizruchi, 1983; Zahra and Pearce, 1989). The main driver of these control mechanisms is the board's obligation to ensure that management operates in the interests of the company's shareholders – an obligation that is met by scrutiny, evaluation, and regulations of top management's actions by the board (Hillman and Dalziel, 2003).

The board's duty to monitor management and corporate performance has also been addressed in other disciplines apart from law. In particular, the dominant theory underlying the control role of the board is agency theory. This theory, as discussed in section 2.3.3, is concerned with resolving problems that may occur in the relationship between the principals (owners) and agents (the managers) (Eisenhardt, 1989). The board of directors can therefore be seen as one of the internal control mechanisms designed to address the conflicts of interest between managers and shareholders and to bring their interests into congruence (Walsh and Seward, 1990). Within this context, a board of directors is the guardian of shareholders' welfare and fulfil the critical tasks of hiring, firing and compensating the CEO (top management) and to ratify and monitor important decisions (Fama and Jensen, 1983).

The monitoring function is clearly a vital one for boards to play, and if anything it has become even more salient following the wake of recent global corporate scandals and legislations. Heidrick and Struggles (2007) report that 84% of respondents in their survey of directors indicated that "to at least some extent they are now spending more time on monitoring and less on strategy."

Various researchers have established relationships between board characteristics and the board control role. Some have established that the board's monitoring or control role is more efficiently performed by larger and more independent boards (Lehn et al., 2009; Guest,

2008; and Raheja, 2005). This relation is particularly relevant in industries such as commercial banking, in which the benefits from a larger board include political influence with a regulatory body or assistance in attracting more business (Agrawal and Knoeber, 2001; Gillan et al., 2003).

It has also been argued that a more independent board will be more effective in performing their control role as they will not be under the influence of management. Having an independent chair could also result in superior monitoring by the board. However, Adams (2009) found that intense monitoring can result in poor strategic advising since directors will be over burdened with excessive compliance and monitoring responsibilities. This could leave such directors with little time, less information, and poorer focus on strategic advising.

Adams (2009) also provides empirical evidence suggesting that directors who perform extensive monitoring duties receive less strategic information from management. . She also shows that such directors are less likely to participate in strategic decision-making and their inputs are valued less by the CEO. Thus, increased monitoring, especially by a large number of independent directors, can lead to significant reduction in the effectiveness of board advising.

That monitoring and controlling of managers is the board's main role does not of course imply that boards do not have other tasks to perform. Part of the board’s job and that of its individual members is to assist, encourage, and advise management on the running of the firm by setting goals, assessing investment opportunities, and so on, and by making available to management both the general and specific knowledge individuals possess as board members (Ferreira, 2007; Helland and Sykuta, 2004).

3.7.2 Board Service Role (Advisory)

The service or advisory role of the board of directors is seen as one of the main functions of the board (Adams and Ferreira, 2007; Raheja, 2005). It consists of providing the CEO and his top management team with expert counsel and access to information and resources that directors have. The role primarily stems from a resource dependence view and, to a limited extent, from stewardship theory. From a resource dependence perspective, the board of directors is seen “as a vehicle for co-opting important external organizations with which the company is interdependent” (Pfeffer and Salancik, 1978). Within this context, Mintzberg (1983) distinguishes at least four service roles of the board of directors: (1) co-opting external influencers; (2) establishing contacts (and raising funds) for the organization;

(3) enhancing the organization's reputation; and (4) giving advice and counsel to the organization. In particular, the latter refers to the board's potential to provide high-level advice to the CEO (Dalton et al., 1998; and Jensen, 1993). However, an alternative approach of the service role, mainly based on stewardship theory, excludes legitimacy and resource dependence functions in favor of strategic engagement. According to stewardship theory, managers are good stewards of the company assets. Managers do not misappropriate corporate resources at any price because they have a range of nonfinancial motives, such as the intrinsic satisfaction of successful performance, the need for achievement and recognition etc. Given the absence of self-interested behavior by managers, the issue becomes to what extent organizational structure facilitates the aspiration of management for high performance (Donaldson and Davis, 1991; and Muth and Donaldson, 1998).

From stewardship theory perspective, the board of directors is seen as an important strategic device. The board of directors can serve the CEO and management with their expertise through their active involvement in the strategic decision-making process, particularly by advising top management on the initiation, formulation and implementation of strategy (Johnson et al., 1996; and Carpenter and Westphal, 2001; Ogbechie et al., 2008). This approach however blurs a clear distinction between the service and the strategic role of a board of directors.

The service (advisory) role of the board of directors is more efficiently performed by a larger and more independent board that can provide important connections and greater information, knowledge, and expertise to the CEO and top management team (Fama and Jensen, 1983; Guest, 2008).

Results from non-financial firms show that advisory needs are positively related to firm's size and complexity size (Baker and Gompers, 2003; Guest, 2008; Iwasaki, 2008; Coles et al., 2008; Linck et al., 2008; Fahlenbrach, 2009; Lehn et al., 2009).

For the board to carry out its advisory function more effectively there is the need for directors to have a good knowledge of the firm's business and the industry it plays in and to have regular timely and quality information about the affairs of the firm they govern.

3.7.3 Board Strategic Role

The strategic role of the board of directors has historically been subject to many disputes. The strategic role of the board taps insights from different theoretical perspectives. In essence, there are two broad schools of thought on the involvement of boards in strategy,

referred to in the literature as 'active' and 'passive' (Golden and Zajac, 2001). The passive school views the board of directors as a rubber stamp or a tool of management with little or no impact on a company's strategy process. In contrast, the active school views the board of directors as an 'independent' body that actually contributes in shaping the strategic course of a company and guiding the management to achieve corporate mission and objectives (Hung, 1998; and Maassen, 1999). The board's contribution can occur in many ways, such as through advice and counsel to the CEO, through careful refinements of strategic plans, by initiating own analyses or suggesting alternatives, by probing managerial assumptions about the firm and its environment, or by ensuring that an agreement exists among the executives in the strategic direction on the firm (Zahra and Pearce, 1989; and Zahra, 1990). According to Goodstein et al. (1994), the strategic role is of particular importance in critical cases such as periods of environmental turbulence or declines in company's performance, because such events provide the opportunity to a board to initiate strategic change. As pointed out by different scholars, the active school of thought is receiving growing attention and is gaining ground (Finkelstein and Hambrick, 1996; and Hendry and Kiel, 2004).

Bob Garratt (2005) found that many board directors do not budget time for, nor have little sustained interest in, thinking regularly and rigorously about the future health of their businesses. This surprising finding comes from his work on the preferred thinking patterns of statutory directors in the UK (Pierce, 2000), the work on "Directoral Dashboards" by Ram Ramakrishnan in South East Asia (2003), Clive Morton's work published in *By The Skin Of Our Teeth* (2003), and Garratt's empirical observations through working with boards of directors in Europe, East Asia, Australia, and the US over many years. This implies that boards that strive to be effective have to set aside time at board meetings to discuss strategic issues, for in addition to making decisions concerning the hiring and firing of CEOs, boards may also be involved in the setting of strategy and in the selection of important projects.

The boards' strategic role comprises both oversight of strategy formulation (e.g. reviewing, ratifying and evaluating the proposed strategy) and execution and has become of major interest (Westphal and Zajac, 1995; Finkelstein and Hambrick, 1996; McNulty and Pettigrew, 1999; Stiles, 2001; Felton and Watson, 2002; Useem, 2003). In addition, the highly competitive nature of many industries has made directors to take more interest in their strategic role. In a survey by Leblanc and Gillies (2005), directors spoke on their desire "to move beyond their 'compliance' (monitoring) role to a more 'value-added' (strategic) role."

3.7.4 Overview of the Three Board Roles

An overview of the three board roles and the functions that make up each role is presented in Table 3.7. Although the literature recognizes three board roles, the importance attached to each role is not equal. As agency theory dominates corporate governance research, it is obvious that the board's control role is emphasized as the most important one and this role is well-documented by a rich body of empirical literature. At the same time, the importance of the board's strategic role is supported by a limited but increasing amount of empirical research. Several scholars have attempted to understand actual board involvement in the strategic decision-making process mainly relying on qualitative research techniques (Lorsch and MacIver, 1989; Demb and Neubauer, 1992; Judge and Zeithalm, 1992; Goodstein et al., 1994; Johnson et al., 1996; McNulty and Pettigrew, 1999; Short et al., 1999; Van den Berghe and Levrau, 2004). Applied to this study, we value the view of a three-fold role set which comprises the control, service and the strategic role. Different arguments underpin our choice. First, previous studies on boards of directors have relied on a single theoretical perspective favoring one board role at the expense of the other, resulting in an incomplete picture (Hillman and Dalziel, 2003). In order to get a more holistic and richer understanding of what boards do, it is important that a multiple lens approach is used. Second, as argued above, the service and strategy role are not mutually exclusive as there exists some overlap with respect to the prescribed tasks performed by the board, particularly regarding the strategic decision-making process. Finally, a recent study by Levrau and Van den Berghe (2006) revealed that the strategy role was strongly emphasized (in comparison to the other board functions) in directors' perceptions.

Board activities tend to be confidential in nature and as such it is not easy to measure board task performance in ways that are both reliable and comprehensive. Forbes and Milliken (1999) suggested using certain publicly announced board actions, for example, CEO replacement as proxy for performance of the control functions. Still, this approach appears to be less suitable for the assessment of board task performance on the strategic dimension. In particular, it can be argued that it is difficult to isolate the real impact of the board of directors (from the impact of management) when assessing publicly announced strategic decisions, such as a take-over. Alternatively, Levrau and Van den Berghe (2007) suggest that researchers measure board task performance by identifying various board functions related to the strategic and monitoring role and then asking respondents to assess how well these functions are being performed. In spite of their limitations, these self-evaluation approaches

have been commonly used in previous empirical studies on board effectiveness in the non-profit sector (e.g., Slesinger, 1991; Bradshaw et al., 1992; Green and Griesinger, 1996; and Cornforth, 2001).

	Control Role	**Service Role**	**Strategic Role**
Board Responsibilities	• Maximizing shareholder's wealth • Primarily the board has to monitor actions of agents (executives) to ensure their efficiency and to protect principals' (owners) interests	• Boards are a co-operative mechanism to extract resources vital to company performance • Boards serve a boundary spanning role • Boards enhance organizational legitimacy • Boards serves as 'sounding board' for Management	• Boards are rubber stamps ('passive' school of thought) • Boards are an important strategic device contributing to the overall stewardship of the company ('active' school of thought
Board Tasks	• Selecting, rewarding and replacing the CEO •Monitoring/evaluating company performance • Articulating shareholders' objectives and focusing the attention of key executives on company performance • Reducing agency costs • Ratifying and monitoring important decisions	• Scanning the environment • Representing the firm in the community • Securing valuable resources • Providing advice to the organization and CEO • Involvement in strategy formulation and implementation	• Satisfying the requirements of company law ('passive view') 'Active' view: • Guiding management to achieve corporate mission and objectives • Involvement in the strategic decision making process
Theoretical Perspective	• Legalistic Agency Theory	• Resource Dependence Theory •Stewardship theory	• A broad range of theories e.g., managerial hegemony theory and stewardship theory

Source: Adapted from Zahra and Pearce, 1989.

Table 3.7: Board Directors' Role Set

3.8 Board Processes and Board Effectiveness

The board is responsible for the long-term success of the firm by ensuring that the firm is appropriately managed and achieves the strategic objectives it sets. The board discharges these responsibilities through annual programme of board meetings where issues are discussed and decisions taken. How boards commonly organize themselves to work together effectively, how directors relate to one another, how the board interacts with management, and how decisions actually get made both inside and outside of the boardroom, constitute board processes (Leblanc and Schwartz, 2007). The literature survey identified

several board process attributes ranging from the extent of exchange of ideas at board meetings to the use of formal procedures to evaluate board and managers. Several researchers have chosen the set of board processes they are interested in; for example Forbes and Milliken (1999) and Huse (2005) chose cognitive conflict, efforts norms and the use of knowledge and skills. However, in this study three specific board processes have been proposed as antecedents of board task performance: ***board cohesiveness, decision-making and operations.***

These three processes have been chosen because of their importance in the research environment, Nigeria. Boards of public companies in Nigeria tend to have directors from different parts of the country and so cohesiveness of these diverse members is important. The boards of many public companies work primarily for the interests of dominant shareholders and so the decision-making process is important. The level of infrastructural development in Nigeria is still relatively low and so the issue of administrative operations is also important.

3.8.1 Board Cohesiveness

Board Cohesiveness refers to the degree to which board members are attracted to each other and are motivated to stay on the board (Summers, Coffelt, and Horton, 1988). Cohesiveness captures the affective dimension of members' inclusion on the board and reflects the ability of the board to continue to work together. Board members who are attracted to each other are likely to appreciate coming together for board meetings. Cohesiveness will also include having a good atmosphere at board meetings.

Much of the work that boards of directors must do in order to produce effective outcomes involves cooperative decision-making and joint efforts. Board members are required to work together as a team by mutual interaction, sharing information, resources and decisions (Siegel and Hambrick, 1996; Hambrick, 2007). In this respect, the board of directors is considered to be a collegial body and only if board members coalesced into a group can collective judgment emerge (Charan, 1998). This implies that a board must act a strong team and operate collegially for it to be effective. Sharon Kemp (2010) argued that teamwork is seen as important to the board process and it was mentioned by ninety percent (90%) of board members in her study.

Boards are charged with complex, interactive tasks, and as such the degree of interpersonal attraction among members is likely to influence the effectiveness with which

those tasks are performed (Williams and O'Reilly, 1998). Qualitative research on boards of directors (e.g., Finkelstein and Mooney, 2003; and Van den Berghe and Levrau, 2004) revealed that directors value the chemistry of the board and the team spirit of their colleagues, which implies cohesiveness, as important elements of board effectiveness.

Cohesion aids collaboration and communication among board members, and these in turn influence performance outcomes. Both the control and service components of the board's tasks require extensive communication and deliberation, and board members must have a certain minimum level of interpersonal attraction in order to engage in these things. Cohesiveness has been found to enhance decision making in some ways, such as by promoting earlier and more extensive discussion of alternative scenarios (Hogg, 1996). However, boards that are unable to work as a team are less able to control powerful CEOs and are also likely to be less effective at providing the advice and counsel to top management.

Study	Results
Levrau and Van den Berghe (2007)	In their study of corporate governance and board effectiveness used board cohesiveness and debate as intervening variables
Wan and Ong (2005)	In their study of Singaporean Plcs, hypothesized board process as an intervening variable between structure and performance and also treated cohesiveness as part of board process
Yukl (2002)	Developed a multiple –linkage model which identifies 6 intervening variables (in which cohesiveness was one) as important in determining workgroup performance

Table 3.8: Studies that have used board cohesiveness as an intervening construct

3.8.2 Board Decision-Making

Much of the work of boards involves making decisions, such as decisions about policies, strategies, goals, selection of projects, and recruitment of management staff. How a board makes these decisions is important.

Board decision-making entails rigorous debates at board meetings and also board committee meetings. These debates can be open discussions in friendly environment or in antagonist environment. Cognitive conflicts might arise during these debates. ***Cognitive***

conflict refers to task-oriented differences in judgement among group members (Forbes and Milliken, 1999). Cognitive conflict is likely to arise in groups that, like boards, are independent and face complex decision-making tasks. Because the issues facing boards are complex and ambiguous, board members are liable to characterize issues differently and to hold different opinions about what the appropriate responses to these issues are (Dutton and Jackson, 1987). Cognitive conflict results in the consideration of more alternatives and the more careful evaluation of alternatives – processes that contribute to the quality of strategic decision-making in boards (Eisenhardt, et al., 1997; Jackson, 1992; Milliken and Vollrath, 1991). The expression of cognitive conflict during discussions is considered to be a critical component of decision-making groups like boards. Since the complexity of the board's tasks overwhelms the knowledge of one person, board members are supposed to share their own, unique experiences or perspectives via discussions or other forms of interaction (Schweiger et al., 1986). In particular, board members must find ways to let their views aired, to challenge one another's viewpoint without breaking the code of congeniality. Debate facilitates the generation of ideas and provides the opportunity to critically assess multiple alternatives and question false assumptions (Eisenhardt et al., 1997). A recent study by Levrau and Van den Berghe (2006) revealed that directors perceive the occurrence of objective debate as one of the key criteria for board effectiveness. Their findings are consistent with the evidence of a qualitative study by Finkelstein and Mooney (2003).

3.8.3 Board Operations

Board operations refer to the various administrative activities that will enhance the smooth running of boards which will enable directors perform their various activities more effectively.

Board operational issues of interest include number and schedule of board and committee meetings; structure and complexity of agendas; quality, timeliness, sufficiency and accuracy of board information, presentation and communication. Effective board and committee meetings are essential for successful board roles. Effective meetings require that a well thought out agenda be distributed, along with pertinent data, to directors beforehand; that meetings be held promptly; that issues are discussed in sufficient depth; that dissenting directors have a forum to express their views freely, but without monopolizing the discussion; that a true majority of directors make decisions, rather than acquiescing to the CEO; and that

good minutes of meetings are kept for documentation of progress made (Mueller, 1981; Vance, 1983).

Another area of board operations that could impact board effectiveness is the conduct of board meetings, such as time management, the quality of presentations and the frequency of board meetings (Levrau and Van den Berghe, 2006). Board operations also include processes for ensuring that board decisions are implemented.

3.9 The Board as a diverse Team

Forbes and Milliken (1999) looked at boards as working groups and they defined working groups as intact social systems that perform one or more tasks within an organizational context. The board of directors can be considered as a multi-member governing body, standing at the apex of the organization (Bainbridge, 2002). However, being a collection of individuals, boards of directors show some distinctive features which make them, to some extent, unique among organizational teams (see Table 3.9 for a summary).

A first feature of the board is partial affiliation since outside directors are not employees of the company and do not assume management tasks. In most cases, outside directors sit on several boards, in addition to their regular full time jobs. In this respect, outside board members are only partially affiliated to the company on whose board they serve (Forbes and Milliken, 1999; and Nadler et al., 2006). Second, boards of directors are characterized by episodic interactions as most boards of directors only meet a few times a year. Although some board committees meet more frequently, the meetings involve only a small subset of the whole board. By consequence, board members spend only a limited time together in the boardroom resulting in less personal contact. Besides, without little or no contact between formal board meetings, there is little opportunity to build strong working relationships (Forbes and Milliken, 1999; and Nadler et al., 2006). A third feature is limited time and information directors have to perform their functions. Outside directors devote only limited amount of their time on board-related work as they have other full-time jobs that occupy the bulk of their time (Lorsh and MacIver, 1989). Moreover, they heavily depend on the goodwill of management to obtain relevant and timely information. In this respect, it is obvious, that outside directors—compared to executive directors—are restricted in their ability to become deeply familiar with the company, its people and its business (Nadler et al., 2006). Fourth, boards of directors are commonly composed of a preponderance of leaders,

such as former or present CEO (Forbes and Milliken, 1999). It is often because of their outstanding professional achievements that they have been appointed to the board of directors. At the same time, these individuals are used to sitting at the head of the table and have their own psychological needs for power, recognition, and influence. For many of these directors, the setting of a board of directors might be sensed as an unusual and uncomfortable situation (Nadler et al., 2006). Fifth, authority relationships within a board of directors are complex. In contrast to management teams, the role and position of outside directors do not reflect their status in the company's hierarchy (Nadler et al., 2006). Still, some outside directors may have more authority than others, due to their status in the corporate world or the business community at large. Moreover, when the positions of the chairman of the board and CEO are combined, a strong power relationship may exist. A sixth feature relates to the changing expectations of work. Compared to other teams, the role of the board is often not well-defined and can substantially differ among companies. In addition, boards of directors are increasingly confronted with unprecedented scrutiny and public pressure (Van den Berghe and Levrau, 2004). As a result, many boards are struggling to agree on what their tasks are, also vis-à-vis management. Seventh, boards of directors operate in a formal way. The format, physical setting, social rituals and conduct of board meeting create a sense of formality and status which is uncommon among other teams (Nadler et al., 2006). Finally, boards of directors have a larger number of members in comparison to the size of other organizational team (Forbes and Milliken, 1999).

	Boards as Teams	**Typical Teams**
Affiliation	Outside directors may be members of more than one board; this is not their "day job".	Members work for the same organization.
Interaction	Directors spend little time together, making it difficult for them to build working relationships.	Members spend considerable time together, experience intense personal interaction.
Time and information	Limited time and information available to master issues of a complex company.	Constantly immersed in company's business.
Leaders as members	Majority of members may be CEOs, who are used to leading, not following.	Most members are not accustomed to sitting at the head of the table.

Authority relationships	Lines of authority are complex and unclear; chairmen/CEOs both lead and report to boards.	Members' roles on the team often reflect their status in the company.
Changing expectations	Difficult to achieve consensus in a climate of unprecedented scrutiny and pressure.	Usually created with a reasonably clear charter—such as completing a project in mind.
Formality	Physical setting and social rituals reinforce aura of power and privilege.	High degree of formality is rare, generally reflects the culture of the company.
Team size	Average number of members is rather high.	Average number of member is rather low.

(Source: Adapted from Nadler et. al., 2006)

Table 3.9: Characteristics Differentiating Boards from other Teams

Boards of directors can therefore be characterized as large, elite, and episodic decision-making groups that face complex tasks pertaining to strategic issues. Because boards are not involved in implementation, the "output" that boards produce is entirely cognitive in nature. In addition, because boards are large, episodic, and independent, they are particularly vulnerable to "process losses" (Steiner, 1972) – the interaction difficulties that prevent groups from achieving their full potential.

Forbes and Milliken (1999) developed a model that is concerned with two criteria of board effectiveness: board task performance (control and service tasks) and board's ability to continue working together as a cohesive team. Levrau and Van den Berghe (2007) proposed three group process variables that will significantly influence the task performance of boards, i.e., cohesiveness, debate and conflict norms.

Our research is based on a model that is adapted from those of Forbes and Milliken (1999) and Levrau and Van den Berghe (2007). This is based on three board process variables (cohesiveness, decision-making, and operations) that will significantly influence the task performance of boards – control, service, and strategic roles.

3.10 Summary

This chapter looks at the three types of governance models- Anglo-Saxon, European, and Japanese and explores the various empirical studies on the performance and effectiveness of boards. It shows that the board of directors performs the pivotal role in any system of

corporate governance. It is accountable to the stakeholders and directs and controls the management. It stewards the company, sets its strategic aim and financial goals, and oversees their implementation, puts in place adequate internal controls and periodically reports the activities and progress of the company in a transparent manner to the stakeholders.

The chapter further covers the various theories that explain board performance such as managerial hegemony, agency, resource dependency, stewardship and stakeholder theories.

It goes on to review the impact of board characteristics and processes on effectiveness. It then defines board effectiveness from the point of view of various authors.

This sets the stage for the next section that describes the theoretical framework on which this study is based and hypothesis development.

CHAPTER 4: THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

4.1 Introduction

This chapter presents the theoretical framework of this thesis. It discusses the linkage between board characteristics, board processes and board effectiveness. It also looks at the controlling variables of organization type, ownership, age and size. Mainstream empirical studies have assumed the effectiveness of the board is a function of its structure and independence from management. Only a few studies have attempted to adopt a comprehensive approach by studying the effect of board functions, processes, and behaviour on the effectiveness of the board. The thesis is based on this later stream of research work and it is based on a framework that is adopted from the works of Nicholson and Kiel (2004) and Levrau and Van den Berghe (2007).

4.2 The Nicholson and Kiel Framework

Nicholson and Kiel (2004) developed a framework (Figure 4.1) for diagnosing board effectiveness which has not been tested empirically. It is based on the concept of board intellectual capital and the aim is to have a basis for examining how boards of directors affect corporate outcomes. The framework, which conceptualises the board as part of a governance system, employs the construct of intellectual capital and seeks to explain how a board's intellectual capital informs board behaviours and how this pattern of behaviour ultimately links to corporate performance.

It proposes a series of inputs (organisation type, company' legislative and societal framework, company history, organisation's constitution, and company strategy) that lead to a particular mix of board intellectual capital. The first input, organization type, recognises the nature and purpose of the organisation which have a powerful impact on board composition, board roles and board performance (Pearce and Zahra, 1992; Johnson et al., 1996). Organisation type also determines the constituency base of the ownership or membership of the company, for example for-profit and not-for-profit organisations will have different objectives and different governance structures.

The second input is the company's legislative and societal framework. They argue that all companies operate with a set of rules or laws established in the countries they

operate. In Nigeria this set of laws is the Company and Allied Matters Act (CAMA) and such laws set out clearly the responsibilities of boards and other governance matters. In addition to these legal requirements, expectations of stakeholders and societal customs have impact on board operation.

The third major input is the organisation's constitution, which is an internal document that states policies and processes that shape the relationships between owners, directors and managers. These will have a substantial impact on how the board is constituted and run and also on its effectiveness.

Company history is the fourth input and this will influence who gets on the board. The history of the company consists of its past performance, its corporate culture, values and the board's composition and this will affect how the board functions. The final input is the organisation's strategy, which is defined as how a company uses its resources (Judge and Zeithaml, 1992). A company's strategy will determine the roles the board will need to perform. They argue that these five fundamental inputs into board system discussed above determine the intellectual capital requirements and roles of the board. The board intellectual capital is what is used in performing the various roles of the board output is dependent on how well these roles are performed.

Nicholson and Kiel model uses individual-level outputs and group-level outputs of a board as a measure of the board's effectiveness rather using corporate performance. To them understanding how boards add value to organisations requires an understanding of how boards contribute to organisational, group-level and individual-level outputs. Corporate performance is dependent on both board effectiveness and senior management effectiveness.

They see a board as a bundle of intellectual capital that enables it to enact a role set and they contend that the balance of the different elements of board intellectual capital will lead to a series of board behaviours. They argue that board intellectual capital is fundamental to transforming inputs into organisational performance. The components of board intellectual capital as defined by them include human capital, social capital, structural capital (policies and procedures), and cultural capital (values and norms).

According to Nicholson and Kiel (2004), board human capital, which is the first component, is the individual knowledge, skills and abilities possessed by directors that are

relevant to the organization. Boards carry out their roles effectively when individual directors apply their knowledge, skills and abilities to the tasks they have to perform.

The second component, board social capital refers to the implicit and tangible set of resources available to the board by virtue of social relationships (adapted from Gabbay and Leenders, 1999, p. 3). There are three dimensions to board social capital; the goodwill that exists between board members, the goodwill that exists between members of the board and senior managers, and the relationship between board members and external parties. Social capital can lead to better board productivity, effective exchanges between the board and management and supply of appropriate resources by external parties.

The third component, board structural capital includes the various procedures, policies, processes and methods the board has developed for its smooth operation (Bontis, 1998, p. 65). Structural capital will influence the quality and timeliness of board materials, board behavioural/ethical expectations and board culture.

The final component, cultural capital, deals with the degree to which board members share norms, values and rules that guide their behaviour (Lin, 2001; Schein, 1992). These values would include expectations of transparency, honesty and accountability.

They have conceptualised boards as a set of five components – the human, social and cultural capital of individual directors and the social and structural capital of the board as a whole. They argue that it is important to identify the nature of interaction between these components and the resultant dynamics and relationships between them. This interplay between the various components of intellectual capital has impact on the board's performance.

According to the framework the effectiveness of the board is dependent on how well the board performs the roles of controlling the organisation and monitoring management, providing advice to management, and providing access to resources. The ability of the board to execute these roles will determine how effectively the company is governed. They also proposed that the board's effectiveness will depend on the alignment between the various board capitals and its required role set. To them the challenge in governance is to understand the roles required of the board and then to match the intellectual capital of the board to those roles. To the best knowledge of the researcher this framework has not yet been tested empirically.

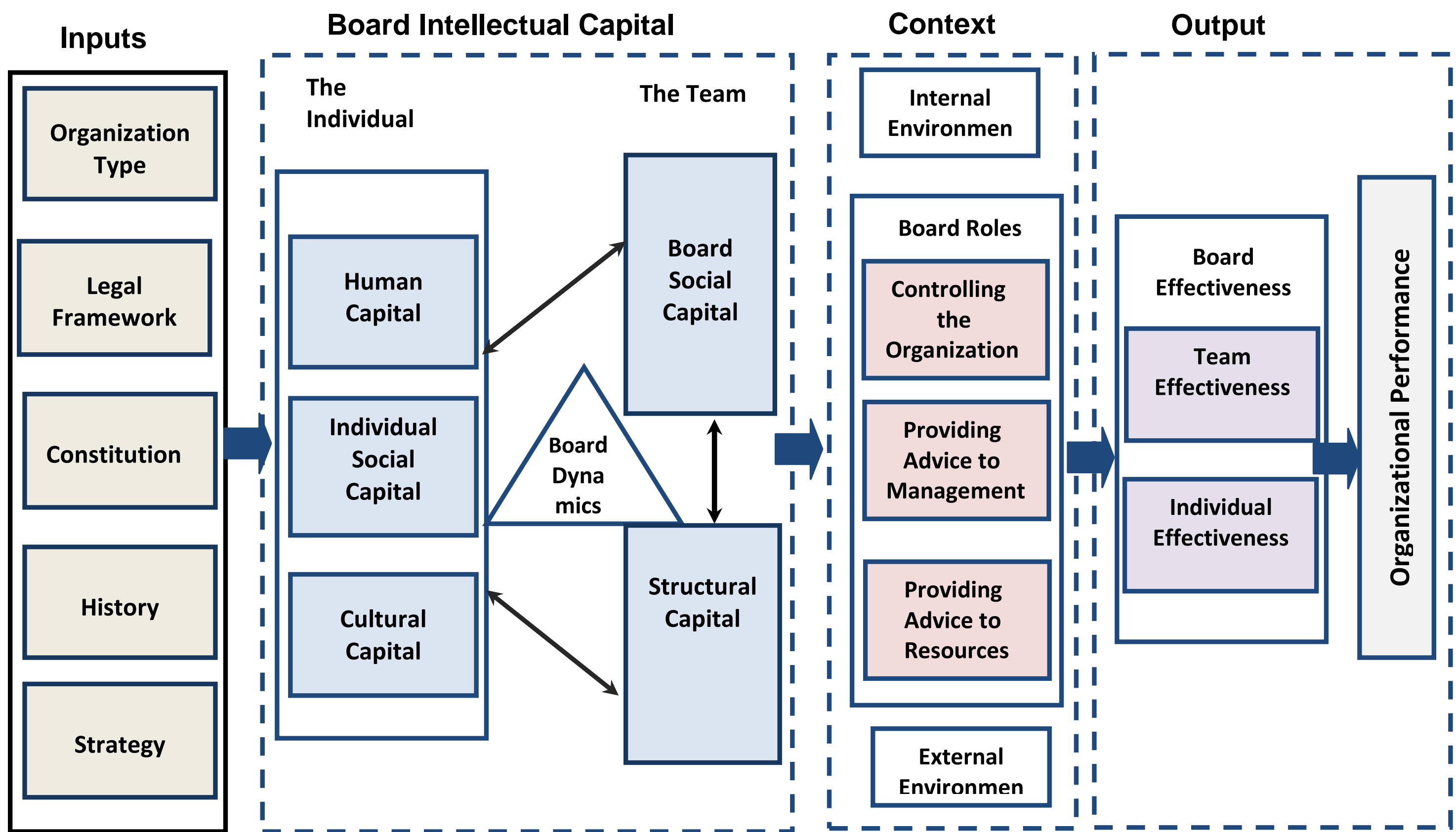

Figure 4.1: The Board Intellectual Capital Framework (Nicholson and Kiel, 2004)

4.3 The Levrau and Van den Berghe Framework

Levrau and Van den Berghe (2007) developed a process-oriented framework (figure 4.2) for board effectiveness. The authors distinguished multiple intervening constructs that they believe mediate the direct impact of board characteristics on firm performance. Their model strongly relies on the input-process-output approach used in research frameworks for studying organizational teams (Gladstein, 1984; and Cohen and Baily, 1997).

In their model, board effectiveness is determined by the extent directors carry out their control role and strategic role. Their control role is similar to that in Nicholson and Kiel (2004) model while their strategic role is a combination of service and strategic, while Nicholson and Kiel included strategic role in their service role. Levrau and Van den berghe argued that the impact of boards of directors on company performance occurs indirectly through the effectiveness of boards performing these two key roles.

The authors also argue that three group process variables will significantly influence the task performance of boards and hence impact how well the board performs its role of control, service and strategy. These three process variables are cohesiveness, debate and conflict norms. Board members are required to work together and cohesiveness will aid collaboration and communication among directors. The authors argued that a minimum degree of cohesion among the board members is required for the board to become a team, which will lead to board effectiveness. Considering the board as a decision-making group, directors are expected to discuss and debate issues constructively before making decisions that will affect the performance of the board. Cognitive conflict will exist when there is disagreement among directors, particularly on how best to perform their duties. Conflict norms are seen as playing a moderating role between board characteristics and debate.

The inputs in their model are the board characteristics of board size, board independence and board diversity. They propose that large board size will have a negative impact on board debate and will lead to less cohesiveness of board members. They also propose that an increase in board independence will increase debate but will reduce cohesiveness. As for board diversity, they are of the opinion that board diversity will improve debate but when it becomes too diverse then it will be negative on debate and board members will become less cohesive. They argue that conflict norms will have a moderating effect such that the greater the conflict norms, the stronger the relationships between board size, independence, diversity and debate.

Their model goes beyond the traditional structural attributes of boards of directors to include behavioural measures of board effectiveness. However, the authors have not tested the model empirically.

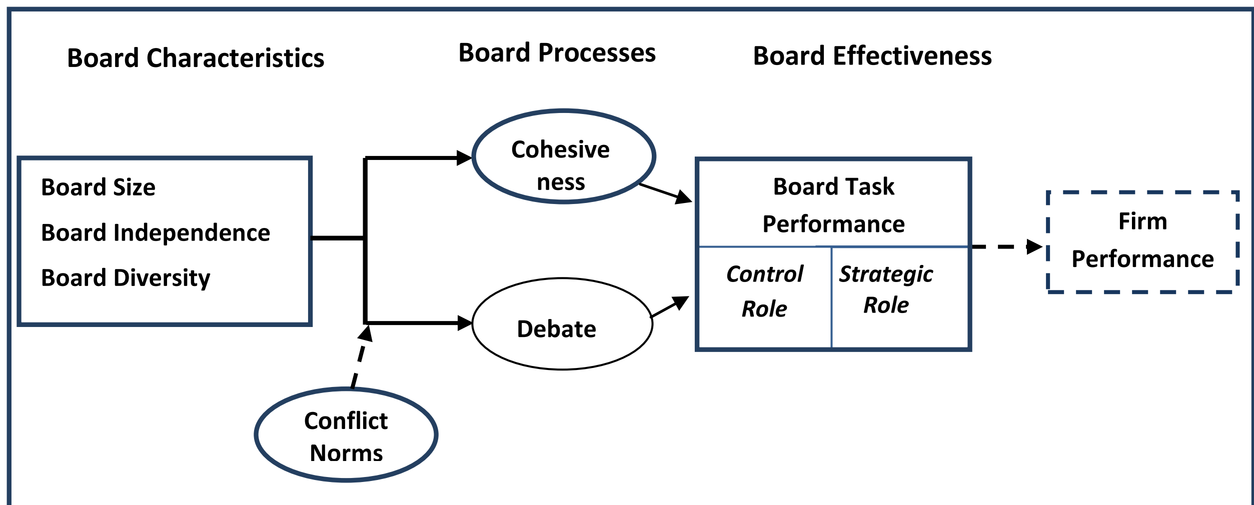

Figure 4.2: Board Effectiveness Framework (Levrau and Van den Berghe, 2007)

4.4 The Research Theoretical Framework

The framework on which this thesis is based is derived from the two frameworks of Nicholson and Kiel (2004) and Levrau and Van den Berghe (2007) discussed above. It is based on an input→process→output approach based on the premise that board characteristics of board size, leadership, independence, and diversity, and human capital have influence on board processes of board decision-making, cohesiveness and administrative operations, which have significant impact on the effectiveness of boards. Board effectiveness in this model is defined as the outcomes of the main tasks of the board of control, service, and strategy. The control role includes oversight of management activities and internal control; while the service role includes advice to management and providing resources to the firm such as information/data and generating business. The strategy role includes participating in strategy development and monitoring implementation by management.

The inputs in this framework are board characteristics of board size, board leadership, board independence, board diversity and board human capital. Only board size, independence and diversity are in the Levrau and Van den Berghe model. Board leadership and human capital are the additions in this framework. Board size is the number of directors on the board and this will impact, positively or negatively, on the board processes of decision-making, cohesiveness and board operations. Board leadership in the framework is actually board duality and it is argued that separating the position of chairperson from that of the CEO will

have a different impact on the board processes mentioned above from that of combining the positions. Board independence is achieved to some extent when the number of non-executive directors is more than that of executive directors on a board. Board diversity is an indication of the diverse backgrounds, education, professions, age and gender of directors on the board. Board human capital in this framework is the same as in the Nicholson and Kiel framework.

The thesis is an empirical test of the model and a step beyond Nicholson and Kiel (2004) and Levrau and Van den Berghe (2007).

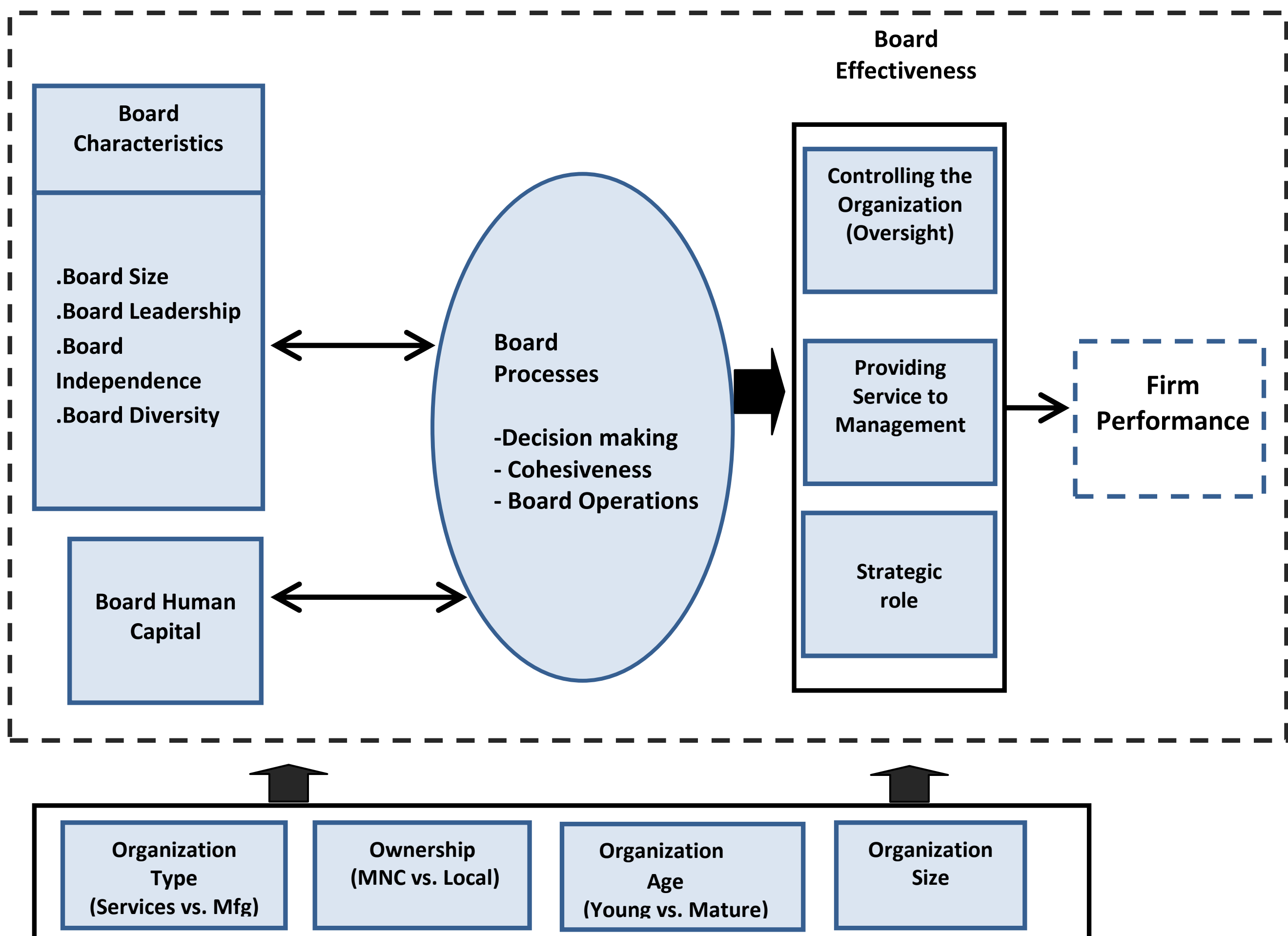

Figure 4.3: Research Theoretical Framework on Board Effectiveness

A review of various literatures on corporate governance, top management team and group effectiveness, and board effectiveness, have revealed multiple intervening constructs that mediate the direct impact of board characteristics on board performance and effectiveness. This theoretical framework strongly relies on the input→process→output approach used in the research frameworks for studying organizational teams (Gladstein,

1984; and Cohen and Baily, 1997). This approach has also inspired other board models (Forbes and Milliken, 1999; Huse, 2005; and Levrau and Van den Berghe, 2007).

Frameworks of how boards work are central to corporate governance research and practice; they dictate the type of data collected, the analysis process employed and the action plan that is developed. Zahra and Pearce (1989) developed an integrative model that could be used to study how the roles and attributes of the board influence firm performance; Hermalin and Welsbach's (1998) model is used to investigate the dynamics of the Board-CEO relationship, and in particular board independence from the CEO; and Boyd (1990) devised a model to determine whether boards respond to different types of environmental uncertainty.

There have also been some recent attempts to model board dynamics theoretically (Forbes and Milliken, 1999; Sundaramurthy and Lewis, 2003; Zona and Zattoni, 2007). Forbes and Milliken argue that the effectiveness of boards depends on socio-psychological processes, related to group participation and interaction, the exchange of information and critical discussion. They define an effective board as one that can perform distinctive service and control activities successfully yielding task effectiveness, and yet continue working together, that is, cohesiveness. Sundaramurthy and Lewis (2003) propose a 'simultaneous need for control and collaboration' in the working style and dynamic of boards. Zona and Zattoni relate group's social-psychological processes to different board tasks.

The aim of the thesis is to develop a holistic framework for examining how characteristics of boards of directors affect board performance, which in turn affects corporate outcomes and to empirically test it. Rather than relying on any single governance research agenda, such as agency theory, stewardship theory, resource dependence theory, etc, a general framework that conceptualises the board as part of a governance system is outlined. This model is based on the assumption that board effectiveness is determined by the outcome of the main tasks of boards – control (oversight), service (advice and resource availability), and involvement in strategy development (strategic role). The main challenge is how to measure the outcomes. An analysis of the various components of the framework and their interrelationship will provide a better insight into the framework.

The framework includes four independent variables, namely firm size, age, ownership, and type as controls for potential influences on board effectiveness. These control variables have been introduced in order to investigate any specific effect of board

characteristics and board processes on board effectiveness under various conditions. The control variables will be used to account for other important factors which might influence the results of the study.

The size of the company can have an effect on board performance and hence firm performance (Short and Keasey, 1999). The effect is believed to be two fold. In the first instance, large companies may be able to access funds more easily and can afford to put governance processes in place. Secondly, large companies may be able to create entry barriers arising from better strategic decisions (Mangena and Tauringana, 2006), and hence better performance. As the size of the firm increases its complexity also increases, board size may increase due to need for advice and environment monitoring (Pfeffer, 1972; Zahra and Pearce, 1989).

Board effectiveness may also be influenced by firm age; the older firms are likely to be more efficient than younger firms (Ang et al, 2000). Older firms may have proven processes that have been developed and tested over the years, while younger firms might still be experimenting with their processes.

Studies have shown that as firms grow over the years, their capital structure will likely change with age (Berger and Udell, 1998), which puts much demand on the board in terms raising capital. New firms are expected to have smaller earnings than old ones because they have less experience in the market, are still building their market position, and might have a higher costs structure. Such new firms might not have the clout to attractive good directors and could lack resources to put good governance processes in place.

Ownership in this case implies that the companies can either be locally owned or are subsidiaries of multinational organisations. Subsidiaries of multinational organisations are likely to have better governance structures and practices in place as a result of the influence of their parent companies that are inclined to adopt global best practices. The locally owned companies in Nigeria face the challenges of staying alive and remaining viable no matter what it takes and so could close their eyes to governance and ethical issues.

Companies in this framework are classified as either manufacturing or non-manufacturing (service). This constitutes the ‘type’ control variable in the framework.

4.5 Theory and Hypotheses Development

This section deals with the various hypotheses that have been developed to attempt to answer the research questions.

4.5.1 The Impact of Board Characteristics on Board Processes

The starting point of the framework is the board characteristics and the impact they have on board processes. Board characteristics have some bearing on how boards are run and how they perform their roles. The model is based on the premise that ultimately, board effectiveness is dependent on the structure of the board, (its size, leadership structure and degree of independence) and the effective use of the skills and knowledge on the board in driving board processes which in turn drives outcome of board tasks.

Board size refers to the number of board members, while board independence refers to the ratio of outside directors (Linck, Netter, and Yang, 2009; and Ferreira, Ferreira, & Raposo, 2009); and board leadership structure refers to CEO duality. Board job-related diversity refers to the degree to which a board is heterogeneous with respect to directors' background and experience.

4.5.1.1 Board Size and Board Processes

Board size is an important and much-studied board characteristic that is likely to have effect on board processes and performance. Determining the ideal board size for organisations is very important because the number and quality of directors in a firm determine and influence the board functioning and hence corporate performance. Board size is an important factor in the performance of the board for the reason that the effectiveness of each board member is directly influenced by the number of other members with whom each individual interacts. This is an indication of the resource available to the board and is in line with resource dependency theory, which expects directors to bring their social capital and competences to the firm.

The size of the board of directors has been a controversy in the management literature and economic research. The proponents of a large board size believe it provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal and more robust debate. They are also capable of reducing the dominance of an

overbearing CEO (Forbes and Milliken, 1999). It is argued that the reduction of this dominance will enhance the quality and speed of decision-making by directors as they cannot be unduly influenced by a dominant CEO.

Tsui and Gul (2000) however, believe that the quality of the directors is more important than the quantity for effective corporate governance. The quality of directors is assumed will lead to quality of decision and will also lead to fewer arguments on the board which will speed up decision making. But Dalton (1993) states that the more the dependence on the external environment, the larger the board of directors. The board's monitoring and supervising capacity is increased as more and more directors join the board (Jensen, 1993). However, monitoring and supervising functions could also mean that directors' time could be taken up by these functions and less time could be devoted to decision making. If, however, the size of the board is larger, then more directors will be available for these assignments and speed up decision-making. Agency theory proponents argue that a substantial increase of the board size could result in a slowdown in decision making and an increase in costs (Callen, Klein and Tinkelman, 2003; O'Regan and Oster, 2005; Yermack, 1996). In Nigeria, where board appointments are still influenced by dominant shareholders, chairpersons and CEOs, it is likely that board decision-making might be fast as directors could be doing the bidding of dominant shareholder and so would avoid lengthy discussions.

Accordingly the following hypothesis is proposed:

H1a: Board size and speed of decision-making are positively related.

Much of the work that boards of directors must do in order to produce effective outcomes involves cooperative decision-making and joint efforts. Board members are required to work together as a team by mutual interaction, sharing information, resources and decisions (Siegel and Hambrick, 1996; Hambrick, 2007). The difficulty of coordinating the contributions of many directors in a large board is likely to make it difficult to get the most from them. Large boards may also have difficulty building the interpersonal relationships that enhance cohesiveness, and are very prone to fractionalisation and coalitions that delay strategic decision-making processes (Forbes and Milliken, 1999). More cohesive boards are likely to perform better and this might be achieved in a small board.

Accordingly, the following hypothesis is proposed:

H1b: Board size is negatively related to board cohesiveness.

On the other hand, small boards will not have enough directors to man the various committees required for the smooth running of the board and directors will therefore be stretched and this could have an adverse effect on their performance. On the other hand large boards will help solve these problems as there will more directors to engage in committee activities. Effective board and committee meetings are essential for successful board roles and these will require well organized administrative backup. The timeliness and quality of board papers and the time available for directors to serve the board will enhance the effectiveness of boards. It is argued that small board size might not effectively monitor powerful CEOs particularly in Nigeria where the CEO could be a surrogate for an important shareholder.

Accordingly, the following hypothesis is proposed:

H1c: Board size and efficiency of operations are positively related.

The three hypotheses indicate that a board should therefore be large enough to include a diversity of the competencies it needs to exercise its responsibilities but small enough to engage in active strategic discussion, make timely strategic decisions that will move the organization forward and bond together as a team.

4.5.1.2 Board Leadership and Board Processes

Board leadership structure, implies CEO duality which is a situation in which the same person serves as CEO and chairperson, is also to some extent a measure of board independence. According to agency theory, duality structure can lead to entrenchment by the CEO, thereby reducing the monitoring effectiveness of the board (Finkelstein and D'Aveni, 1994). A CEO who is also the chairperson is responsible for organizing board meetings and this gives him/her a large influence on the meeting agenda and can also control the quantity, quality and timeliness of board materials and information provided to directors. This could adversely affect the quality of decision-making but can increase the speed as such meetings would be guided by the CEO. In Nigeria the SEC code demands the separation of the two positions, but this is restricted to publicly quoted companies.

Given the peculiarity of Nigeria, the following hypothesis is proposed:

H2a: Board CEO Duality is positively correlated to board decision-making speed

As a result of the early 2000's corporate scandals, regulators and reformers are increasingly demanding that the role of the CEO be separated from that of the Chair (Wilson 2008, Lorsch and Zelleke 2005). Advocates claim that having an independent Chair results in superior monitoring by the board. CEOs become more effective leaders when the two positions are separated because it allows them to concentrate on the firm's operations while empowering the board (Wilson 2008). Kajola (2008) argued that concentration of decision management and decision control in one individual hinders boards' effectiveness in monitoring top management. However, a strong CEO cum chairperson would ensure that the board operates in unison and achieve good cohesion and would not allow fractionalization of the board. Given the weak enforcement of external and internal governance laws in Nigeria, CEO duality may promote entrenchment which is likely to force directors to act as a team.

Accordingly, the following hypothesis is proposed:

H2b: Board CEO Duality is positively correlated to cohesiveness.

CEO duality will lead to a CEO who dominates the board and could determine the quality and quantity of information to the board. However, a strong CEO cum chairperson could display a tendency to impose his ideas and restrict open debate and decision-making (Golden and Zajac, 2001) and so have shorter board meetings. He would ensure that meetings are held promptly, the quality of presentations is high, that good minutes are kept, and that board decisions are implemented, since these decisions are likely to be driven by him. In Nigeria company secretaries are responsible for managing board administrative activities and report to the CEO even though they serve the board. This relationship makes them accountable to the CEO for their career progress and so could strive to be efficient.

Accordingly, the following hypothesis is proposed:

H2c: Board CEO Duality is positively correlated to board operations efficiency

4.5.1.3 Board Independence and Board Processes

Independence of the board is considered a key criterion in the governance of firms. A reliable and meaningful measure of board independence is difficult to obtain. Some previous

studies consider the proportion of outside directors on the board as a proxy for independence. This is a crude approximation, but it might be the most significant measure of board independence (Linck, Netter, and Yang, 2009; and Ferreira, Ferreira, and Raposo, 2009).

Agency theory favours board independence as it provides for better oversight of management activities by the board. Independence could lead to the syndrome of board versus management and will adversely affect the quality and speed of decision making. Inside directors have a better understanding of the business than outside directors and so can make better decisions (Nicholson and Kiel, 2007), but may not have their way in a board that has more outside directors. However, outside board members are thought to contribute objectively in evaluating managerial decisions (Byrd and Hickman, 1992), and they may ask the difficult questions, which management may not face because of 'an unconscious pride of authorship' (Winter, 1977, p. 285). The larger the proportion of outside directors, the higher the chances of more questions being asked and the slower the decision-making speed.

The Nigerian code of corporate governance specifies that the number of outside directors should be more than that of inside directors as a means of ensuring board independence. However, the inside directors have access to more information about the business than the outside directors and so if the information is not shared in advance board decision-making could be slower as majority of the directors will need to be better informed during the board meetings.

Accordingly, the following hypothesis is proposed:

H3a: Board independence is negatively correlated to board decision-making speed.

The percentage of outside directors on a board is likely to have a direct effect on board cohesiveness. According to Adams and Ferreira (2009), increased independence comes at a cost – the possibility of breakdowns in communication between CEO and directors, which has adverse effect on cohesion. In Nigeria most of the inside directors depend directly on the CEO for their career advancements, and may thus hesitate to oppose and challenge strategic and operational proposals of the CEO and this could lead to further division on the board between inside and outside.

Accordingly, the following hypothesis is proposed:

H3b: Board independence is negatively correlated to cohesiveness.

Information between CEOs and directors is essential for boards to carry out their responsibilities (Adams and Ferreira, 2009). They also conclude that excess independence may lead to communication breakdown between CEO and the board. However, an independent board is likely to make demands on the quality, timeliness, sufficiency and accuracy of board information, presentation and communication. An independent board is likely to have board committees that are operational and efficient. The Nigerian code recommends that boards should undertake a formal annual evaluation of its own performance, that of its committees, the chairman, and individual directors. This could spur directors to ensure effective administrative support that will enable do perform their roles better.

Accordingly, the following hypothesis is proposed:

H3c: Board independence is positively correlated to board operations efficiency

4.5.1.4 Board Diversity and Board Processes

The concept of diversity that this thesis is interested in relates to board composition and the varied combination of attributes, characteristics and expertise contributed by individual board members in relation to board processes and decision-making. In a broad sense, the various types of diversity that may be represented among directors in the boardroom include age, gender, ethnicity, culture, religion, constituency representation, independence, professional background, knowledge, technical skills and expertise, commercial and industry experience, career and life experience (Milliken and Martins, 1996). Boardroom diversity, thus, refers to the mix of human capital, which is a combination of intellectual and social capital. Human capital is defined as the skills, general or specific, acquired by an individual in the course of training and experience (*Dictionary of Business*, 1996).

Resource dependency theory implies that for effectiveness a board should be composed of directors with the right background and experience, have the right social capital and are on other boards.

In this study the forms of diversity that have been focused on include functional background, industry background, and educational background, and these are job-related. Diversity of this sort, usually referred as job-related diversity, enhances the presence of functional area knowledge and skills on the board.

A more diverse board may be more innovative, creative and capable of higher quality decision making (Zahra and Pearce, 1989; Bilimoria and Wheeler, 2000), and better at strategic decision making and planning (Coffey and Wang, 1998). Board diversity encourages higher-problem solving and constructive dissent (Stephenson, 2004, and Robinson and Dechant, 1997), which improve information flow and decision-making. Board members that have different educational, functional, and industry backgrounds are more likely to experience differences in the ways that they perceive, process, and respond to issues on the board (Milliken and Martins, 1996; and Williams and O'Reilly, 1998), and these differences are likely to ignite higher levels of debate and delayed decision-making.

In Nigeria board diversity usually reflects ethnic and sectional group diversity and this could promote mediocrity. This implication is that some directors might be slow in grasping issues and as such board decision-making could be slow.

Accordingly, the following hypothesis is proposed:

H4a: The degree of job-related diversity on the board is negatively related to the speed of decision-making.

Diversity for boards has pros and cons for even though it increases the level of resources at the board's level, it creates higher levels of conflict, interaction difficulties and lower levels of integration (Milliken and martins, 1996). Diversity can therefore decrease the board's level of cohesiveness and its use of knowledge and skills.

Ethnicity and religion have played dominant roles in the way of life and governance in Nigeria and these two issues can lead to tension and less cohesion on the board. In addition, the situation where many directors in Nigeria are nominees or representative of shareholders could also lead to various interest groups and divisions on the board.

Accordingly, the following hypothesis is proposed:

H4b: The degree of job-related diversity on the board is negatively related to the board's cohesiveness

Diversity also provides access to important constituencies and resources in the external environment. A more diverse Board may be more innovative, creative and capable of higher quality decision making (Zahra and Pearce, 1989; and Bilimoria and Wheeler, 2000) as a result of the diverse skills and expertise on the board. Such directors are likely to be more demanding in ensuring efficient board administrative processes. Diversity will have a strong influence on the way information is gathered in the board and the type of information that is required as directors are likely to show interest in information in their areas of specialty.

Accordingly, the following hypothesis is proposed:

H4c: Board job-related diversity is positively correlated with board operations efficiency.

4.5.2 The Impact of Board Human Capital on Board Processes

Board human capital is the individual knowledge, skills and abilities possessed by directors. However, they have to be relevant to the organization rather than general business acumen. They have to be functional, industry, board-specific and organization-specific knowledge, skills and abilities of the directors. Boards require a high degree of specialized knowledge and skill to function effectively. A board with a good knowledge of the industry, a proper understanding of the firm's business and experience on board matters is likely to perform more effectively. The knowledge and skills most relevant to boards can be categorized into two groups. Firstly, functional area knowledge and skills which span the traditional business areas such as accounting, finance, marketing, and operations. Secondly, firm-specific knowledge and skills which refer to the understanding of the firm, its operations and internal management issues. Boards often need this kind of knowledge (Nonaka, 1994) in order to deal effectively with strategic issues and be effective.

Boards carry out their roles when individual directors apply their knowledge, skills and abilities to the tasks at hand and no amount of teamwork and efficient processes can substitute for a lack of basic ability. Application of their knowledge and skills leads to effective and fast decision-making. A board with knowledgeable members is likely to make faster and high quality decisions.

The Nigerian code recommends that directors should have relevant core competences and should be knowledgeable in board matters. This is to ensure that are perform their roles effectively and take decisions that could add value to the firm. Such knowledgeable directors will spend less time arguing during board meetings and will be fast in decision-making.

Accordingly, the following hypothesis is proposed:

H5a: Level of human capital on the board is positively correlated to board decision-making speed.

Resource dependency theory implies appointing directors that can bring their human capital and competences to the firm. It is expected that once appointed to a board, the directors will support and work to assist the firm. However, they have to cooperate and work together to be able to harness their combined skills and competences. Unfortunately a knowledgeable board is likely to engage in lengthy and divisive discussions and debates that could impede cohesiveness. In the Nigerian situation, knowledgeable directors from diverse background are likely to demonstrate their expertise and in an attempt to protect their interest groups will less cohesive.

Accordingly, the following hypothesis is proposed:

H5b: Level of human capital on the board is negatively correlated to board cohesiveness.

A board with knowledgeable members could be demanding in terms of the administrative support required to perform its duties. They know what they want in terms of information and are knowledgeable enough to know the type of questions they will ask management. Such directors will also demand prompt service from management and company secretary.

Accordingly, the following hypothesis is proposed:

H5c: Level of human capital on the board is positively correlated to board operations efficiency.

4.5.3 Board Processes and Board Effectiveness

board is a social system (Cascio, 2004 and Sonnifield, 2002) that is driven by interpersonal relationships, quality of teamwork, debate, and efficiency of the administrative machinery. Board members are required to work together by mutual interaction, sharing information, resources and making collaborative decisions. Boards of directors are characterized as large and elitist teams and in many cases face complex tasks that deal with strategic issues (Jackson, 1992). The outside directors on boards are part-time and are usually members of more than one board, and majority of them may be CEOs and chairpersons who are used to leading, not following. Directors meet only several times in a year and so spend little time together , at each meeting, thereby making it difficult for them to build strong working relationships. In addition boards are different from top management teams in that they are responsible only for monitoring and influencing strategy and not for implementing strategic decisions or for day-to-day administration (Fama and Jensen, 1983).

The board should also be seen as a group where individual behaviours and relationships between board members are important as these have impact on the board processes. Much of the work that board of directors must do in order to produce effective outcomes involves teamwork and cooperative decision-making. They will also require efficient board administrative machinery and operations for effectiveness.

These board processes are intervening variables between board characteristics and board task performance. The three board process variables that are considered to have significant influence on the task performance of boards are decision-making, cohesiveness and administrative operations. This implies that the nature of the interactions among board members, the quality of the debate and the quality of the administrative support will influence their effectiveness.

4.5.3.1 Board Decision-Making Process and Board Effectiveness

Decision making is the board's contribution to governance. Decision making is an outcome of board process. Board process has an important impact on overall board effectiveness and firm performance (Finkelstein and Mooney, 2003). The board has a fiduciary duty to oversee the firm's operations and monitor top management performance in order to protect shareholders' interest. This will require the directors to make important and timely decisions on control mechanisms, and monitoring and assessment of organizational performance. The service role consists of providing the CEO and his top management team

with expert counsel and access to information and resources that directors have. These will require timely interventions and support for them to be valuable. The strategic role is of particular importance in critical cases such as periods of environmental turbulence or declines in company's performance. These cases require speedy and urgent intervention from the board and as such call for speedy decision-making.

Speedy and good quality decision-making process in a board will therefore lead to better board oversight (control), help the board to be more strategic and offer quality advice to management. The Nigerian code outlines the main duties and responsibilities of directors to include ensuring that the company performs to high business and ethical standards and providing sound advice to management. With the turbulence in the Nigerian economy and the high rate of change speedy decision making will be required of directors.

Accordingly, the following hypothesis is proposed:

***H6a**: Speed of Board decision-making will be positively related to*

Board Control Role
Board Service Role
Board Strategic Role

4.5.3.2 Board Cohesiveness and Board Effectiveness

As a result of the uniqueness of a board as a team, scholars have suggested that the board should transform itself from a loose aggregation of powerful individuals into an effective team (for example, Conger et. al., 2001; Carter and Lorsch, 2004; Nadler, 2004 and 2006). For boards of directors becoming a collegial team, a minimum degree of cohesion among the board members is required, as this will aid communication and collaboration among board members.

Board Cohesiveness, which refers to the degree to which board members are attached to each other and motivated to stay on the board (Summers, Coffelt, and Horton, 1988), is critical for board effectiveness. Since more-cohesive groups are better able to influence their members' behaviour (Janis, 1983; Shaw, 1981), cohesive boards are likely to have high level of interpersonal attraction among the members which will influence the effectiveness with which the tasks are performed (Williams and O'Reilly, 1998). A more cohesive board is more likely to perform its oversight function more effectively as it is not likely to be under the

influence of management. A more cohesive board is likely to act more collectively to be of better service to management, such as giving advice and counsel, establishing contacts and enhancing the organisation's reputation. The highly competitive nature of many industries has made directors to take more interest in their strategic role and to realise that they can be more effective by working closely together.

Accordingly, the following hypothesis is proposed:

H6b: ***The effect of cohesiveness on***

Board Control Role will be positive
Board Service Role will be positive
Board Strategic Role will be positive.

4.5.3.3 Board Operations and Board Effectiveness

Board operations include various operational activities undertaken by a board to enhance its efficiency. It includes the use of board committees, the frequency and conduct of board meetings, the quality and timeliness of board papers and the evaluation process adopted. For the board to perform its oversight more effectively, it needs to have the relevant information regularly and on time. This will require an efficient company secretary's office and cooperation of the CEO and his top management team. The board's service role will be more effective if the CEO and his team keep them well informed of the company's problems and challenges. The board's strategic role, which includes strategy development and monitoring of execution, requires information on both the external and internal environments through an efficient process.

Various board committees will have significant roles to play in ensuring the effectiveness of the board. The Nigerian code recommends the establishment of board audit, governance/remuneration and risk committees. The audit committee will help the board perform its oversight function as regards financial performance and integrity of financial reports. The governance committee assist the board in ensuring that the firm's performance is in line with good governance practices and that executive remunerations are realistic. While the risk committee will help the board give management proper advice and minimise the risks taken by the firm.

Frequency of board meeting is another board operation that could influence board effectiveness. More frequent board meetings could be seen as directors' dedication to their

job and the need to serve the company by giving more of their time. However, the limited amount of available evidence seems to point to the belief that more frequent meetings are a reaction to poor company performance, rather than a desire to monitor and safeguard against poor results (Vafeas, 1999).

Board operations will significantly influence the effectiveness of boards since a board that is efficiently organized will play its monitoring and strategic roles more effectively. It will also be in a better position to offer good advice to management.

Accordingly, the following hypothesis is proposed:

H6c: ***The effect of efficient board operations on***

Board Control Role
Board Service Role
Board Strategic Role
will be positive.

4.6 Summary

This chapter examined Nicholson and Kiel's framework (2004) for diagnosing board effectiveness based on board intellectual capital. This framework was an attempt at determining corporate outcomes through board behaviours. The chapter also examined the framework developed by Levrau and Van den Berghe (2007) which was more focused on board internal processing of inputs to achieving effective outcomes. From these ensued the research theoretical framework which guided the study; and the various hypotheses were then developed. The interrelatedness of the board characteristics, process and effectiveness were all considered as issues with a view to checking the effectiveness of boards.

CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

5.1 Introduction

In the previous chapter, the research theoretical framework with its associated constructs, dimensions and variables, as well as a number of hypotheses were presented. This chapter deals with the methodology used to test the framework and the set of hypotheses presented in chapter 3. The chapter also covers the research design, survey design, the study questionnaire, the pre-testing stages, context of the study, sampling issues, the data collection procedure, the operationalization and measurement of the variables, and statistics regarding the response rate as well as the adopted methodology for the statistical analysis. It also covers the qualitative research that is used to validate some of the findings at the quantitative phase.

5.2 Board Research

The most appropriate method of studying board activities and processes is to sit in board meetings, but it is impossible to adopt this method, as board meetings are highly confidential. It is rare for an outsider – that is neither a director, officer, manager, employee of the company, nor an independent advisor – to be invited to a board or committee meeting.

Board deliberations involve sensitive and "inside" information that, if released, could in certain circumstances irreparably harm the company and the reputation of board members and management. Board researches therefore tend to focus on individual directors.

A number of researchers have at least to some extent accessed individual board members via qualitative research in order to understand boards better.

For example, Mace (1972) in his research interviewed 75 board members in the United States in the late 1960s. Lorsch and MacIver (1989) interviewed "nearly 100" directors for their study. While Demb and Neubauer (1992) interviewed 71 board members in eight countries using structured questions, with interviews lasting between two and three hours.

European researchers appear to have been even more successful in accessing boards in order to engage in qualitative research. Pettigrew and McNulty (1995) conducted in-depth interviews with 20 non-executive board members to examine the power and influence of non-executive board members. McNulty and Pettigrew (1999) also used data gathered from 108 interviews with company directors to examine the contribution to strategy by chairmen and nonexecutive directors in large UK companies. Pye (2001) interviewed chairmen, chief executives and executive team members in 12 large UK organisations. Spira and Bender (2004) interviewed directors in audit and remuneration committees as part of their study on board sub-committees.

Roberts et al. (2005) assessed board effectiveness through an examination of the work and relationships of non-executive directors, based on 40 in-depth interviews with company directors. While Huse et al. (2005) observed the meetings (as “independent researchers”) of a single board of a major Scandinavian corporation for over one year. They refer to their direct observation methodology as “fly on the wall” research (Huse et al., 2005, p. 286).

These qualitative surveys have helped in exploring issues interactively but did not cover large samples as a result of the difficulties associated in gaining access to directors. They also enabled respondents to explain some decision dynamics and relationships. However, the limited sample coverage problem is usually solved by using the quantitative approach.

The quantitative approach will help cover larger sample size; produce descriptive that is close to reality and can help draw inferences about cause and effect. However, it tends to have response bias and might be difficult to test causation.

Many researchers must therefore rely on their individual respondents’ perceptions regarding boards’ activities and processes, as opposed to their own observations. This research follows this approach as it is difficult to get invited to a board meeting as a means of studying the board’s processes.

5.3 Research Design

In seeking to understand board effectiveness, this study adopts, to some extent, a mixed research approach. A quantitative approach that seeks to provide empirical evidence

and a qualitative approach that seeks to confirm or validate some of the findings at the quantitative phase.

5.3.1 Mixed Research Method

The use of mixed methods in the conduct of research has been in existence for about three decades drawing its antecedents from multiple operationalism (or multi-method research) and methodological triangulation (Johnson et al., 2007). Mixed methods research that combines both qualitative and quantitative methods (Johnson and Onwuegbuzie, 2004) has evolved as a result of the weaknesses of both quantitative and qualitative methods even though the qualification of methods as ―mixed is still somewhat unclear. Tashakkori and Creswell (2007, pp. 4) define mixed methods as "research in which the investigator collects and analyses data, integrates the findings, and draws inferences using both qualitative and quantitative approaches or methods in a single study or a program of inquiry".

Thus, as an approach to research, mixed methods serve five purposes: 1) triangulation (convergence of results through the application of multiple methods and designs in a study); 2) complementarity (elaborate results using two different methods); 3) initiation (discovery of research questions); 4) development (use findings of one method to inform the next); 5) expansion (expansion of breath and range of research) (Johnson and Onwuegbuzie, 2004).

5.4 Quantitative Research

Quantitative research methods use numerical data and measurements to deduce facts from theory. Quantitative data can be gathered from natural settings in the field or from controlled laboratory experiments (Bryman and Bell, 2007, Jupp, 2006). Thus, as quantitative data units are predominantly numerical, statistical analysis tools and techniques are widely applied.

Measurement is one of the critical aspects of quantitative research that is characterised by reliability and validity. Reliability refers to the degree of consistency an instrument measures a concept; it is a measure of the proportion of variance of the true score (the latent variable). Methods to ascertain instrument reliability are defined in Figure 4.1 (DeVellis, 2003). Whilst reliability measures deal with accuracy, validity assesses the measurement

ability of the instrument. Methods for establishing instrument validity are described in figure 5.2 (DeVellis, 2003, Thompson and Panacek, 2007).

Method	Description
Stability across time	An instrument is considered reliable if it is stable across time. The split-half reliability test is employed to assess stability
Internal reliability / consistency	An instrument is considered to be internally consistent / reliable when its items are homogeneous. Cronbach's coefficient alpha is usually used to measure internal consistency.

Figure 5.1: Reliability Assessment Methods

Method	Description
Face validity	The easiest and weakest form of validity that intuitively and subjectively assesses an instrument measures what it should be measuring.
Content validity	Extends face validity by assessing the relevance of the items to the phenomenon of interest. A panel of experts usually conducts content validity.
Predictive / criterion-related validity	Involves the comparison of the new measurement to an existing measurement evaluating the same phenomenon. Thus, an instrument has predictive validity when it has an empirical association with some criteria measure.
Construct validity	The strongest form of validity that examines how well the instrument measures the theoretical phenomenon. An instrument is said to possess construct validity when it behaves the way it has been theorised.

Figure 5.2: Validity Evaluation Techniques

5.4.1 Survey Research Method

Quantitative methods have been widely applied in cross-disciplinary research; and in this study, are used in the measurement verification of the conceptual model and hypotheses. The survey research method was the quantitative method employed using surveys as primary

data collection instruments. This method supports the collection and analysis of large sets of quantitative data collected from multiple subjects. Surveys are a relatively inexpensive method of quick data collection that sample people under real world conditions as opposed to controlled laboratory environments (Panacek, 2008, Totten et al., 1999). Survey data can be collected at a single point in time (cross-sectional) or at multiple intervals of time (longitudinal) by interviews (face-to-face or telephone) or self-administered surveys (mailed or in-person) (Krosnick, 1999, Totten et al., 1999).

Surveys, which are made up of scales which consist of 2 parts – stimuli and response, are developed to measure the respondents' judgements (appreciation or understanding of issues), feelings or expressions, opinions, attitudes, and perceptions (Jupp, 2006). The stimuli part consists of phrases or statements describing the phenomenon of interest whilst the response part corresponds to the actual measurement. Scale responses measure a specific dimension such as agreement, liking, frequency can use either ordinal or ratio measures. Popular scale measurement methods summarised in Figure 5.3 include paired comparison, rank order, direct magnitude estimation, and rating (DeVellis, 2003, Jupp, 2006).

Measurement Method	**Description**
Paired comparison	Respondents compare pairs of stimuli along a dimension of interest.
Rank order	Respondents place stimuli in order along a defined dimension.
Direct magnitude estimate	Respondents are asked to score stimuli on a dimension.
Rating	Respondents are asked to select a response choice from several ordered along a dimension. Major rating scales are: Thurstone, Likert (summate), and Guttman (cumulative) scales. A Thurstone scale has equal intervals and is used to measure attitudes using the principle of paired comparison. The Likert scale is also an attitudinal scale that measures the degree of agreement or disagreement. The number of point scores on an agreement dimension Likert scales can contain as few as 3-points to as many as 7-points. A Guttman scale progressively evaluates higher levels of stimuli. By arranging the stimuli according to their level of difficulty, Guttman scales cannot only be used to indicate the presence or absence of the phenomenon of interest, but also the degree.

Figure 5.3: Scale Measurement Methods.

In spite of the popularity of survey research, they are not without criticism or challenges such as generalisation, measurement, and response quality.

The present thesis, before considering the adoption of one or more research design approaches, has carefully explored two important issues; namely the theoretical model of the thesis (presented in chapter 3), as well as the research objectives of the study (presented in chapter 1). After careful consideration of the pros and cons of the various data collection methods and bearing in mind the difficulty of interviewing and collecting data from directors in Nigeria, a descriptive, cross-sectional approach, with primary data through the use of mail (postal) questionnaire was adopted.

5.4.2 Scales

Four types of scales have been identified in the literature, the nominal, ordinal, interval and ratio. Each one represents a higher form of measurement precision. Thus the ordinal scale provides the least precision measurement whereas ratio the highest one. One of the most commonly used scales was developed by Likert (1932), who developed a technique that increases the variation in the possible scores that a respondent can choose from. Initially, it had the form of a 5 point scale (e.g. from strongly disagree to strongly agree), although sometimes a 7 point version is used.

Lietz (2008) found that the 5-7 options are more generally used. John Dawes (2008) in his study found that the 5- and 7-point scales produced the same mean score as each other, once they were rescaled. However, the 10-point format tended to produce slightly lower relative means than either the 5- or 7-point scales.

Bearing in mind the above as well as findings from the pre-testing phase, this thesis adopted seven point scales throughout the questionnaire. In terms of response item layout, the layout adopted in this research ran left to right, ascending numerically and from negative to positive responses (as in figure 4.4 below). The opposite has been found to distort results (Hartley and Betts, 2009) and running left to right better matches the reading direction of Latin text.

1	**2**	**3**	**4**	**5**	**6**	**7**

Strongly Disagree	Disagree	Slightly Disagree	Neutral	Slightly Agree	Agree	Strongly Agree

Figure 5.4: Response items runs from left to right

In summary, a descriptive approach was undertaken, using the questionnaire approach, based on primary data and utilising seven point scales (both Likert and Semantics). The questionnaires were put in envelopes and mailed by courier to the respondents.

The following section deals with the survey research design, data sources and scale construction that were employed in the research project.

5.4.3 Survey Design

This section deals with issues relating to a number of important themes that were taken into account throughout the process of constructing and developing the research instrument of the empirical part of this thesis. More specifically, issues relating to the right size of envelope, content of the questionnaire, the cover letters and the reminder letters.

5.4.3.1. Envelopes

Lagos Business School, Pan-African University branded A4 size white envelopes were used for the main mail shots. In this way I avoided curling up the questionnaire, which could have made it less presentable. Brunel Business School branded stationery was not used as Lagos Business School is better known in the Nigerian market. The questionnaire could have been seen as being sponsored by the Lagos Business School, which could have been positive, in view of the reputation of the School in Nigeria.

As a result of the very poor postal service in Nigeria, the questionnaires were not posted but sent by courier and there is no known literature to back this approach of reaching respondents. The questionnaires were returned either by post or by courier at the expense of the respondents because of the reputation of Lagos Business School, which is seen as being close to the private sector and helping to solve their problems.

5.4.3.2 Cover Letters

All the mailed questionnaires were accompanied by a cover letter that was printed. The printing of the questionnaire was meant to give it a more professional look. The printed

stationery of Lagos Business School was used for all the cover letters which were produced on 12 pt size Times New Roman fonts.

All the letters were personalised and addressed directly to the recipients, e.g. *Dear Dr. Kolade*, as this might increase the chance of the questionnaire being completed by the respondent. Although to sign about 1,200 cover letters is boring and time consuming, the researcher followed this procedure for maximum personalisation.

The basic aim of the cover letter was to persuade the recipients to complete the questionnaire and inform them about the purpose and the importance of the study. Thus in the four cover letters used in the study (notification, letter with questionnaire, reminder and final reminder), the researcher stressed the importance of this study for directors, boards and corporate governance practices (Appendices 2, 3, 4, 5).

Another issue of great importance is the anonymity and confidentiality of the respondents. In the cover letters as well as in the first and last pages of the questionnaire, the fact that the responses will be absolutely confidential and anonymity is guaranteed was stressed. However, respondents who would like to receive a complementary report of the major findings of the survey report were invited to attach their business cards on the last page of the questionnaire.

5.4.3.3 Research Instrument

The construction and development of the questionnaire took approximately three months to complete. More than 8 versions through revisions were produced in order for the questionnaire to take its final form. This section provides a brief account on issues relating to physical questionnaire itself such as, the length, font types and the kind of questions used.

5.4.3.3.1 Length of the Questionnaire

The questionnaire used in my study was 12 pages with 106 items (Appendix III). The front page included the title of the project, about 12 lines text explaining the main objectives of the study, offering broad guidelines to the respondent and repeating the sensitive issue of confidentiality, and finally the address to send the completed questionnaire to.

On the last page (page 12) of the questionnaire there was a blank space for the respondents to make further comments, a space to attach his/her business card or write down his/her address, and finally some words of gratitude for the invaluable support.

The questionnaire was printed in a booklet form for a more professional appearance. The booklet was white with some background design that gave it a pleasant look and feel and made it easy and friendly to read.

The questionnaire was divided into eleven sections (from A to K), each one exploring the various components of the theoretical framework. It contained 75 questions in total with 106 items. Same font size was used for all the questions and items.

5.4.3.3.2 Types of Questions

Closed-ended questions with ordered answered choices were mainly used in this questionnaire. Seven-point (7) scales (Likert and Semantic) were consistently used with the same order throughout the questionnaire. The questions and statements were kept as short as possible in order to increase respondents' comprehension (Lietz, 2008, Holbrook et al., 2006). The questions employed the active rather than the passive voice (Dornyei, 2003) and the researcher avoided using leading questions, generalisations, ambiguous expressions (Lietz, 2008; Martin, 2006). The sequence of the questions was developed upon the diagram (figure 3) illustrated in chapter 4.

5.4.3.3.3 Pre-testing

The survey instrument was pretested by administering the questionnaire to a small sample of respondents (ten directors) made up of participants of the Lagos Business School Chief Executive Program (CEP 19), whose responses and general reactions were sought and examined. Suggestions for refinement and clarification of questions and items in the instrument were made by respondents with regard to meaning and clarity of each statement, relevance and adequacy of items, and any problems or uncertainties they had in completing the questionnaire.

Even though the respondents in this pre-testing exercise were not sufficiently knowledgeable about matters of questionnaire design, they had experience of serving on boards of quoted companies. As part of the pretesting process the questionnaire was also

submitted to four senior academics with extensive combined experience in survey research, who were able to provide critical assessment of the content validity of each item, as suggested by Sudman and Bradburn (1982) and Schilling and Steensma (2002). These expert suggestions during the questionnaire design and revision process helped ensure a close match between the pre-test and final versions of the instrument.

5.4.4 Sampling Environment

This section sets out to discuss context of the research, issues relating to sample size and selection, key respondents, reminders and response rates, as well as non-response bias.

The research was carried out in Nigeria which is one of the leading economies in Africa and regarded as an emerging market. The private sector is made of subsidiaries of multinational companies and indigenous Nigerian companies. It has a thriving stock market that has been attractive to foreign investors. The country with a population of about 150 million has abundant human resources. It is the sixth largest exporter of crude oil in the world and relies on oil and gas for the bulk of its foreign exchange earnings. Businesses operating in Nigeria have to contain with poor infrastructure, particularly road networks and electricity supply; inadequate physical security; weak enforcement of contracts, and high cost of finance.

The public sector is very weak and, on top of this, corruption threatens to crumble the country. Corruption has increased the cost of doing business in the country and has also thrown up governance challenges. The Nigerian corporate governance system is based on the Anglo-US model

In Nigeria, less than 1 per cent of companies operating in Nigeria are list, while most of them are operating outside the legislation governing the capital market. These companies are mainly small and family owned.

5.4.5 Research Population and Frame

Although it would have been desirable to study the entire population of boards of businesses (quoted, private, and family) in Nigeria, it will be impossible because of the closed nature of most family and private companies. I therefore decided to restrict the study to only publicly quoted companies in the Nigerian Stock Exchange as they have formal boards and provide information of their operations in the public domain. In this research the

population was defined as chairpersons and directors (executive and non-executive) of all companies that are quoted in the Nigerian Stock Exchange. As at May 1, 2010 there were 213 quoted companies in the Nigerian Stock exchange with 199 in the first (1st) tier and 14 in the second (2nd) tier market. The 2nd tier securities market, which is now known as alternative securities market are for indigenous (local Nigerian) companies; while the 1st tier securities market is for both indigenous and foreign companies. Table 4.1 shows the characteristics of both markets.

	1st Tier	**2nd Tier**
1	Company must be registered as a Public Limited Liability Company under the provision of Companies and Allied Matter Act 1990.	Company must be registered as a Public Limited under the federal Inland Revenues Service.
2	Must submit its financial statements / business records of **past 5 years** to the Nigerian Stock Exchange on registration.	Must submit its financial statements / business records of **past 3 year** to the Nigerian Stock Exchange on registration.
3	Date of last audited accounts must not be more than 9 months.	Date of last audited accounts must not be more than 9 Months.
4	Amount of money that can be raised in the market is **unlimited.**	Amount of money that can be raised may not exceed **N100 million**.
5	Annual quotation fee is based on the Market Capitalization of the company.	Annual quotation fee is a flat rate of N30,000.
6	At least **25% of share** capital must be offered to the public.	At least **15% of share** capital must be offered to the public.
7	Number of shareholders must not **be less than 300.**	Number of shareholders must not be **less than 100.**
8	After listing, company must submit **quarterly, half-yearly and annual** accounts to SEC.	After listing, company must submit **half-yearly and annual** accounts to SEC.
9	Securities must be fully paid up at the time of allotment.	Securities must be fully paid up at the time of allotment.
10	Un-allotted Securities must be sold on NSE trading floors.	Un-allotted Securities must be sold on NSE trading floors

Source: Nigerian Stock Exchange – Monthly Stock Market Review, July 2010 Edition

Table 5.1: Differences between the 1st and 2nd tier Securities Market in Nigeria

The companies in the Nigerian Stock Exchange are classified as follows:

1. Aviation and road transportation
2. Commercial services
3. Construction and real estate
4. Financial services
5. Healthcare
6. Hotel and tourism
7. Information and Communication Technology
8. Media, Printing and Publishing
9. Petroleum Marketing
10. Manufacturing

5.4.6 Administration of the Survey Questionnaires

For the purposes of the study, the companies were classified into manufacturing and non-manufacturing (which were then labelled as services). The non-manufacturing included the first nine classifications above. The companies were further classified, in terms of ownership, as Local Nigerian companies (owned by Nigerians but operate locally), Nigerian International companies (owned by Nigerians and operate in Nigeria and other countries), Subsidiaries of Foreign companies, and Joint ventures between Nigerians and Foreigners.

The entire population (all chairpersons and directors of quoted companies) constituted the research sample. This approach was taken because of the limited number of publicly quoted companies in the Nigerian stock market and the need to have a sizeable data to work with. The lists of the directors were obtained from the current published annual reports of the companies, which are of public record. However directors that served on multiple boards were required to complete only one questionnaire for the board of their choice.

There were 1,449 directors that served on one board and 133 directors that served on multiple boards. A total of 1582 questionnaires were sent by courier to all these directors. The use of courier companies is to ensure delivery as the postal system in Nigeria is very inefficient. However, notification letters were first sent out to all the potential participants, about one week before the first mail shot. This was aimed at generating awareness for the study and preparing the directors mentally before the questionnaires were sent out.

5.4.7 Reminders and Response Rate

In order to improve the response rate, some follow-up activities were embarked upon. Two weeks after the first mail, which was sent out on May 14, 2010 a reminder letter was sent to the respondents who had not returned their questionnaires. The researcher chose two weeks, instead of one week that is common in developed countries, for the following reasons: firstly, the Nigerian postal system is very slow and inefficient. Secondly, letters to the directors of a company were sent to the company secretary who then forwarded them to the directors. Finally, two weeks after the first reminder letter was sent, a final mail shot was sent out including a cover letter and an additional copy of the questionnaire, in case the first questionnaire was misplaced.

As can be seen from table 5.2, the first mail shot produced fifty three (53) responses which were all found to be usable. The second wave produced seventy nine (79) responses which again were found to be usable. The third and final wave produced eighty one (81) responses which were found to be usable. Residual responses (twenty) were received after eight weeks when the field work was closed. The poor postal service forced me to extend receipt of responses to eight weeks.

Twenty eight (28) questionnaires from four (4) companies were returned for reason of wrong addresses. This means that of the total 1582 questionnaires sent out only 1554 probably got to their destinations. The response rate, based on 233 returned usable questionnaires is 15.0 percent. The research on boards of directors has usually had a low response rate (often lower than 20%) since board members are busy professionals, and further they know private information that cannot be revealed outside the company (Pettigrew, 1992). Minichilli, et. al. (2009) in their study of Italian boards achieved a response rate of 15 percent. McCahery, Sautner and Starks (2009) in their study of corporate governance preferences of top management teams of institutional investors, they had a response rate of 10%. Other studies of directors and top management teams had similar response rates such as 10% in Graham, Harvey, and Rajgopal (2005), 8% in Brav, Graham, Harvey, and Michaely (2005), and between 15% and 19% in Jenkinson and Jones (2009).

However, Ruigrok, et al. (2006) in their study of the chairperson or vice chairpersons of quoted Swiss firms had a relatively high response rate of 28.5 percent.

Mail Shots -Waves	Usable Questionnaires	Non-usable
First Wave, 2 weeks after	53	0
Second Wave, 4 weeks after	79	0
Third Wave, 6 weeks after	81	0
Fourth Wave, 8 weeks after	20	0
Total	**233**	**0**

Table 5.2: Returned Questionnaires

5.4.8 Constructs and Variables

Variable Name	Operationalization of the constructs and variables	References
Dependent Constructs		
Board oversight (control) role	Assessed with a 7-point Likert scale of 7 items	Dulewicz and Herbert, 2004; Cornforth, 2001;
Board service role	Assessed with a 7-point Likert scale of 7 items	Ingley and van der Walt, 2005; Cornforth, 2001;
Board strategic role	Assessed with a 7-point Likert scale of 9 items	Ruigrok et al., 2006; Ingley and van der Walt, 2005, Dulewicz and Herbert, 2004
Independent Variables/Constructs		
CEO duality	Coded '1' if CEO also holds the position of chairperson or '0' if both are separated	Dulewicz and Herbert, 2004; Kiel and Nicholson, 2003,
Board size	Number of directors on the board	Dulewicz and Herbert, 2004
Board independence	Proportion of outside directors and CEO duality	Dulewicz and Herbert, 2004
Board diversity	Assessed with a 7-point Likert scale of 6 items	Nicholson and Kiel, 2004
Board human capital	Assessment of the professions of the directors on the boards, and a five-item scale	Nicholson and Kiel, 2004
Mediating Constructs		
Board decision-making	Assessed with a 7-point Likert scale of 10 items	Nielsen and Huse, 2010
Board cohesiveness	Assessed with a 7-point Likert scale of 7 items	Gabrielsson et al., 2007

Board operations	Assessed with a 7-point Likert scale of 10 items	Minichilli et al, 2009; Melkunov 2011;
Control Variables		
Firm type	Manufacturing or service company	Minichilli et al, 2009; Hillman et al, 2000
Firm ownership	Multinational company or local company	Kang, 2004
Firm age	Number of years since incorporation	Peng et al 2007
Firm size	Amount of sales revenue per year and number of employees	Muth and Donaldson 1998; Khodadadi et al 2010

Table 5.3: Board characteristics, processes and effectiveness constructs and variables

5.4.8.1 Dependent Constructs

The dependent constructs are board control (oversight) role, board service role and board strategic role. Each of the constructs is measured with a set of scaled- questions. The summation of these scores was used to arrive at a mean figure for each of the constructs.

The researcher is not aware of any similar work that has been done in Nigeria or in any emerging market and as such had to rely on research instruments used in the developed markets. The items used in evaluating the control and service roles of the board were identical to those used by Cornforth (2001) in his study of board effectiveness in non-profit organizations. The items used in evaluating the strategic role of the board were similar to those used by Ruigrok et al. (2006) in their study of the involvement of the boards of Swiss companies in strategic decision making.

5.4.8.1.1 Board Control Role

The board control construct was assessed with 7 items that cover issues that include oversight of financial management and control, monitoring of firm and CEO performance, accountability to stakeholders, and fulfilment of legal obligations.

5.4.8.1.2 Board Service Role

The board service construct was assessed with 7 items that cover issues that include support and advice to management, review of board performance, and representative of stakeholders, link with important groups and organizations, representing the organization

externally, helping to raise funds and other resources for the firm, and helping to generate businesses for the firm.

5.4.8.1.3 Board Strategic Role

The board service construct was assessed with 9 items that cover issues that include setting the firm's mission and values, firm's vision and objectives, firm's strategic direction, determination and enforcement of company policies, SWOT analysis, determination of corporate and financial options, firm's structure and strategy implementation, and performance management..

5.4.8.2 Independent Constructs and Variables

The independent constructs and variables are CEO duality, board size, board independence (proportion of outside directors), board diversity and board human capital. Each of the constructs is measured with a set of scaled- questions. The summation of these scores was used to arrive at a mean figure for each of the constructs.

5.4.8.2.1 CEO Duality

This variable was assessed by counting the number of boards that have separate chairperson and CEO and those that have the same chairperson and CEO. It is also a measure of board independence.

5.4.8.2.2 Board Size

Board size was assessed by counting the number of directors (inside and outside) on the board. It is total number of directors on the board.

5.4.8.2.3 Board Independence

Board independence was measured by assessing the proportion of outside directors on the board (number of outside directors divided by the total number of directors) and also by board duality.

5.4.8.2.4 Board Diversity

This construct assesses diverse experiences (in terms of occupation and functional positions), background (in terms of education) and demography (in terms of tribal and religious affinities) of directors. It is implied that diversity will lead to greater knowledge base which could lead to better decision making by the board of directors.

This was assessed with a six-item scale and also by direct enumeration of the various professions represented on the board

5.4.8.2.5 Board Human Capital

This construct was assessed with a five-item scaled adapted from the work done by Nicholson and Kiel (2004) in coming up with a framework for diagnosing board effectiveness. It seeks to capture directors' knowledge of the business of the firm and the industry it operates in, and also their knowledge of financial, risk and legal matters.

5.4.8.3 Mediating Constructs

The mediating constructs are board decision-making, board cohesiveness and board operations. Each of the constructs is measured with a set of scaled- questions. The summation of these scores was used to arrive at a mean figure for each of the constructs.

5.4.8.3.1 Board Decision-Making

Board decision-making construct was assessed with 10 items that covered issues that include agenda of board meetings, adequate notice of important issues to be discussed, conduct of board meetings, discussions at board meetings and how board reach conclusions.

5.4.8.3.2 Board Cohesiveness

Board cohesiveness construct was assessed with 7 items that covered issues that include periodic review of board-management working relationship, conflict resolution between board and management, respect and trust level between board and management, how disagreements are dealt with, and degree of socialization amongst directors.

Organizational demography literature has emphasized cohesiveness as a potential intervening construct and it is one of the most extensively studied variables in group settings (Bettenhausen, 1991; and Williams and O'Reilly, 1998). This is why board cohesiveness is considered as one of the intervening variables in this study.

5.4.8.3.3 Board Operations

Board operations construct was assessed with 9 items that covered issues that include clear understanding of roles, conduct of board meetings, quality and timeliness of board papers, and time available to directors to do their job.

5.4.8.4 Control Variables

In order to identify the specific effect of board characteristics, board processes on board effectiveness, the researcher controlled for the effect of firm type, firm ownership, firm age and firm size.

5.4.8.4.1 Type of Firm

In this study all the firms are grouped into two categories, manufacturing and non-manufacturing. For convenience, the non-manufacturing firms are regarded as service firms.

5.4.8.4.2 Firm Ownership

Firm ownership in this study refers to whether the firm is a subsidiary of a foreign multinational company or a locally owned company. A subsidiary of a multinational company is one where the parent company owns at least 51 percent of the share capital, while a locally owned company is one where Nigerians own majority of the shares.

5.4.8.4.3 Firm Age

Firm age refers to the number of years a firm has been in operation from its inception. Firm age has been linked to many decisions of the firm and it has been found that complexity increases with firm age (Gregory et al., 2005; Boone et al., 2007). In view of the uncertain relationships of firm age on board characteristics as well as board performance, it was decided to control for firm age. Firm age is measured by the number of years of the firms existence from the time the firm was established.

5.4.8.4.4 Firm Size

Firm size is usually taken as a proxy for the complexity of the firm and the need for higher amount of advice to the board (Fama and Jensen, 1983; Booth and Deli, 1996). As

firms grow in size they become more complex to manage. Two of the most widely used parameters for measuring firm size are sales revenue and number of employees (Muth and Donaldson, 1998). For this study, both number of employees and sales revenue have been used to measure firm size.

5.5 Analytical Procedure for the Quantitative Research

The Statistical Package for Social Sciences (SPSS) Version 19.0 was used to analyse the data. For the questionnaire, statements other than single response items were formatted on a seven-point Likert-type scale. Data were first examined using normal descriptive statistics to identify any peculiarities in frequencies. Preliminary cross-tabulations were also conducted. The scales were treated as metric level data, with the mean used as the central tendency measure. For variables measured by open-ended questions the number of observations, relative frequencies and the mode were computed and presented.

5.5.1 Statistical Techniques Deployed for Data Analysis

Constructs were analysed using descriptive statistics of Mean and Standard deviation (Chapter 6). This provided a good initial understanding of the data set. The variables in each construct were subjected to factor analysis, a data reduction technique. Factor analysis "is a generic name given to a class of multivariate statistical methods whose primary purpose is to define the underling structure in a data matrix (Hair et al., 2010)". The main purpose was to detect patterns of variables within each construct, which may lead to the identification of underling concepts or dimensions, and a possible reduction of data. The variant of factor analysis used is component analysis, which is based on total variance and implies that all the variance is common or shared (Hair et al., 2010). The objective was to obtain the minimum number of factors which accounted for the maximum portion of the variance represented in the original set of variables. Factors with the right loading were considered. According to Hair et al (2010), a factor loading represents the correlation between an original variable and its factor, with higher loadings making the variable representative of the factor. It was decided that variables with factor loading over 0.40 were considered to be significant (Kim and Mueller, 1978; Bryman and Cramer, 1994). Where factor loadings were split across one or more factors, the variable was considered as part of the factor in which it carried the highest loading. In the case that factor loadings were nearly equal across one or more factors, the variable was included as part of the factor to which was conceptually relevant.

The factor analysis produced new variables that were now used for correlation and regression analyses. Correlation analysis was used in order to investigate further the hypothetical associative relationships between two or more variables. The correlation coefficient (r) is widely used to prove relationship. The correlation coefficient can have values ranging from (-1) to (+1); where r = -1 indicates a perfect negative relationship; r = 0 indicates no linear relationship; and r = +1, a perfect positive relationship (Hair et al., 2010). Only correlations at 0.01 and 0.05 significance levels were considered (Chapter 7).

5.5.2 Regression Analysis

Multiple regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent variable and several independent variables (Hair et al., 2010). The form that the estimated multiple regression model takes is shown in equation (1)

$$Y = a + b1X1 + b2X2 + b3X3 + \ldots\ldots bnXn + u \qquad (1)$$

Where:

Y = estimated value of the dependent variable;

a = value of the constant or intercept derived from the analysis;

b = estimated regression coefficients associated with the independent variables;

X = the independent variable(s).

u = the error term

Regression analysis was used to establish the relationships between the dependent and independent variables and the effect of the mediator variables on these relationships.

Our model assumes a three-variable system (Chapter 8) such that there are two casual paths feeding into the outcome (dependent) variable: the direct impact of the independent variable (path c) and the impact of the mediator (path b). There is also a path from the independent variable to the mediator (path a). The Baron and Kenny (1986) and Judd and Kenny (1981) approach was used to test for mediation. First, the dependent variables were regressed on the independent variables; second, the mediator variables were regressed on the independent variables; third, the dependent variables were regressed on the mediator

variables; and fourth, the dependent variables were regressed on both the independent variables and the mediator variables.

5.5.3 Hypothesis Testing

The next step in the statistical analysis was to test the hypotheses developed in Chapter 4, using the regression equations developed in Chapter 8.

5.6 Summary

This Chapter presents the research design, methodology, questionnaire administration, data collection and statistical analyses of the data. It also covers the research environment. The qualitative findings are presented in chapter 5 while the descriptive findings are presented in chapter 6

CHAPTER 6: DESCRIPTIVE STATISTICS

6.1 Introduction

This chapter presents the descriptive statistics of the study, which is the starting point for answering the research questions. The specific questions are:

1. What are the effects of board characteristics on board cohesiveness, board decision-making, and board operations?
2. What are the effects of board human capital on board cohesiveness, board decision-making, and board operations?
3. What are the effects of board cohesiveness, decision-making and operations on board task performance (board control, service, and strategic roles)?

The chapter is divided into five sections. The first section discusses the background profile, the second section covers board characteristics, while the third section discusses board human capital. This is followed by description of the board processes and the final section describes board effectiveness.

Further analyses, correlation and regression that were carried out to help answer the research questions are covered in the next chapter.

6.2 Background Profile

In terms of background information, the companies were classified into manufacturing and services (all others that are not manufacturing). They were further classified as Local Nigerian companies, Nigerian International companies, Subsidiaries of Foreign companies, and Joint ventures between Nigerians and Foreigners.

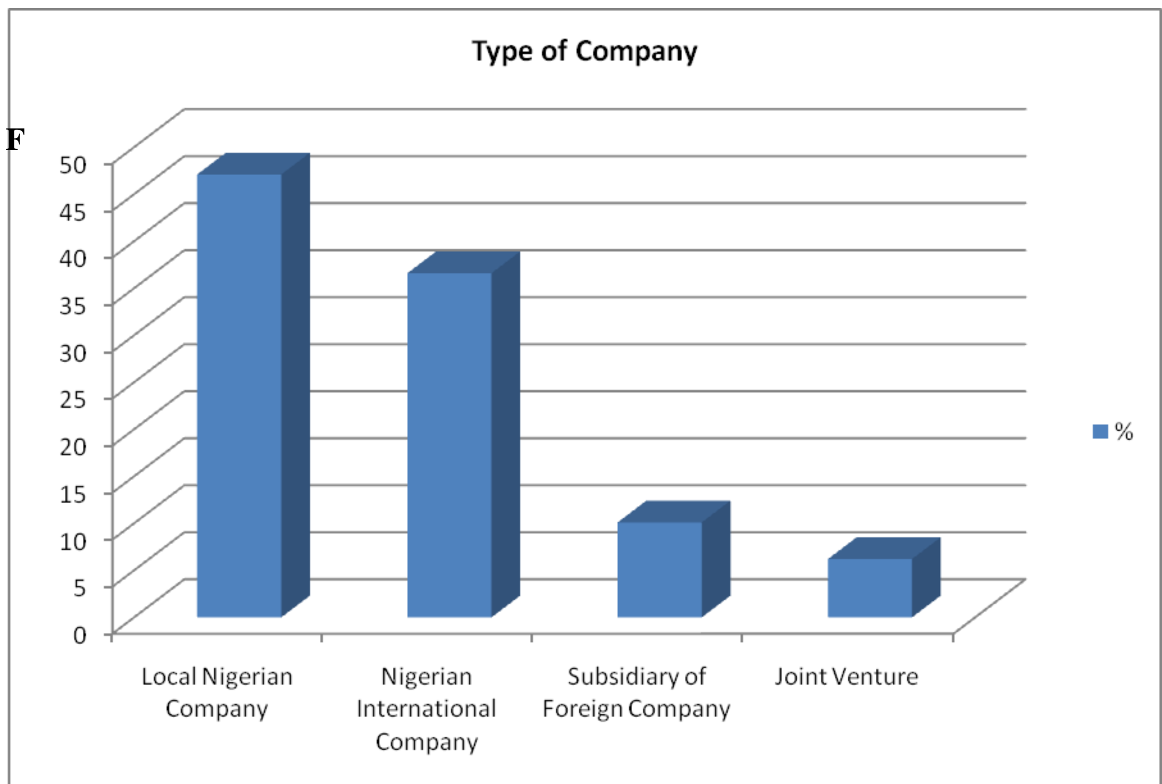

Figure 6.1: Type of Company (n = 233)

Figure 6.1 gives the breakdown of the types of companies of the respondents. 47.1 per cent of the directors are from local Nigerian companies, 36.6 per cent are from Nigerian international companies, 10.1 per cent are from subsidiaries of foreign companies and 6.2 per cent are from joint venture companies between Nigerians and foreigners. About 84 per cent of the directors are from Nigerian companies and as such the results will reflect the true picture of Nigerian boards rather than those of subsidiaries of multinational companies whose operations are usually controlled by their parent companies. In terms of years of operation, most of the directors are from companies that been in business for over ten years and about half of them had been operating in Nigeria for a period of between ten and thirty years. Figure 6.2 gives a detailed breakdown. The respondents are from mature companies that should have proper processes in place both at board and management levels.

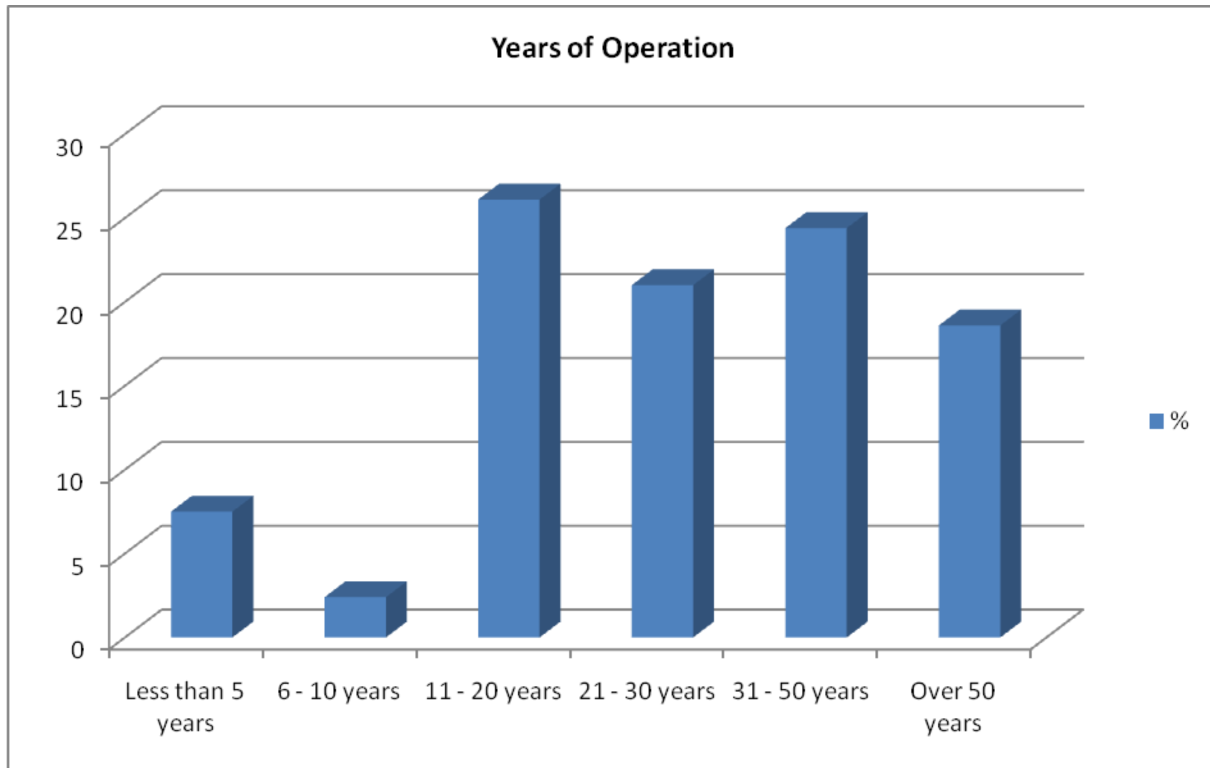

Figure 6.2: Years of Operation of the Companies (n = 233)

The companies were classified in line with the classification in the Nigerian Stock Exchange. One of the control variables in our questionnaire was the organization type which could either be manufacturing or non-manufacturing (labelled services). All the respondents companies were classified into these two categories and 18.4 per cent of the directors were from manufacturing companies while 81.6 per cent were from non-manufacturing. The financial services sector accounted for about half of the total respondents (58.6 percent of non-manufacturing).The financial services companies accounted for over 40 percent of the capitalisation of the Nigerian stock market as at May 2010. The number of directors of quoted financial services companies was about 34 percent of the total number of directors of all quoted companies in the Nigerian Stock Exchange. This is not surprising as the average size of boards of banks is about 1.5 to 2 times the average size of boards in other sectors.

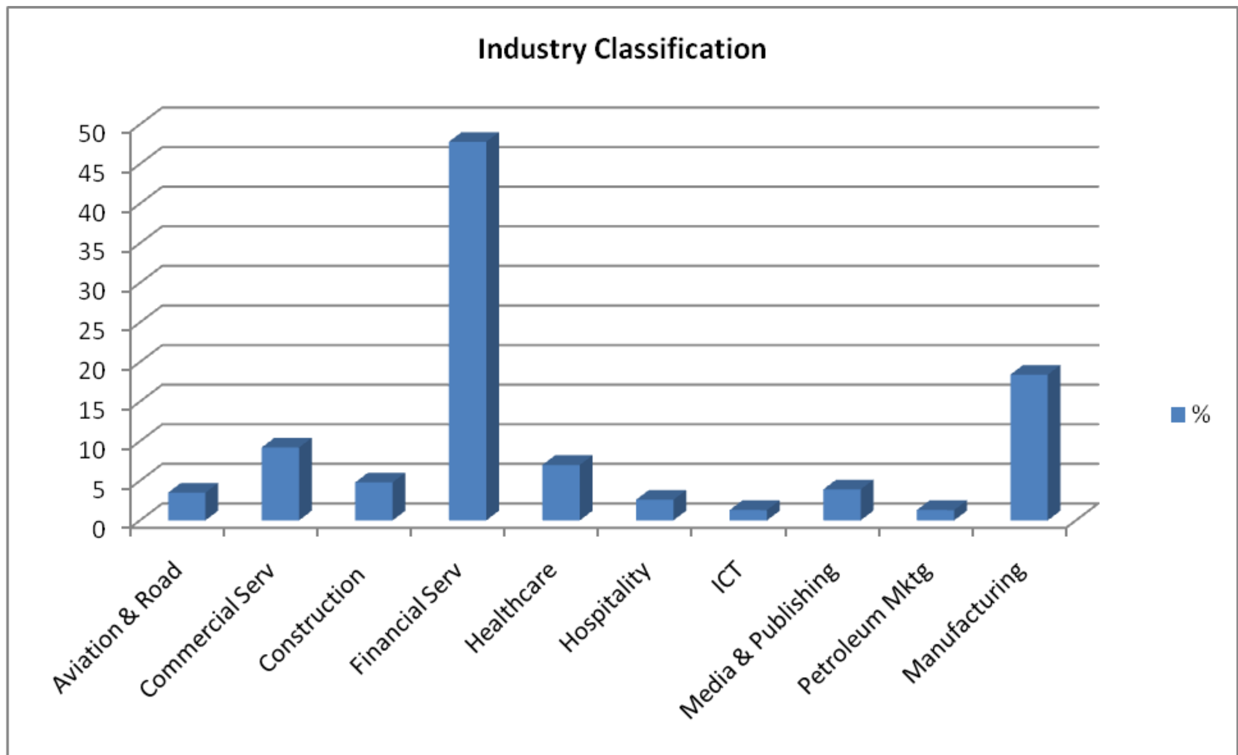

Figure 6.3: Industry Classification (n = 233)

Over half of the respondents worked for companies with employee size of not more than 500 people. Companies with employee size of 101 to 200 people account for 26.1 per cent of the directors. The control variable organization size was based on number of employees and considered two options – big and small – where big represented an organization size of over 1000 people and small represented organization with not more than 1000 employees. The directors of small organizations accounted for 58.9 per cent and those big organizations accounted for 41.1 percent. Figure 6.4 shows details of the distribution of organization size, based on number of employees, amongst the respondents.

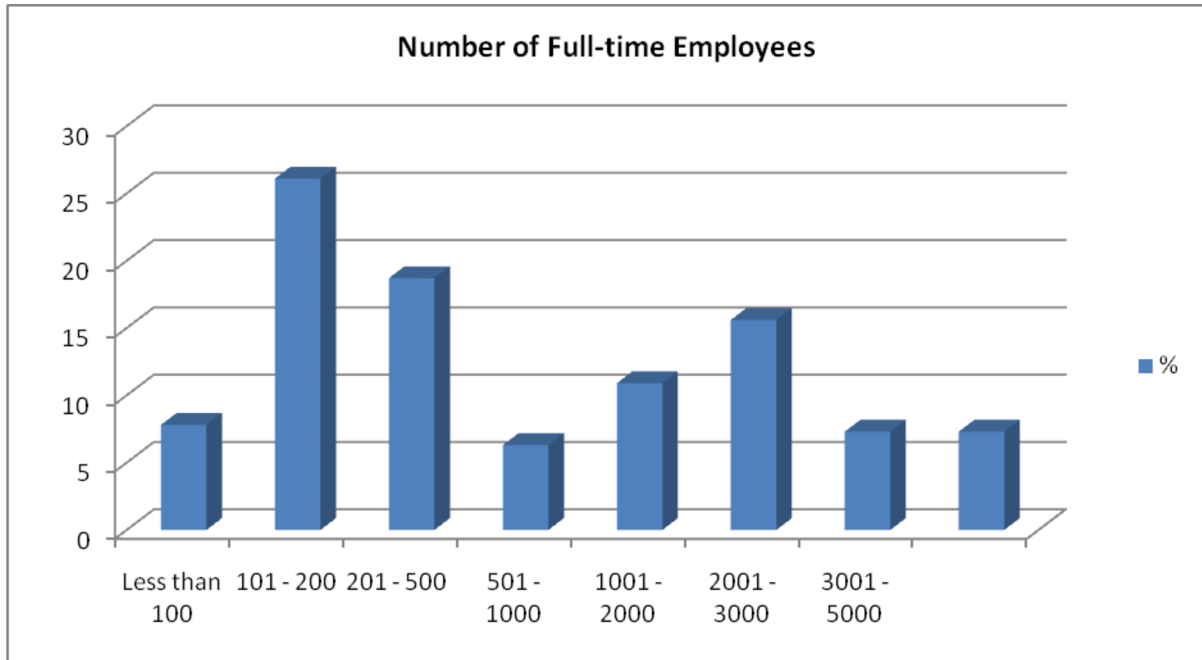

Figure 6.4: Number of full-time Employees (n = 233)

Annual turnover was also used to measure the size of organizations. A big organization is one with a turnover of more than N5 billion[11] (five billion Naira), while a small one has a turnover of not more than N5 billion (five billion Naira). The directors of big organizations accounted for 48.9 percent of respondents while those small ones accounted for 51.1 percent. Figure 6.5 shows details of the distribution of organization size, based on annual turnover, amongst the respondents.

[11] USD1 = N150

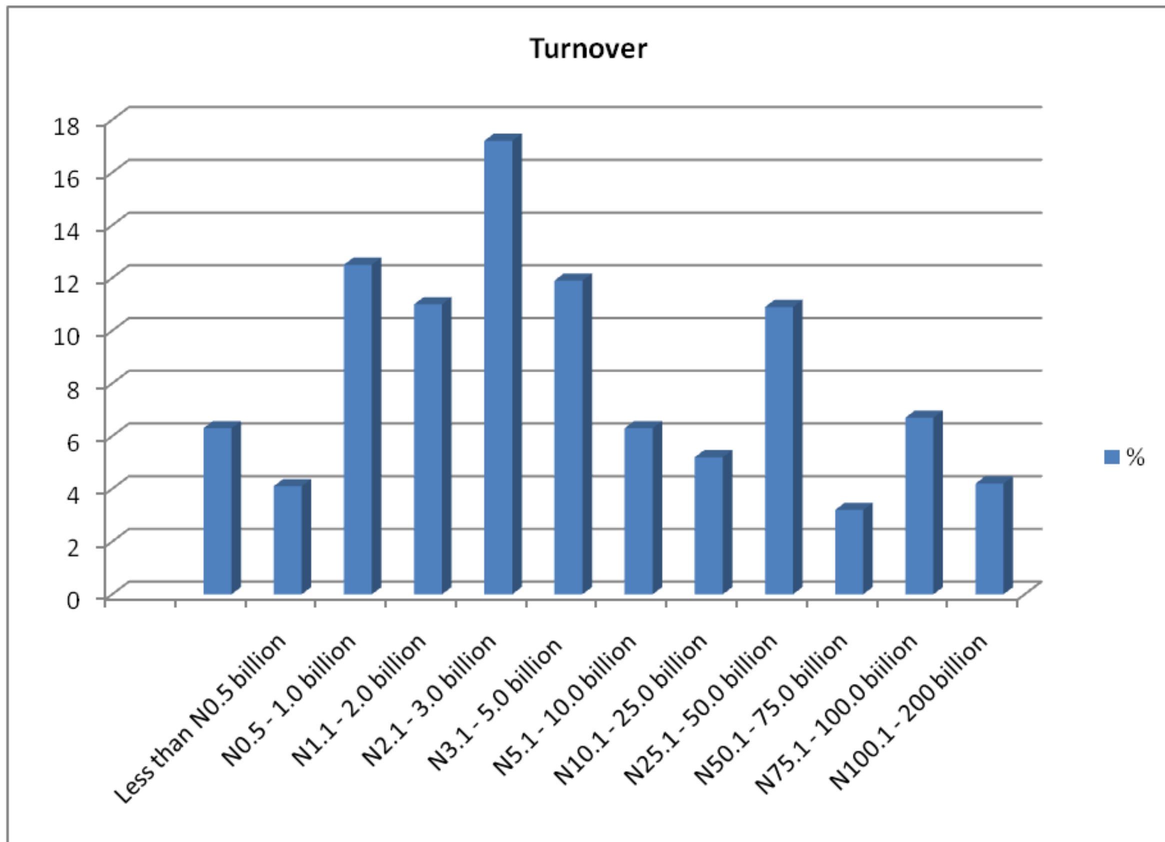

Figure 6.5: Turnover of the organizations (n = 233)

6.3 Board Characteristics

The structure and characteristics of board of directors is very important in corporate governance research (Dalton, 1993). Board structure and characteristics include board size, leadership structure (CEO duality), board composition, diversity, and board committees. Board size refers to the total number of directors on the board of the organization. Leadership structure refers to the division of labour between the board chairperson and the CEO. Board composition refers to the proportion of executive directors and non-executives directors on the board. Diversity refers to the various backgrounds, demographics and competences of directors on the board. Existence of board committees and their composition are also part of the board characteristics.

This section looks at the board structure and characteristics of Nigerian quoted companies.

6.3.1 Board Leadership

Board leadership structure indicates how the positions of chairperson and CEO are held. In the independence structure two individuals serve in the roles of CEO and board chairperson. A situation in which these roles are held by the same person is called CEO duality.

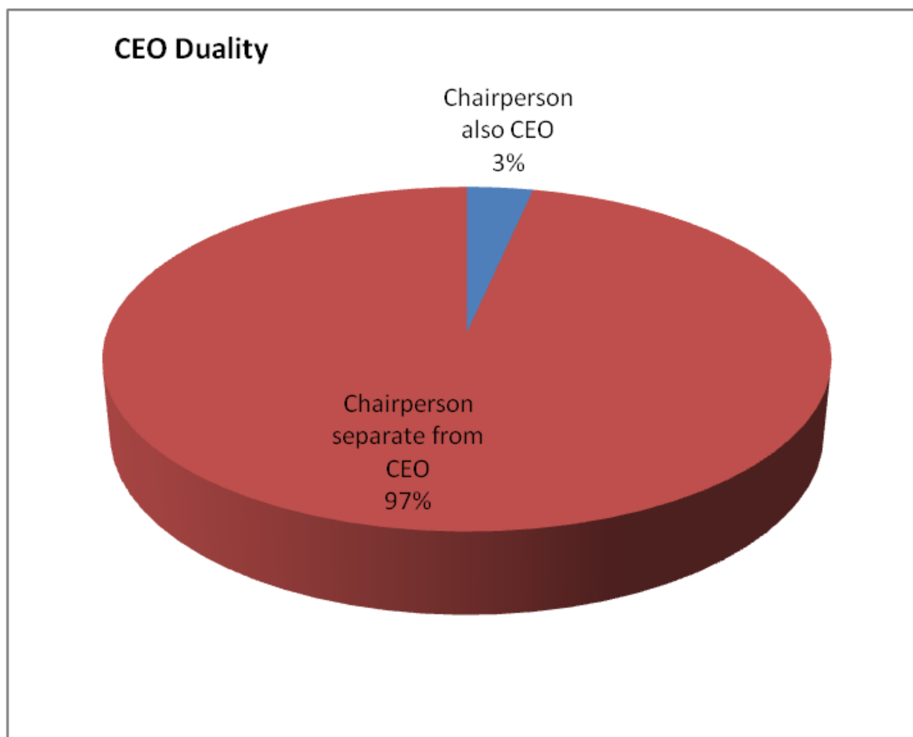

Figure 6.6: CEO Duality

The Nigerian code of corporate governance (2003, 2010) recommends that the roles of chairman and CEO should be separate and where the chairman is also the CEO, it is important to have a "strong independent element" on the board. In our survey it was found that 96.6 per cent of the directors are from companies that have separate chairpersons and CEOs, while 3.4 per cent are from companies that have same chairperson and CEO (Figure 6.6). Enforcement of the Nigerian code by the Securities and Exchange Commission (SEC) has been very weak and so it is not out of place to find some subsidiaries of American multinationals and some small Nigerian companies having the same persons occupying the two positions of chairperson and CEO.

Ogbechie and Koufopoulos (2007) in their research of quoted companies in Nigeria found that 76.9 percent of the companies had separation of chairperson and CEO. There has been significant improvement since then in terms of CEO duality. A common practice found in many public companies in Nigeria is the appointment of former CEOs as chairpersons of boards (Ogbechie and Koufopoulos, 2007). Such appointments might not enhance board independence. Another factor in Nigeria that tends to affect board independence adversely is the role of powerful shareholders that influence the appointment of CEOs and chairpersons.

The representation of women at the leadership cadre is very low. Only 13.4 per cent of the CEOs of Nigerian quoted companies are female (figure 6.7), while 3.9 per cent of the chairpersons are female (figure 6.8)

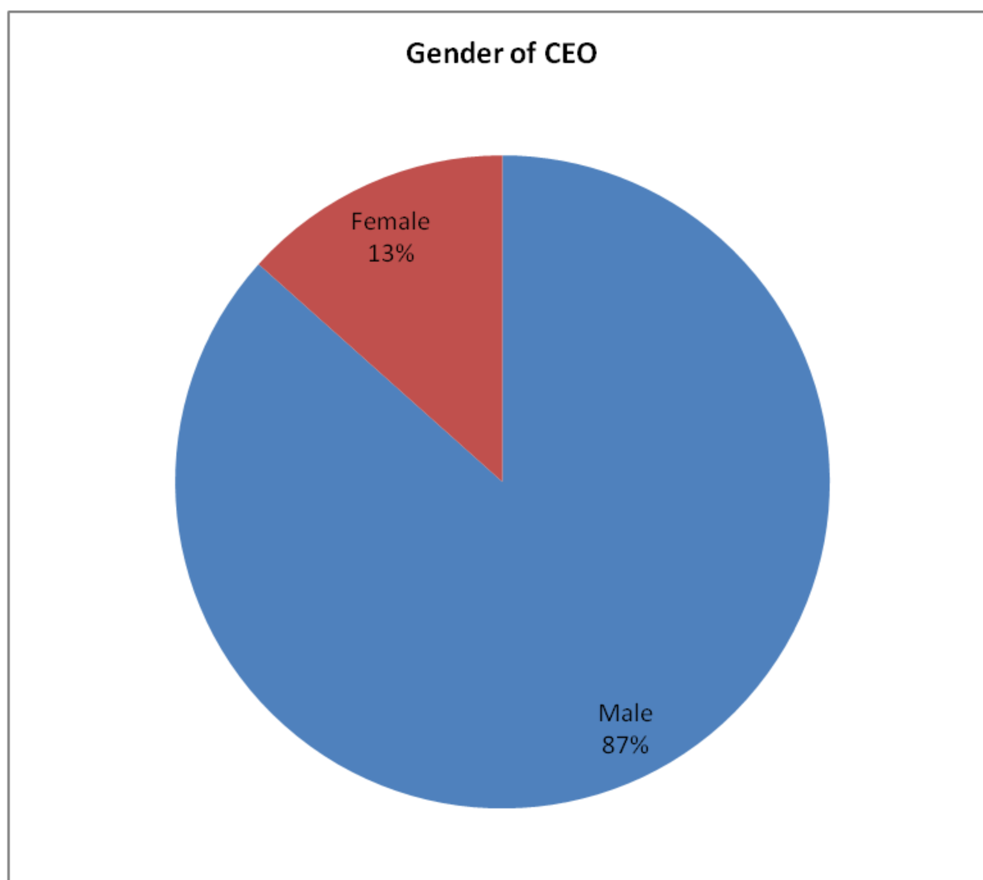

Figure 6.7: Gender of CEO

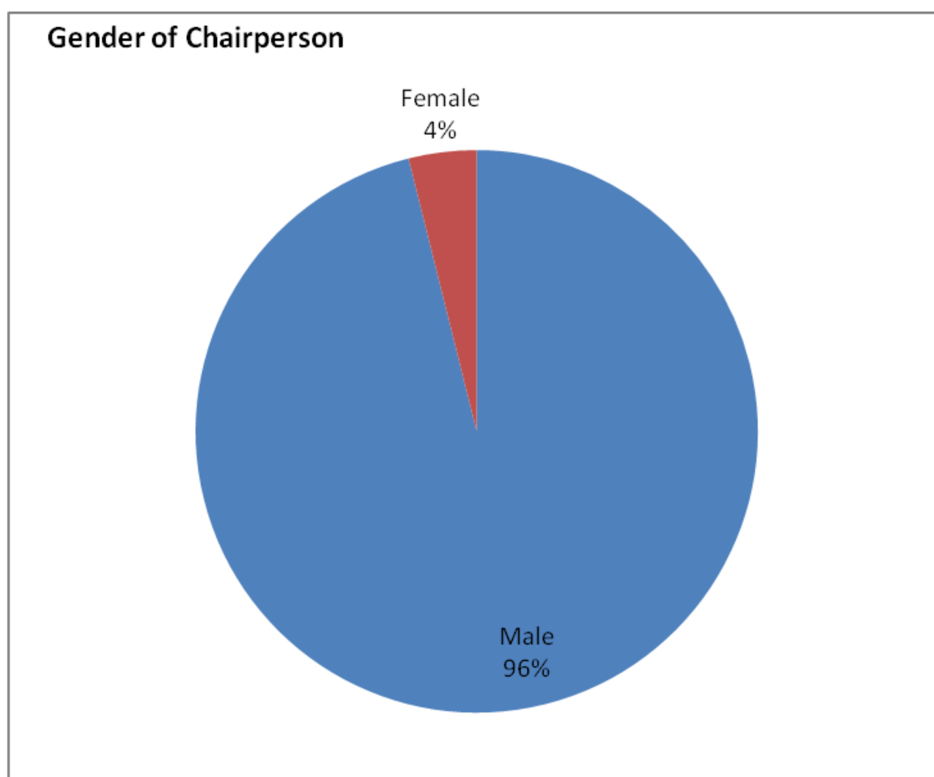

Figure 6.8: Gender of Chairperson

No known study has been done in Nigeria on gender issues at the board level and so we are not in a position to compare.

6.3.2. Board Size

Board size is the total number of directors (both inside and outside) on the board of a corporate organization.

The results show that the smallest board size of quoted companies in Nigeria is four (4) directors, while the largest board size is twenty (20) directors. Banks in Nigeria tend to have large boards as the Central Bank of Nigeria (CBN) corporate governance code (2006) allows for a maximum board size of twenty (20) directors. Table 5.1 shows the distribution of board size. The board sizes with the highest frequency are seven (12.9 percent) and eleven (12.0 percent).

The average size of boards of publicly quoted companies in Nigeria is 10.62 directors, with the median being 10 directors.

Board Size	Frequency	Valid %
4	1	0.4
5	6	2.6
6	15	6.4
7	30	12.9
8	23	9.9
9	26	11.2
10	26	11.2
11	28	12.0
12	11	4.7
13	17	7.3
14	10	4.3
15	18	7.7
16	3	1.3
17	8	3.4
18	6	2.6
20	5	2.1
N	233	
Mean	10.62	
Median	10.00	
Minimum	4	
Maximum	20	

Table 6.1: Distribution of Board size

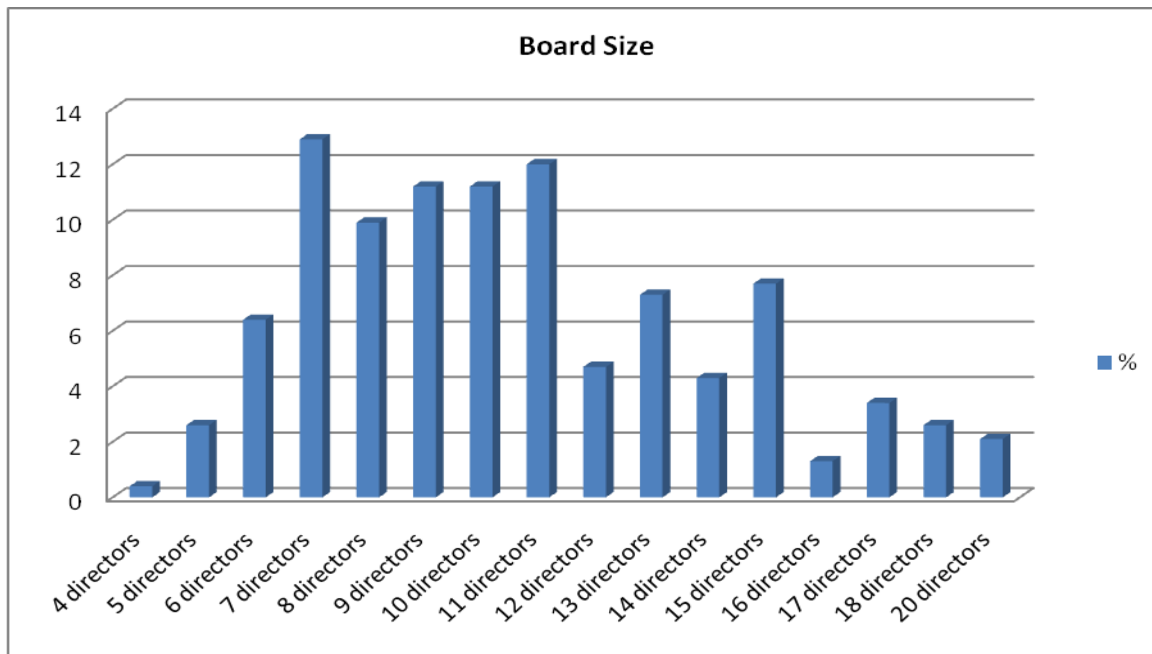

Figure 6.9: Distribution of Board size

There has been an increase in the average size of boards of quoted companies in Nigeria since 2007. Ogbechie and Koufopoulos (2007) found an average board size of 7.8 directors in Nigeria in 2006 as against 10.6 directors in 2010. Similar research studies carried out on boards in Africa indicates that in general African publicly listed firms have between 8 and 19 directors. Adeysekera (2010) shows an average board size of 8 for Kenyan firms and Okeahalam (2004) reports average board sizes of 7 for Ghanaian, 8 for Ivoirian, 9 for Zimbabwean, 8 for Zambian, 10 for Mauritian, 12 for Namibian firms respectively. Spencer Stuart (2010) reveals that the size of boards in South-Africa averages 12.4 while Abdelsalam et al (2008) informs that the average size for Egyptian boards is 19.

6.3.3 Board Independence

Board independence is considered at two levels: at one level is the chairperson – CEO separation and at the other level is the dominance of outside directors on the board. The separation of roles will avoid the entrenchment of powerful CEO (Rhoades et al., 2001; Jensen, 1993) and hence establish independence between the board and top management. Without an independent chair, a board would not be able to perform its control (oversight) role effectively (Carlssaon, 2001; Finkelstein and D'Aveni, 1994). CEO duality may reduce the effectiveness of the board and may create a conflict between management and the board

(Zahra, 1990; Solomon, 2007) and hence reduce the board's ability to exercise its governance function. Balsam and Upadhyay (2009) found that firms separating the positions of chief executive officer (CEO) and board chair perform better and are more highly valued by the market.

The second level of board independence is the dominance of outside directors on the board. Outside directors are usually independent of the firm's management and so can be more objective and provide independent supervision of the firm's management (Fama and Jensen, 1983). Randoy and Jenssen (2004) found that board independence (board compositions) is not associated with firm performance based on accounting measures. However, Guest (2008) found that board composition was significantly associated with firm performance.

With 96.6 percent of the boards having separate chairmen and CEOs, this is slightly higher than 94 percent reported by Spencer Stuart (2009) and significantly greater than 54.6 percent reported by Tusiime et al (2011) for Ugandan firms and 52 percent for Egyptian firms (Abdelsalam et al, 2008). In the area of dominance of outside directors on the board there is some degree of independence as the average independence ratio of the boards of Nigerian public companies is about 65 percent of outside directors and 35 percent inside directors. In the case of Egyptian firms the average independence ratio of the boards is 55 percent (Abdelsalam et al, 2008). In the case of South-African companies, PriceWaterCoopers report (2011) reveals that in Johannesburg Stock Exchange (JSE) listed firms the total number of directors is 3,148. Out of this number 2,002 representing 63.6 percent of directors are non-executive directors while 1,148 representing 36.4 percent are executive directors.

6.3.4 Board Committees

Most corporate boards in Nigeria meet between 4 and 6 times in a year. Since meetings tend to last for several hours, functional board committees that will assist the board in carrying out their functions are the only way out. The effectiveness of boards will, to some extent, depend on the type and quality of board committees.

The key board committees that are in existence are shown in figure 6.10. The committee with the highest incidence is the audit committee at 86.6 percent. This is similar to

the findings of Ogbechie and Koufopoulos (2007), who reported 86.1 percent. This is an indication that not all the quoted companies are compliant as both the Nigerian Code of Corporate Governance (2003) and the Corporate and Allied Matters Act (CAMA 1990) make audit committee mandatory for all quoted companies. Yet this a far cry from what we find

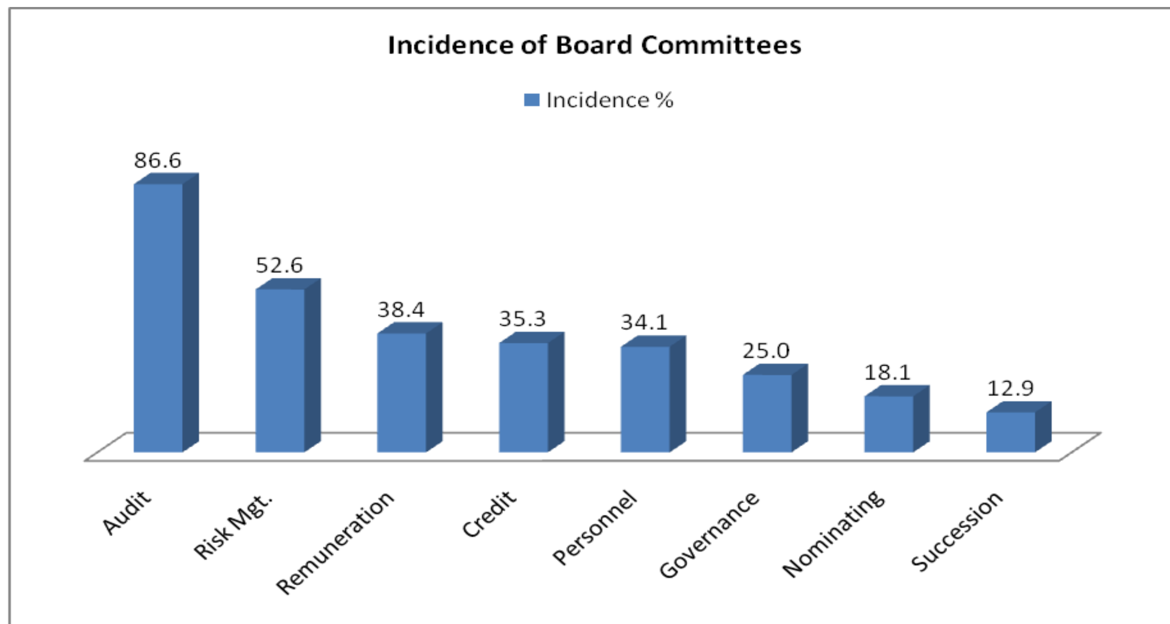

Figure 6.10: Incidence of Board Committees

obtainable in the South-African business environment; in a study on board and governance trends by SpencerStuart (2009) establishes that audit committees are present in all quoted firms of the JSE in compliance with the Kings III report 2009 which mandates all public listed and state owned companies to have an audit committee.

Many companies in Nigeria combine Remunerating, Nominating, Personnel and Governance into one board committee, usually referred to as Governance Committee.

The relatively high incidence of risk management committee (52.6%) is because of the high proportion of financial services industry (47.8%) in the population. However, when compared with 96 percent in South-African publicly quoted firms (SpencerStuart, 2009) this is significantly low. In Nigeria, banks and insurance companies are expected to have risk management committees. The global financial crisis of 2008/09 and the near collapse of some banks in Nigeria in 2009 have revealed the importance of enterprise risk management in the

Nigerian financial services sector. All banks and many insurance companies in Nigeria now have risk management committees. Some other companies outside the financial services sector have also embraced the concept.

6.4 Board Professional Human Capital

An assessment of professions of the directors on the boards of Nigerian quoted companies show that the most popular profession is accounting (table 6.2) this might be the reason why the directors rate knowledge of financial matters as the highest competence on boards (table 6.3). Directors in Nigeria are expected to be able to read and interpret the financials of a company as this will put them in a good position to carry out their oversight function.

Profession (multiple responses)	% of Directors
Accountants	90.5
Engineers	67.6
Lawyers	64.4
Economists	60.8
Bankers	45.0
Academicians	32.0
Medical Doctors	19.8

Table 6.2: Profession of Directors

Knowledge of industry	1 Very Low	2	3	4	5	6	7 Very High	Mean	Standard deviation
Understanding of the business of your firm	3 (1.4%)	2 (0.9%)	7 (3.2%)	20 (9.0%)	55 (24.9%)	70 (31.7%)	64 (29.0%)	5.66	1.25
Understanding of the industry in which your firm operates	3 (1.3%)	3 (1.3%)	8 (3.6%)	29 (12.9%)	47 (20.9%)	81 (36.0%)	54 (24.0%)	5.55	1.28
Knowledge about financial matters	1 (0.4%)	1 (0.4%)	9 (4.0%)	26 (11.6%)	41 (18.3%)	83 (37.1%)	63 (28.1%)	5.71	1.18
Knowledge about legal matters	1 (0.4%)	6 (2.7%)	17 (7.6%)	58 (25.9%)	69 (30.8%)	54 (24.1%)	19 (8.5%)	4.90	1.21
Knowledge about risk matters	1 (0.4%)	4 (1.8%)	14 (6.2%)	46 (20.4%)	63 (27.9%)	68 (30.1%)	30 (13.3%)	5.17	1.22

Table 6.3: Ratings of directors on diverse knowledge

The next important competence/knowledge areas are proper understanding of the firm's business and industry. It could be argued that a director will not be in a position to add value to the board and firm if that director does not have a good understanding of the firm's business and the industry the firm operates in. Knowing the right questions to ask management and being able to contribute to strategy development will require a good knowledge of the business and industry.

A good knowledge of legal matters was rated lowest (4.90) by directors as knowledge base on the boards. This could be explained by the practice of most boards in Nigeria appointing lawyers as company secretaries and also having legal advisers that work with them on permanent basis.

6.4.1 Board Diversity

Diversity is a factor that is considered in the evaluation of board performance and effectiveness. Board diversity implies that the directors have different skills, knowledge and experience, and they are also from different age groups and social status. Some researchers suggest that board diversity leads to a greater knowledge base, creativity and innovation because of the diverse experience of members of the board (Watson et al., 1993).

Board diversity was assessed with a six-item scale. The survey data show that the degree of diversity of Nigerian boards is high in terms of educational background (6.01), occupational background (5.97) and relatively low on religious affinity (4.24) and tribal affinity (4.27) (see table 6.4).

Board Diversity	**1** **Very Low**	**2**	**3**	**4**	**5**	**6**	**7** **Very High**	**Mean**	**Standard deviation**
Educational background	4 (1.7%)	6 (2.6%)	2 (0.9%)	7 (3.1%)	35 (15.5%)	74 (32.3%)	101 (44.1%)	6.01	1.29
Occupational background	0 (0.0%)	2 (0.9%)	4 (1.7%)	13 (5.6%)	39 (16.9%)	95 (41.1%)	78 (33.8%)	5.97	1.02
Functional positions	2 (0.9%)	4 (1.8%)	12 (5.3%)	23 (10.1%)	65 (28.5%)	74 (32.5%)	48 (21.1%)	5.45	1.26
Network ties	4 (1.8%)	4 (1.8%)	7 (3.1%)	31 (13.6%)	61 (26.8%)	74 (32.5%)	47 (20.6%)	5.42	1.30
Religious affinity	17 (7.6%)	28 (12.5%)	31 (13.8%)	44 (19.6%)	37 (16.5%)	46 (20.5%)	21 (9.4%)	4.24	1.76
Tribal affinity	24 (11.0%)	21 (9.6%)	26 (11.9%)	41 (18.8%)	39 (17.9%)	41 (18.8%)	26 (11.9%)	4.27	1.86

Table 6.4: Ratings of board diversity (n = 233)

In Nigeria top management appointments in federal and state institutions / organizations are made on diversity basis, called ‘federal character’. Such appointments should show acceptable representation of the ethnic and religious diversity of the country. This diversity principle is enshrined in the constitution of the Federal Republic of Nigeria (1999) and it is enforced by the Federal Character Commission (FCC), which was established by section 153 of the constitution of the country. Diversity has therefore been engraved into the psyche of Nigerians. A company in Nigeria with multi-stakeholders must be aware of the diversity problem in the country. Some companies operating in the country have consciously spread their board and top management appointments to reflect the diversity of the country.

Interestingly, the results of our study show that boards of quoted companies in Nigeria rated religious and tribal affinity are low as diversity factors. Ensuring diversity on the basis of educational and occupational background was most important to them. This trend might have arisen from the fact that government investment in quoted companies is negligible or none existent.

6.5 Board Processes

Board processes that are considered in evaluating board effectiveness are board operation, board cohesiveness and board decision-making process. Board operation includes how board meetings are conducted, quality and quantity of board papers, how the chairperson leads the board, board’s understanding of its roles and responsibilities, and time committed by directors to do their job well. Board cohesiveness includes teamwork by directors, conflict resolution, socializing and respect and trust of directors. Decision-making process includes constructive discussions during board meetings, quality of debate, and level of integrity and transparency that pervades board meetings.

6.5.1 Board Operations

Board operations were assessed with a nine-item scale. Results of the study show that most companies (87.4 percent) hold board meetings quarterly (every three months). Most corporate governance codes, including the Nigerian code, recommend a minimum of quarterly board meetings.

The leadership of the chairperson was rated highest (mean score 6.13) by directors in evaluating their board operations. The other important factors for ensuring smooth board operations include ensuring that there are clear responsibilities for following up actions agreed by the board (mean score 6.12) and conducting board meetings well (mean score 6.00). The chairperson’s leadership style can either cause division on the board or strong cohesion. An autocratic chairperson may make it difficult for directors to express their views openly and make constructive contributions in board meetings. Directors are not particularly worried about the length of time of board meetings (mean score 4.42)

Board Operations	1 Strongly disagree	2	3	4	5	6	7 Strongly agree	Mean	Standard deviation
Board members have time to do their job well	1 (0.4%)	3 (1.3%)	7 (3.0%)	32 (13.7%)	44 (18.9%)	84 (36.1%)	62 (26.6%)	5.64	1.21
Board has a clear understanding of its roles and responsibilities	3 (1.3%)	6 (2.6%)	9 (3.9%)	11 (4.7%)	36 (15.5%)	76 (32.6%)	92 (39.5%)	5.86	1.35
Board meetings run for too long	19 (8.3%)	28 (12.2%)	23 (10.0%)	43 (18.8%)	35 (15.3%)	46 (20.1%)	35 (15.3%)	4.42	1.87
Board meetings are well conducted	0 (0.0%)	6 (2.6%)	7 (3.0%)	12 (5.2%)	22 (9.5%)	94 (40.5%)	91 (39.2%)	6.00	1.18
It is clear who has responsibility for following up actions agreed by the board	1 (0.4%)	3 (1.3%)	6 (2.6%)	10 (4.3%)	21 (9.0%)	89 (38.2%)	103 (44.2%)	6.12	1.11
Board member have right quality of board papers	1 (0.4%)	1 (0.4%)	6 (2.6%)	17 (7.3%)	54 (23.3%)	73 (31.5%)	80 (34.5%)	5.85	1.12
The board papers are timely	1 (0.4%)	10 (4.4%)	15 (6.6%)	34 (14.8%)	56 (24.5%)	73 (31.9%)	40 (17.5%)	5.24	1.36
Quality of Board Charter is high	2 (0.9%)	7 (3.0%)	4 (1.7%)	15 (6.5%)	54 (23.5%)	82 (35.7%)	66 (28.7%)	5.70	1.25
Chairperson leads the board well	1 (0.4%)	2 (0.9%)	2 (0.9%)	13 (5.7%)	29 (12.6%)	78 (33.9%)	105 (45.7%)	6.13	1.06

Table 6.5: Evaluation of Board Operations

6.5.2 Board Cohesiveness

Board cohesiveness was assessed with a seven-item scale. Table 6.6 shows that the three most important issues for cohesiveness of Nigerian boards are ability of board members to resolve conflict between themselves (mean score 6.08), the extent board members respect and trust each other (mean score 6.00), and the ability of the board and management to resolve conflict between themselves constructively (mean score 5.99). A board where members can resolve conflict between themselves respect and trust each other and can constructively resolve conflict with management is likely to be cohesive.

The least important issue in driving board cohesiveness is the level of socializing amongst directors outside board meetings (mean score 4.63).

Board Cohesiveness	**1** **Strongly disagree**	**2**	**3**	**4**	**5**	**6**	**7** **Strongly agree**	**Mean**	**Standard deviation**
The Board and management periodically review how they are working together	10 (4.3%)	17 (7.4%)	30 (13.0%)	32 (13.9%)	42 (18.3%)	61 (26.5%)	38 (16.5%)	4.80	1.71
Misunderstandings are rare between the board and management	4 (1.7%)	6 (2.6%)	11 (4.7%)	23 (9.9%)	55 (23.7%)	72 (31.0%)	61 (26.3%)	5.50	1.39
Board members and management are able to resolve conflict between themselves constructively	3 (1.3%)	1 (0.4%)	5 (2.2%)	16 (7.0%)	33 (14.4%)	75 (32.8%)	96 (41.9%)	5.99	1.20
Board members are able to resolve conflict between themselves constructively	2 (0.9%)	3 (1.3%)	1 (0.4%)	14 (6.1%)	25 (10.9%)	87 (38.0%)	97 (42.4%)	6.08	1.11
Board members respect and trust each other	1 (0.4%)	3 (1.3%)	5 (2.2%)	18 (7.8%)	31 (13.5%)	74 (32.2%)	98 (42.6%)	6.00	1.18
Board members socialize with each other outside board meetings	3 (1.3%)	22 (9.5%)	30 (13.0%)	50 (21.6%)	55 (23.8%)	39 (16.9%)	32 (13.9%)	4.63	1.55
Disagreement is dealt with openly in the board	12 (5.2%)	6 (2.6%)	16 (7.0%)	24 (10.4%)	44 (19.1%)	70 (30.4%)	58 (25.2%)	5.28	1.64

Table 6.6: Evaluation of Board Cohesiveness

6.5.3 Board Decision-Making Process

Board decision-making process was assessed with a ten-item scale. Table 6.7 shows the rating of Nigerian directors on issues that affect quality of decision-making at board meetings. The most important issues with mean score of over 6.0 are board meetings have clearly constructed agenda (mean score 6.31), board meetings are pervaded with integrity (mean score 6.10), discussions during board meetings are constructive (mean score 6.07), and the business of the board is conducted with openness and transparency. The least important issue is directors' willingness to propose different approaches when discussing an issue (mean score 4.98).

Board decision-making	1 Strongly disagree	2	3	4	5	6	7 Strongly agree	Mean	Standard deviation
The Board has adequate notice of important issues to be discussed at board meetings	0 (0.0%)	4 (32.0%)	4 (35.1%)	21 (20.3%)	47 (9.1%)	81 (1.7%)	74 (1.7%)	5.81	1.14
Board meeting have clearly constructed agenda	0 (0.0%)	2 (0.9%)	1 (0.4%)	10 (4.3%)	25 (10.8%)	66 (28.6%)	127 (55.0%)	6.31	0.96
Important items are prioritized on board agenda	5 (2.2%)	4 (1.7%)	5 (2.2%)	24 (10.4%)	24 (10.4%)	76 (32.9%)	93 (40.3%)	5.85	1.39
Board has trouble reaching conclusions	14 (6.1%)	14 (6.1%)	13 (5.7%)	7 (3.0%)	24 (10.4%)	80 (34.8%)	78 (33.9%)	5.46	1.81
Board's business conducted with openness and transparency	3 (1.3%)	3 (1.3%)	4 (1.7%)	11 (4.8%)	33 (14.3%)	75 (32.6%)	101 (43.9%)	6.03	1.21
Board meetings are pervaded with integrity	1 (0.4%)	4 (1.7%)	3 (1.3%)	9 (3.9%)	33 (14.2%)	76 (32.6%)	105 (45.5%)	6.10	1.11
Discussions during board meetings are constructive	2 (0.9%)	2 (0.9%)	4 (1.7%)	10 (4.3%)	29 (12.6%)	88 (38.1%)	96 (41.6%)	6.07	1.11
When discussing an issue directors state clear disagreement with each other	5 (2.2%)	5 (2.2%)	9 (3.9%)	22 (9.6%)	42 (18.3%)	85 (37.0%)	62 (27.0%)	5.58	1.38
Directors openly challenge each others' opinion	16 (7.0%)	10 (4.4%)	16 (7.0%)	30 (13.1%)	48 (21.0%)	67 (29.3%)	42 (18.0%)	4.98	1.72
When discussing an issue different directors propose different approaches to the issue	7 (3.1%)	7 (3.1%)	8 (3.5%)	24 (10.6%)	57 (25.1%)	78 (34.4%)	46 (20.3%)	5.36	1.43

Table 6.7: Evaluation of Board Decision-Making Process

6.6 Board Effectiveness

Board effectiveness is determined by how well the board performs the following roles: Oversight, Service, and Strategic.

6.6.1 Board Oversight Role

Oversight role entails how well the board oversees the financial management of the organization, ensuring the effectiveness of the financial systems and controls of the organization, monitoring the performance of the organization and taking necessary action, ensuring that the organization fulfils its legal obligations, and ensuring accountability to all stakeholders. All these will ensure honest behaviour by management, avoid abuse of power and minimise agency cost.

Board oversight role was assessed with a seven-item scale. Table 6.8 shows how well boards of Nigerian publicly quoted companies performed this role.

The three issues with the highest ratings are: ensure accountability to the organization's stakeholders (mean score 6.12), ensure that the organization fulfils its legal obligations (mean score 5.99), and ensure the organization has adequate financial systems and procedures (mean score 5.84). The issue with the least rating is to have procedure for recruiting new directors (mean score 5.0).

However, all the issues have ratings of 5 and above and this is an indicator that Nigerian boards take their oversight function seriously. The various corporate governance scandals in Nigeria as indicated in chapter 4 might have prompted boards to take their control/oversight role more seriously.

Board oversight role	**1** **Not at all**	**2**	**3**	**4**	**5**	**6**	**7** **To a large extent**	**Mean**	**Standard deviation**
Oversee the financial management of the firm	0 (0.0%)	3 (1.3%)	6 (2.6%)	21 (9.0%)	47 (20.2%)	82 (35.2%)	74 (31.8%)	5.81	1.13
Ensure the firm has adequate financial systems and procedures	0 (0.0%)	5 (2.1%)	5 (2.1%)	13 (5.6%)	57 (24.5%)	73 (31.3%)	80 (34.3%)	5.84	1.15
Monitor firm performance and taking action where necessary	1 (0.4%)	3 (1.3%)	8 (3.4%)	17 (7.3%)	50 (21.5%)	82 (35.2%)	72 (30.9%)	5.77	1.18
Monitor the firm's CEO and top management	4 (1.7%)	6 (2.6%)	10 (4.3%)	25 (10.8%)	56 (24.2%)	73 (31.6%)	57 (24.7%)	5.47	1.37
Have procedure for recruiting new directors	7 (3.0%)	22 (9.6%)	22 (9.6%)	32 (13.9%)	34 (14.8%)	57 (24.8%)	56 (24.3%)	5.00	1.76
Ensure that the firm fulfils it legal obligations	1 (0.4%)	1 (0.4%)	6 (2.6%)	14 (6.1%)	37 (16.0%)	82 (35.5%)	90 (39.0%)	5.99	1.10
Ensure accountability to the firm's stakeholders	1 (0.4%)	1 (0.4%)	4 (1.7%)	15 (6.4%)	29 (12.4%)	76 (32.6%)	107 (45.9%)	6.12	1.08

Table 6.8: Evaluation of Board Oversight Role

6.6.2 Board Service Role

The board service role entails the board's support and advice to management, how it represents the interest of shareholders in the organization, how it acts as a link with important groups or organizations that the firm deals with, how it helps to raise funds and other resources for the firm, and how it helps to generate business for the firm.

Board service role was assessed with a seven-item scale. Table 6.9 shows how well the boards of Nigerian quoted companies are performing their service role.

The issues with the highest ratings are, support and advice to management (mean score 5.97), representing the interest of shareholders (mean score 5.87), and review of board performance and ensure that it works well (mean score 5.44). The issues with the least ratings are help to generate businesses for the organization (mean score 4.98) and help to raise funds and other resources for the organization (mean score 4.84). These ratings suggest that directors of Nigerian quoted companies do not see assistance of generating businesses and raising funds for their companies as their main responsibilities.

Board service to management	1 Not at all	2	3	4	5	6	7 To a large extent	Mean	Standard deviation
Support and advice management	1 (0.4%)	1 (0.4%)	8 (3.5%)	16 (6.9%)	31 (13.4%)	86 (37.2%)	88 (38.1%)	5.97	1.14
Review of board performance and ensure it works well	4 (1.7%)	5 (2.2%)	17 (7.3%)	23 (9.9%)	51 (22.0%)	74 (31.9%)	58 (25.0%)	5.44	1.41
Represent the interest of stakeholders in the firm	3 (1.3%)	2 (0.9%)	6 (2.6%)	18 (7.9%)	40 (17.5%)	73 (31.9%)	87 (38.0%)	5.87	1.25
Act as a link with important groups or organizations your firm deals with	6 (2.6%)	8 (3.5%)	18 (7.8%)	44 (19.1%)	56 (24.3%)	59 (25.7%)	39 (17.0%)	5.04	1.48
Represent the organization externally	4 (1.7%)	6 (2.6%)	13 (5.7%)	41 (17.9%)	59 (25.8%)	64 (27.9%)	42 (18.3%)	5.21	1.38
Help to raise funds or other resources for the firm	10 (4.3%)	17 (7.4%)	15 (6.5%)	45 (19.6%)	52 (22.6%)	53 (23.0%)	38 (16.5%)	4.84	1.64
Help to generate businesses for the firm	7 (3.0%)	14 (6.0%)	15 (6.5%)	47 (20.3%)	54 (23.3%)	48 (20.7%)	47 (20.3%)	4.98	1.59

Table 6.9: Evaluation of Board Service Role

6.6.3 Board Strategic Role

The board strategic role entails setting the organization's strategic direction including mission and values; determining, supporting and enforcing company policies; evaluating opportunities, risks and strategic options; ensuring that organizational structure and capabilities are appropriate for strategy implementation; and monitoring strategy implementation.

Board strategic role was assessed with a nine-item scale. Table 6.10 shows how well the boards of Nigerian quoted companies are performing their strategic role.

The issues with the highest ratings are: reviewing and deciding on the organization's strategic direction (mean score 5.67), determining, supporting and enforcing the organization's policies (mean score 5.59), and determining and reviewing the organization's objectives to match the mission and values, and to form the basis of company strategy (mean score 5.55).

The issues with the least ratings are, adapts performance measures to monitor the implementation of strategies (mean score 5.14) and the determination of the business units strategies and plans designed to implement the corporate strategy (mean score 5.06).

However, all the functions are rated over 5 and this might be an indication of the importance attached to the strategic role by boards.

Board strategic role	1 Not at all	2	3	4	5	6	7 To a large extent	Mean	Standard deviation
Set the firm's mission and values	5 (2.1%)	8 (3.4%)	14 (6.0%)	19 (8.2%)	40 (17.2%)	75 (32.2%)	72 (30.9%)	5.55	1.50
Reviews and decides the firm's strategic direction	5 (2.2and)	8 (3.4%)	9 (3.9%)	10 (4.3%)	42 (18.1%)	88 (37.9%)	70 (30.2%)	5.67	1.41
Determines and reviews the firm's objectives to match the vision and values	4 (1.7%)	9 (3.9%)	11 (4.8%)	20 (8.7%)	53 (23.0%)	71 (30.9%)	62 (27.0%)	5.48	1.44
Determines, supports and enforces company policies	2 (0.9%)	5 (2.2%)	11 (4.8%)	24 (10.4%)	59 (25.5%)	66 (28.6%)	64 (27.7%)	5.59	1.35
Reviews and evaluates opportunities, threats and risks in the general environment, and strengths, weaknesses and risks of your firm	2 (0.9%)	6 (2.6%)	16 (6.9%)	25 (10.8%)	48 (20.7%)	64 (27.6%)	71 (30.6%)	5.53	1.41
Determines corporate and financial strategic options, reviews and selects those to be pursued, and decides the resources, contingency plans and means to support them.	3 (1.3%)	11 (4.8%)	11 (4.8%)	29 (12.6%)	48 (20.8%)	68 (29.4%)	61 (26.4%)	5.41	1.47
Determines the business unit strategies and plans designed to implement the corporate strategies	5 (2.2%)	17 (7.3%)	18 (7.8%)	35 (15.1%)	52 (22.4%)	54 (23.3%)	51 (22.0%)	5.06	1.61
Ensures that your firm's structure and capabilities are appropriate for implementing its chosen strategies.	4 (1.7%)	11 (4.7%)	23 (9.9%)	23 (9.9%)	50 (21.6%)	64 (27.6%)	57 (24.6%)	5.26	1.55
Adapts performance measures to monitor the implementation of strategy, policies and plans, and the legal/fiduciary obligations affecting the business and the Board	4 (1.7%)	7 (3.0%)	26 (11.3%)	38 (16.5%)	47 (20.4%)	59 (25.7%)	49 (21.3%)	5.14	1.53

Table 6.10: Evaluation of Board Strategic Role

	Not Effective 1	2	3	4	5	6	Very Effective 7	Mean	Standard Deviation
Overall how effective would you say your Board is	**5 (2.2%)**	**5 (2.2%)**	**4 (1.7%)**	**22 (9.6%)**	**64 (27.9%)**	**76 (33.2%)**	**53 (23.1%)**	**5.52**	**1.32**

Table 6.11: Overall Board Effectiveness

6.7 Board Effectiveness Drivers

The ratings of the factors directors of Nigerian quoted companies think are responsible for effective boards are shown in Table 5.12 and Figure 5.11.

The five most important factors that affect board effectiveness as rated by the directors on Nigerian quoted companies are directors' competence, integrity of directors, diversity of the board, transparency and openness of the board, and the chairman's leadership style. This implies that a board that is diverse with directors that are competent and have high integrity, which is transparent and open and is headed by a chairperson with the right leadership style, is likely to be effective.

Perceived factors (multiple response)	Percentage
Competence	93.1
Integrity of directors	92.3
Diversity of the board	89.7
Board transparency and openness	88.0
Chairman's leadership style	87.6
Board oversight/control functions	85.8
Level of preparation for board meetings	85.4
Compliance with codes/laws/regulations	85.0
Board independence	84.1
Good interpersonal relations	83.7
Participation of board in strategy	83.3
Commitment of individual directors	82.4
Compliance with international best practice	80.7
Network of extra-organization contacts	80.3
Timely and balanced reports by management.	79.8
Ability to accept criticism	79.0

Table 6.12: Perceived factors that affect board effectiveness

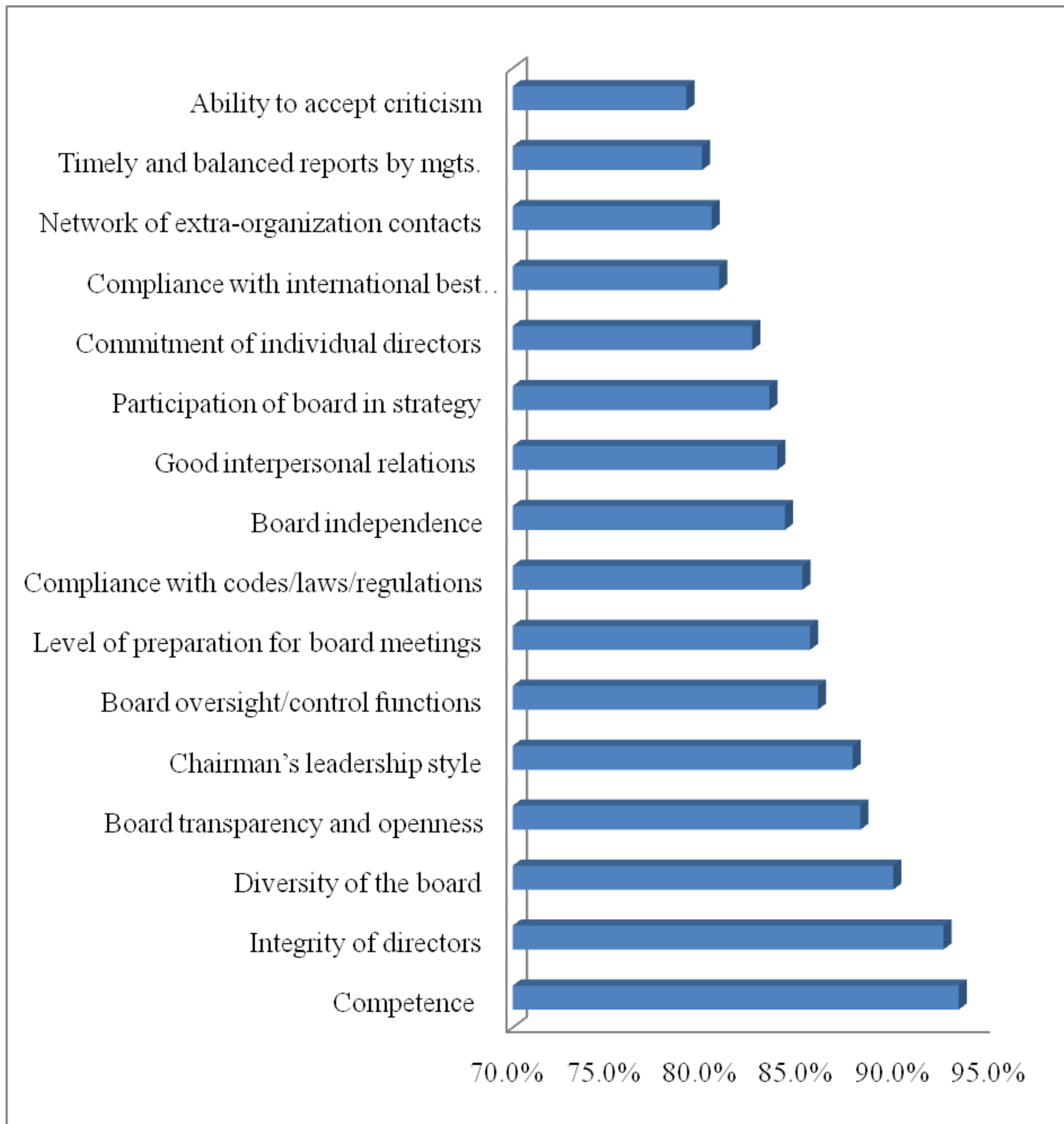

Figure 6.11: Perceived factors that affect board effectiveness

CHAPTER 7: PRINCIPAL COMPONENTS ANALYSIS AND CONSTRUCTION OF SCALE INDICES

7.1 Introduction

The previous chapter provided an account of the main descriptive findings generated from the survey data, the present chapter aims at discussing more complex statistical methods, which were utilised in order to further investigate the relationships within the constructs of the conceptual model.

The analysis presented in the previous chapter show that most of the research model's constructs consisted of a large number of variables. Thus, initially correlation analysis was done in order to establish the potential relationships within each construct. As a next step, principal components analysis was done with selected variables so as to detect the underlying dimensions. Finally, additive scales were constructed from the derived factor analysis to facilitate the subsequent statistical analysis.

7.2 Correlation Analysis

Bivariate correlation analysis was carried out so as to establish any relationships between the variables within given constructs. By doing so, it was sought to find whether inter-correlations were high, which would have implied that there were sufficient grounds for pursing further statistical tests, such as component analysis.

Correlation matrixes were prepared using Pearson product-moment correlation coefficient, in preference to the Spearman's coefficient, to measure the extent of any relationship between each of the variables within the constructs that were measured by non-metric scales, such as board size, CEO duality and proportion of outside directors; and also those being measured with interval scales; that are job-related board diversity, board cohesiveness, decision-making and operations, and also board outcomes of control, service and strategic roles.

A review of the matrixes shows that there is a reasonable number of strong correlations amongst the variables within the respective constructs. Thus, in order to understand the underlying structure of the correlations, component analysis, a multivariate technique was employed. It was important to extract a number of factors, which in essence represent the hidden dimensions within each construct as captured from the original set of variables. The following section discusses this process for each of the constructs.

7.3 Components Analysis

For the purposes of our research, components analysis and more particularly principal components analysis was employed as the method for data reduction. This technique "considers the total variance and derives factors that contain small proportions of unique variance and, in some instances, error variance" (Hair *et al*, 2010). The technique first extracts the combination of variables, which explain the greatest amount of variance and then proceeds to combinations that account for smaller amounts of variance (Hair *et al*, 2010)". It is the researcher's task to decide how many factors to be extracted; and on that, the Kaiser's (1958)-normalization criterion was used, which prescribes that components with Eigen values over one are considered as significant and thus included in the final solution.

Table 7.1 summarizes the constructs, the number of factors extracted as a result of the application of the principal component analysis as well as the number of variables found to load on the respective factors.

Constructs	**Components**	**Factors**	**Number of Variables***
Board diversity	1	2	6
Board Human Capital	1	1	4(1)
Board Processes	3	5	24(2)
Board Outcomes	3	3	23
Total	*8*	*11*	*57*

*Number in parenthesis indicates the number of variables deleted

Table 7.1 Constructs Components and Variables

In the following sections the results of the principal components analysis for each one of the above constructs are discussed in detail. For clarity, each table in the section 7.3 exhibits the percentage of variance explained by the solution, variable communalities, factor loadings and the Eigen value attributable to the extracted factors.

7.3.1 Principal Components Analysis of Board Diversity Construct

Table 7.2 illustrates the principal components analysis of the board diversity construct. The configuration of the factor structure shows that two factors were found to explain 100.0% of the total variance. All the variables loaded and none was deleted.

Factors	Factor Loading		Communalities
	Job-diversity DIVJOB	**Affinity DIVAFF**	
Diversity-Educational Background	.820		.674
Diversity-Occupational Background	.887		.804
Diversity-Functional Positions	.834		.706
Diversity-Network Ties	.595		.597
Diversity-Religious Affinity		.775	.604
Diversity-Tribal Affinity		.752	.600
Eigen values	4.473	1.527	
% of variance explained	88.598	11.402	
Cumulative % of variance	88.598	100.000	

Rotation method: Varimax with Kaiser Normalization converged in 3 iterations.

Table 7.2: Principal Component analysis of Board Diversity

7.3.1.1 Factor 1: Job Diversity (DIVJOB)

This factor is composed of four variables that each loaded heavily onto a vector generating an Eigen value of 4.473. These variables are educational background; occupational background; functional positions; and network ties. The four variables have conceptual association and they make up the factor DIVJOB which has been labeled as job diversity.

The mean score for the DIVJOB scale is 5.61 (S.D. = 1.08) on the seven point scale employed which illustrates the high strength of this factor.

7.3.1.2 Factor 2: Affinity (DIVAFF)

This factor is composed of two variables that each loaded onto a vector generating an Eigen value of 1.527. These variables are religious affinity; and tribal affinity. There is a conceptual association of these two variables composing he DIVAFF factor which has been labeled as affinity.

The mean score for the DIVAFF scale is 4.04 (S.D. = 1.76) on the seven point scale employed which illustrates the medium strength of this factor.

7.3.2 Principal Components Analysis of Board Human Capital Measures

Table 7.3 illustrates the principal components analysis of the board human capital. The configuration of the factor structure show that only one factor explained 94.9% of the variance explained. Four of the five variables loaded and one was deleted. The deleted variable is 'board members knowledge of about risk matters'.

	Factor Loading	
Factors	**Human Capital Pro HUCPRO**	**Communalities**
Board members understanding of the business of the organization	.752	.674
Board members understanding of the industry in which the organization operates	.703	.769
Board members knowledge about financial matters	.659	.213
Board members knowledge about legal matters	.633	.664
Eigen values	4.747	
% of variance explained	94.947	
Cumulative % of variance	94.947	

Rotation method: Varimax with Kaiser Normalization.

Table 7.3: Principal component analysis of Board Human Capital

This factor contains four variables with high loadings indicating an Eigen value of 4.747. These variables are board members understanding of the business of the organization, the industry in which the organization operates financial matters, and legal matters. The factor, HUCPRO, is named human capital professional.

The mean score for the HUCPRO scale is 5.14 (S.D. = 1.54) on the seven point scale employed which illustrates the high strength of this factor.

7.3.3 Principal Components Analysis of Board Processes Measures

Tables 7.4, 7.5 and 7.6 illustrate the principal components analysis of the board processes construct. The board processes construct is comprised of board operations, board cohesiveness, and board decision-making. Board operations were measured by nine items, board cohesiveness was measured by seven items, and board decision-making was measured by ten items, making a total of twenty six items

7.3.3.1 Principal Components Analysis of Board Operations

Table 7.4 illustrates the principal components analysis of the board operations construct. The configuration of the factor structure shows that two factors were found to explain 96.317% of the total variance. Eight of the variables loaded and one was deleted. The deleted variable is 'quality of board's charter is high'.

	Factor Loading		
Factors	**Board Operations BOPOPE**	**Meeting Conduct BOPMEC**	**Communalities**
Board members have right quality of board papers	.790		.626
Board has a clear understanding of its roles and responsibilities	.675		.554
Chairperson leads the board well	.693		.551
Follow up responsibilities are well assigned	.748		.608
Board members have time to do their job well	.788		.624
The board papers are timely	.729		.531
Board meetings are well conducted		.587	.618
Board meetings run for too long		.868	.762
Eigen values	7.001	1.667	
% of variance explained	77.796	18.521	
Cumulative % of variance	77.796	96.317	

Table 7.4: Principal component analysis of board operations

7.3.3.1.1 Factor 1: Board Operations (BOPOPE)

This factor is composed of six variables that each loaded heavily onto a vector generating an Eigen value of 7.001. These variables are board members have right quality of board papers; board has a clear understanding of its roles and responsibilities; chairperson leads the board well; follow up responsibilities are well assigned; board members have the time to do their job well; and board papers are timely. The six variables have conceptual association and they make up the factor BOPOPE which has been labelled as board operations.

The mean score for the BOPOPE scale is 2.58 (S.D. = 0.66) on the seven point scale employed which illustrates the low strength of this factor.

7.3.3.1.2 Factor 2: Meeting Conduct (BOPMEC)

This factor is composed of two variables that each loaded onto a vector generating an Eigen value of 1.667. These variables are board meetings are well conducted; and board meetings run for too long. There is a conceptual association of these two variables composing the BOPMEC factor which has been labelled as meeting conduct.

The mean score for the BOPMEC scale is 5.78 (S.D. = 0.96) on the seven point scale employed which illustrates the high strength of this factor.

7.3.3.2 Principal Components Analysis of Board Cohesiveness

Table 7.5 illustrates the principal components analysis of the board cohesiveness. The configuration of the factor structure show that only one factor explained 93.092% of the variance explained. Six of the seven variables loaded and one was deleted. The deleted variable is 'members of the board socialize with each other outside board meetings'.

Factors	Factor Loading Board Cohesiveness BOPCOH	Communalities
Board and management periodically review how they are working together	.650	.423
Misunderstanding are rare between board and management	.743	.552
Board and management are able to resolve conflict between themselves constructively	.765	.585

Board members are able to resolve conflicts between themselves constructively	.806	.650
Board members respect and trust each other	.820	.673
Disagreement is dealt with openly in the board	.629	.396
Eigen values	6.516	
% of variance explained	93.092	
Cumulative % of variance	93.092	

Table 7.5: Principal component analysis of board cohesiveness

This factor contains six variables with high loadings indicating an Eigen value of 6.516. These variables are board and management periodically review how they are working together; misunderstanding are rare between the board and management; board and management are able to resolve conflict between themselves constructively; board members are able to resolve conflict between themselves constructively; board members respect and trust each other; and disagreement is dealt with openly in the board. The factor, BOPCOH, is named board cohesiveness.

The mean score for the BOPCOH scale is 5.40 (S.D. = 1.04) on the seven point scale employed which illustrates the high strength of this factor.

7.3.3.3 Principal Components Analysis of Board Decision-Making

The configuration of the factor structure show that two factors were found to explain 100.0% of the total variance as table 7.6 illustrates.

	Factor Loading		
Factors	**Meeting Structure BOPDMS**	**Directors' Conduct BOPDMC**	**Communalities**
Board has adequate notice of important issues	.710		.548
Board meeting have clearly constructed agenda	.757		.624
Important items are prioritized on board agenda	.695		.485
Board has trouble reaching conclusions	-.507		.388
Board's business conducted with openness and transparency	.799		.668
Board meeting are pervaded with integrity	.714		.586
Constructive discussions during board meetings	.774		.735
Directors clearly disagree on some		.719	.660

issues			
Directors openly challenge each others' opinion		.810	.658
Different director proposes different approaches		.678	.496
Eigen values	9.056	.945	
% of variance explained	90.548	9.452	
Cumulative % of variance	90.548	100.000	

Table 7.6: Principal component analysis of board decision-making

7.3.3.3.1 Factor 1: Meeting Structure (BOPDMS)

The first factor contains seven variables with high loadings and an Eigen value of 9.056. These variables are related to the structure and conduct of board meetings and there are the board has adequate notice of important issues to be discussed at board meetings; board meetings have clearly constructed agenda; important items are prioritised on board agenda. They also include the board has trouble reaching conclusions; the business of the board is conducted with openness and transparency; board meetings are pervaded with integrity; and discussions during board meetings are constructive.

The mean score for BOPDMS scale is 5.89 (S.D. = 1.05) on the seven point scale employed which shows a high level of agreement on these issues by the respondents.

7.3.3.3.2 Factor 2: Directors' Conduct (BOPDMC)

The second factor contained three variables with high loadings and an Eigen value of 0.945. These variables are directors' state clear disagreement with each other when discussing an issue; directors openly challenge each others' opinion; and different directors propose different approaches when discussing an issue.

The mean score for BOPDMC scale is 5.20 (S.D. = 1.46) on the seven point scale employed which shows a high level of agreement on these issues by the respondents.

7.3.4 Principal Components Analysis of Board Outcomes Measures

Tables 7.7, 7.8, and 7.9 illustrate the principal components analysis of the board outcomes construct. This construct is comprised of three dimensions; that is board control role, service role and strategic role. Board control role was measured by seven variables, service role by seven variables, and strategic role by nine variables.

7.3.4.1 Principal Components Analysis of Board Control Role (BOVERF)

The configuration of the factor structure shows that all the factors loaded and as such only one factor was found to explain 100.0% of the total variance as table 7.7 illustrates.

This factor is made up of seven variables with high loadings and an Eigen value of 6.999. These variables are board's oversight role in financial management, in financial system and procedures, in monitoring organizational performance, in monitoring the CEO and top management, in recruiting new directors, in fulfillment of legal obligations, and in ensuring accountability to stakeholders. The common theme from these seven variables which is captured by the name (oversight function) given to this factor.

The mean score for the BOVERF scale was 5.69 (S.D. = 1.04) on the seven point scale employed, which represented an overall high importance given to these issues by the respondents.

Factors	**Factor Loading** **Oversight Function BOVERF**	**Communalities**
Oversee the financial management of the organization	.844	.712
Ensure the organization has adequate financial systems and procedures	.897	.805
Monitor organizational performance and taking action where necessary	.869	.755
Monitor the organization's CEO and top management	.756	.571
Have procedure for recruiting new directors	.715	.511
Ensure that the organization fulfils its legal obligations	.832	.691
Ensure accountability to the organization's stakeholders	.802	.642
Eigen values	6.999	
% of variance explained	100.000	
Cumulative % of variance	100.000	

Table 7.7: Principal Components Analysis of Board Control Role

7.3.4.2 Principal Components Analysis of Board Service Role (BOSERF)

The configuration of the factor structure shows that all the factors loaded and as such only one factor was found to explain 100.0% of the total variance as table 6.8 illustrates.

This factor is made up of seven variables with high loadings and an eigen value of 6.999. These variables are board support and advice to management; review of board performance; representing interest of shareholders; act as link with important groups or organizations that deal

with the firm; represent the organization externally; help to raise funds or other resources for the organization; and help to generate business for the organization. The common theme from these seven variables which is captured by the name (service function) given to this factor.

The mean score for the BOSERF scale was 5.27 (S.D. = 1.16) on the seven point scale employed, which represented an overall high importance given to these issues by the respondents.

	Factor Loading	
Factors	**Service Role BOSERF**	**Communalities**
Support and advice management	.771	.594
Review of board performance and ensure it works well	.797	.636
Represent the interest of shareholders in the organization	.773	.593
Act as link with important groups or organizations that the firm deals with	.815	.664
Represent the organisation externally	.785	.616
Help to raise funds or other resources for the organization	.710	.505
Help to generate businesses for the organization	.751	.564
Eigen values	6.999	
% of variance explained	100.000	
Cumulative % of variance	100.000	

Table 7.8: Principal Components Analysis of Board Service Role

7.3.4.3 Principal Components Analysis of Board Strategic Role (BOSTRF)

The configuration of the factor structure shows that all the factors loaded and as such only one factor was found to explain 100.0% of the total variance as table 7.9 illustrates.

This factor is made up of nine variables with high loadings and an Eigen value of 9.0. These variables are how the board carries out the following functions: sets the organization's mission and values; reviews and decides the organization's strategic direction; determines and reviews company objectives; determines supports and enforces company policies; reviews and evaluates the company's SWOT analysis; determines corporate and financial strategic options; determines the business units' strategies and plans; ensures that the company's organization structure and capabilities are appropriate; and adapts performance measures to monitor the implementation of strategy. The common theme from these nine variables which is captured by the name (strategic function) given to this factor.

The mean score for the BOSTRF scale was 5.37 (S.D. = 1.58) on the seven point-scale employed, which represented an overall high importance given to these issues by the respondents

Factors	Factor Loading Strategic Function BOSTRF	Communalities
Sets the organization's mission and values	.749	.561
Reviews and decides the organization's strategic direction	.860	.739
Determines and reviews company objectives to match the mission and values	.895	.801
Determines supports and enforces company policies	.802	.643
Reviews and evaluates the company's SWOT analysis	.876	.768
Determines corporate and financial strategic options	.889	.791
Determines the business units' strategies and plans	.874	.763
Ensures that the company's organization structure and capabilities are appropriate	.902	.813
Adapts performance measures to monitor the implementation of strategy	.794	.630
Eigen values	9.000	
% of variance explained	100.000	
Cumulative % of variance	100.000	

Table 7.9: Principal Components Analysis of Board Strategic Role

7.3.5 Summary of the Principal Component Results

As it has been already discussed in Chapter 5 and in the previous section 7.3 principal component analysis is a procedure which aims to "reduce a set of *p* observed variables to a set of *m* new variables *(m<p)* Velicer and Jackson (1990)".

Constructs Factor Labels	Eigen value	% of Variance Explained
Board Diversity		100.000
Job	4.473	88.598
Diversity, DIVJOB	1.527	11.402
Affinity, DIVAFF		

Board Human Capital		94.947
Human Capital (Professional) HUCPRO	4.747	94.947
Board Processes		
Board Operations		100.000
Board Operation, BOPOPE	7.332	81.479
Board Meeting Conduct, BOPMEC	1.667	18.521
Board Cohesiveness		93.092
Board Cohesiveness, BOPCOH	6.516	93.092
Board Decision-Making		100.000
Board Meeting Structure, BOPDMS	9.056	90.548
Directors' Conduct, BOPDMC	0.945	9.452
Board Outcomes		
Board Control Role		
Board Oversight, BOVERF	6.999	100.000
Board Service Role		
Board Service Role, BOSERF	6.999	100.00
Board Strategic Role		
Board Strategic Role, BOSTRF	9.000	100.000

Table 7.10 Summary of Principal Components Analysis

In our study as illustrated in Tables 7.2 to 7.9 sixty (60) variables were subjected to principal component analysis, which produced eleven (11) distinct factors.

Table 7.10 summaries the Eigen values and the percentage of variance explained for each one of these factors.

7.4 Construction of Scale Indices from the Extracted Factors

As it has been previously argued, one of the aims of component or factor analysis is the reduction of data. For this to be achieved, three options have already been discussed: selecting surrogate variables, creating summated scales and computing factor scores. Summated scales were favoured due to their ability to reduce the measurement error, as well as to grasp the multiple aspects of a construct in a single measure (Hair *et al,* 2010). Thus, scale indices were constructed from the variables loading onto factors with coefficients greater than 0.50 (Crawford and Lomas, 1980). The

new composite measures were given the same label and notation as those given to the original factors discussed in section 7.3 and displayed in Table 7.10. The construction of the new composite measure was derived from the arithmetic mean of the corresponding variables' means.

7.5 Concluding Remarks

This chapter has documented the results of the application of the principal components analysis method, which was employed in order some common characteristics shared by one hundred-three variables to be identified. The extracted twenty-three factors with their respective Eigen values and the percentage of variance explained were presented in Table 7.10. In addition testing the new components in terms of reliability and validity was also an issue presented in this chapter. Finally new indices were computed from the derived components which are to be used in subsequent statistical analysis discussed in the following Chapter 8.

CHAPTER 8: CORRELATION AND REGRESSION ANALYSES

8.1 Introduction

This chapter presents the results from the correlation and regression analyses after the factor analysis, and subsequent review of the hypotheses.

8.2 Correlation Analysis Results of the new Variables

The factor analysis reduced the number of variables in each construct and eventually produced 11 variables plus the two other variables of CEO duality and board size, making it a total of 13 variables as shown in table 8.1.

Variable	Code	Mean	Std Deviation	N
Board Size	BOSIZE	10.620	3.562	233
Board Independence	BODIND	0.790	0.408	233
CEO Duality	CEODUL	0.030	0.182	233
Board Diversity				
Job Diversity	DIVJOB	5.920	1.151	233
Affinity	DIVAFF	4.080	1.913	233
Board Human Capital				
Human Capital Pro	HUCPRO	5.360	1.613	233
Board Processes				
Board Operations				
Board Operation	BOPOPE	5.820	1.185	233
Meeting Conduct	BOPMEC	4.340	1.944	233
Board Cohesiveness				
Board Cohesiveness	BOPCOH	5.920	1.354	233
Board Decision Making				
Meeting Structure	BOPDMS	6.020	1.237	233
Directors' Conduct	BOPDMC	4.890	1.825	233
Board Effectiveness (Board Outcomes)				

Board Control Role				
Board Oversight	BOVERF	5.840	1.152	233
Board Service Role				
Service Role	BOSERF	4.970	1.573	233
Board Strategic Role				
Strategic Role	BOSTRF	5.240	1.584	233

Table 8.1: Descriptive Statistics of New Variables

Apart from four variables (Affinity, Meeting conduct, Directors' conduct and Board service role), all the others have means with relatively high value (above 5) on a scale of 1 to 7.

Table 8.2 shows the correlation matrix for all the new variables (independent, mediator and dependent). For the correlation analysis the level of significance that is considered is 0.05. The results show that CEO duality has positive relationship with board operation but it is not significant. However, it has negative relationship with board meeting conduct, which is one of the factors of board operation, but the relationship is not significant. CEO duality has negative relationship with board cohesiveness but it is not significant. As regards board decision making, CEO duality is positively related to the two factors, while it is significant with directors' conduct at meetings (BOPDMC) at 5% significant level, it is not significant with board meeting structure (BOPDMS). This implies that for boards of quoted companies in Nigeria CEO duality will positively impact the quality of decision making, particularly their conduct, but does not have any significant impact on board cohesiveness and operations.

The results also show that there are no significant correlations between board size and board processes mediator variables. However, the relationships with board decision making and board cohesiveness are negative, while the relationship with board operation is positive. This means that the larger the board size the less cohesive the board will be and the slower the decision making, even though the results are not significant.

As regards board independence, the results show that the relationships with board operation, cohesiveness and decision making are negative and not significant. This implies that high level of board independence is likely to slow down decision making, reduce board cohesiveness and adversely the effectiveness of board's administrative operations.

The results show that board job diversity is positively related to board operation, board cohesiveness and board decision making. However, it is significant at 1% level with board cohesiveness (BOPCOH), board operation (BOPOPE) and board meeting structure (BOPDMS), while it is not significant with board meeting conduct (BOPMEC) and directors' conduct at meeting (BOPDMC). This implies that the more diverse the board is the more cohesive it will be, the more efficient will the board operation be and the better the decision making. Most researchers argue that the more diverse the board is the less cohesive it will become. In an emerging market like Nigeria board diversity will produce directors that are expert in their fields and so boards could defer to these experts at meetings and this could like to a preserved cohesiveness. More diverse boards will insist on better administrative support in terms of quality and timeliness of board papers, structure and duration of board meetings.

As regards board human capital, it was found to be positively related to board operation, board cohesiveness and board decision making. However, it is significant at 1% level with board cohesiveness (BOPCOH), board operation (BOPOPE), and board meeting structure (BOPDMS), while it is not significant with board meeting conduct (BOPMEC) and directors' conduct at meeting (BOPDMC). This implies that the higher the level of human capital on the board the more cohesive the board will be, the more efficient will the board operation be and the better the decision making. Most researchers argue that the level of human capital on the board, the less cohesive it will become. In an emerging market like Nigeria high level of human capital will ensure knowledge directors that understand their industry and business and so could add value to the firm and lead to fast decision making and board cohesiveness. Boards with high level of human capital will insist on better administrative support in terms of quality and timeliness of board papers, and better structured board meetings.

As regards the relation between board characteristics and board task outcomes of board control, service and strategic role, the results show that CEO duality is positively related to board control, service and strategic roles but not significant. Board independence was found to be negatively related to board control, service and strategic roles but not significant. This implies that board independence is likely to have adverse effect on the board's ability to perform its control, service and strategic roles effectively. This is contrary to most researchers that found that the more independent a board is the more effective it will be in its control, service and strategic roles as the directors are not likely to be influenced by

management. Board size was found to have positive relationship with board control and strategic roles and negative relationship with service role, but none of these relationships is significant. The negative relationship between board size and board service role goes against main stream research findings that show that the larger the board the more effective it is in its service role as they are more directors that could be of use to management. In emerging markets, like Nigeria, where it is difficult to get quality directors it appears that the larger the board the less effective it is in its advisory role as it might not have the right directors that could be of help.

Board job diversity was found to be positively related to board control at 1% significant level and positively related to service and strategic roles at 5% significant level. This shows that a board with high level of diversity is likely to have directors with the right background and exposure to be effective in their control, service and strategic roles. Board human capital was found to have positive relationship with board control, service and strategic roles and at 1% significant level. This shows that a board with high level of human capital is likely to have directors with the right skills, competence and experience to be effective in their control, service and strategic roles.

As regards the effect of board processes on board task outcomes of board control, service and strategic roles, the results show that board operation is positively related to board control, service and strategic roles at 1% significant level. However, board meeting conduct was found to be positively related to board control, service and strategic roles but it is only significant with the control role at 5%. This implies that a board that has efficient operations in terms of quality and timeliness of board papers, clear understanding of its roles and responsibilities, well assigned follow up responsibilities, leadership style of the chairman and that the directors have time to do their job, is likely to perform its control, service and strategic roles more effectively. It also means that a board that a well conducted meeting that spends adequate time at meetings is likely to perform its control run more effectively than the other two roles.

Board cohesiveness was found to have positive relationship with board control, service and strategic roles and at 1% significant level. This implies that a cohesive board is likely to be more effective in the performance of its control, service and strategic roles as the directors will perform in harmony and towards the same objectives.

As regards the relationship between board decision making and board control, service and strategic roles, board meeting structure was found to have positive relationship with control, service and strategic roles at 1% level. However, directors' conduct at meetings was found to be positively related to board control, service and strategic roles but is significant at 1% level to only service and strategic roles. This implies that a board that has well-structured meeting, with well prioritised agenda, discussions conducted with openness and transparency, have no trouble in reaching decisions, and meeting pervaded with integrity, is likely to be more effective in its control, service and strategic roles. It also implies that the way directors' conduct themselves in meetings will have more impact on their control and strategic roles and less on their service role.

The results also show that the three board task outcomes of board strategic role (BOSTRF), board service role (BOSERF) and board control (BOVERF) roles are positively related amongst themselves at 1% significant level. This implies that the three board roles are interrelated and so for board effectiveness, a board must perform all three effectively.

The overall results show that board processes have more impact than board characteristics on board task outcomes of board control, service and strategic roles and these board outcomes determine board effectiveness. The correlation results therefore reveal that in Nigeria processes factors are more important than structural factors in determining board effectiveness.

		CEODUL	BODIND	BOSIZE	DIVJOB	DIVAFF	HUCPRO	BOPOPE	BOPMEC	BOPCOH	BOPDMS	BOPDMC	BOVERF	BOSERF	BOSTRF
CEODUL	Pearson Correlation	1													
	Sig. (2-tailed)														
BODIND	Pearson Correlation	**-.134***	1												
	Sig. (2-tailed)	.041													
BOSIZE	Pearson Correlation	**-.205****	.001	1											
	Sig. (2-tailed)	.002	.982												
DIVJOB	Pearson Correlation	.095	-.082	.029	1										
	Sig. (2-tailed)	.146	.210	.657											
DIVAFF	Pearson Correlation	.029	.115	.041	**.148***	1									
	Sig. (2-tailed)	.655	.081	.533	.024										
HUCPRO	Pearson Correlation	-.056	-.056	-.018	**.341****	.050	1								
	Sig. (2-tailed)	.392	.396	.779	.000	.450									
BOPOPE	Pearson Correlation	.048	-.104	.036	**.286****	.097	**.333****	1							
	Sig. (2-tailed)	.466	.115	.582	.000	.139	.000								
BOPMEC	Pearson Correlation	-.021	.010	-.074	.068	.037	.126	.122	1						
	Sig. (2-tailed)	.747	.880	.261	.298	.575	.055	.063							
BOPCOH	Pearson Correlation	-.058	-.070	-.005	**.272****	.097	**.317****	**.364****	**.192****	1					
	Sig. (2-tailed)	.375	.287	.944	.000	.139	.000	.000	.003						
BOPDMS	Pearson Correlation	.016	-.128	-.028	**.234****	.005	**.351****	**.458****	**.182****	**.516****	1				

	Sig. (2-tailed)	.810	.052	.676	.000	.942	.000	.000	.005	.000					
BOPDMC	Pearson Correlation	.141*	-.094	.056	.096	.068	.023	.161*	-.008	.167*	.295**	1			
	Sig. (2-tailed)	.032	.152	.394	.142	.302	.724	.014	.906	.010	.000				
BOVERF	Pearson Correlation	.109	-.018	.009	.295**	.047	.437**	.598**	.150*	.367**	.526**	.207**	1		
	Sig. (2-tailed)	.098	.782	.890	.000	.477	.000	.000	.022	.000	.000	.001			
BOSERF	Pearson Correlation	.093	-.015	-.006	.135*	.074	.231**	.280**	.111	.341**	.275**	.125	.345**	1	
	Sig. (2-tailed)	.156	.818	.932	.040	.262	.000	.000	.090	.000	.000	.056	.000		
BOSTRF	Pearson Correlation	.061	-.030	.053	.162*	.061	.372**	.307**	.073	.270**	.411**	.168*	.579**	.494**	1
	Sig. (2-tailed)	.351	.654	.425	.013	.355	.000	.000	.267	.000	.000	.010	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

Sample size N = 233

Table 8.2 Correlation matrix for all the variables (independent, mediator and dependent)

8.3 Summary of Hypotheses Testing on Correlation Results

Hypotheses	Regression Analysis Results
Board size and speed of decision-making are positively related.	Negative relationship that is not significant
Board size is negatively related to board cohesiveness.	Positive relationship that is not significant
Board size and efficiency of operations are positively related	Positive relationship that is not significant
Board CEO Duality is positively correlated to board decision-making speed	Positively related at 5% significant level
Board CEO Duality is positively correlated to cohesiveness	Negative relationship that is not significant
Board CEO Duality is positively correlated to board operations efficiency	Positive relationship that is not significant
Board independence is negatively correlated to board decision-making speed	Negative relationship that is not significant
Board independence is negatively correlated to cohesiveness	Positive relationship that is not significant
Board independence is positively correlated to board operations efficiency	Negative relationship that is not significant
The degree of job-related diversity on the board is negatively related to the speed of decision-making	Positive relationship that is not significant
The degree of job-related diversity on the board is negatively related to the board's cohesiveness	Positively related at 5% significant level
Board job-related diversity is positively correlated with board operations efficiency.	Positively related at 1% significant level
Level of human capital on the board is positively correlated to board decision-making speed.	Positively related at 1% significant level
Level of human capital on the board is negatively correlated to board cohesiveness.	Positively related at 5% significant level
Level of human capital on the board is positively correlated to board operations efficiency.	Positively related at 1% significant level
Speed of Board decision-making will be positively related to Board Oversight Role Board Service Role Board Strategic Role	Positively related at 1% significant level Positive relationship that is not significant Positively related at 1% significant level
The effect of cohesiveness on Board Oversight Role will be positive Board Service Role will be positive Board Strategic Role will be positive.	Positive relationship that is not significant Positively related at 1% significant level Positive relationship that is not significant
The effect of efficient board operations on Board Oversight Role Board Service Role Board Strategic Role will be positive.	Positively related at 1% significant level Positively related at 5% significant level Positively related at 5% significant level

Table 8.3: Summary of Hypotheses Testing on Correlation Results

8.4 Regression Analysis Results

Figure 8.1 below shows the relationships between the independent variables, dependent variables and the mediator variables. The effects of the independent variables on the dependent variables are better measured not by correlation coefficients but by unstandardized regression coefficients (Duncan, 1975). The new theoretical model assumes a three variable system such that there are two casual paths feeding into the outcome variable; the direct impact of the independent variable (path c), the impact of the mediator (path b), and the impact of the independent variable on the mediator (path a).

Regression analyses were carried out between the independent variables on each of the mediator variables, between the mediator variable on each of the dependent variable, and finally between the combined independent and mediator variables on each of the dependent variables.

The acceptable levels of the various coefficients for the various regression analyses are: significance level should be 0.05 or less, collinearity statistics VIF should be less than 10, and the adjusted R square figure that is higher than 0.30

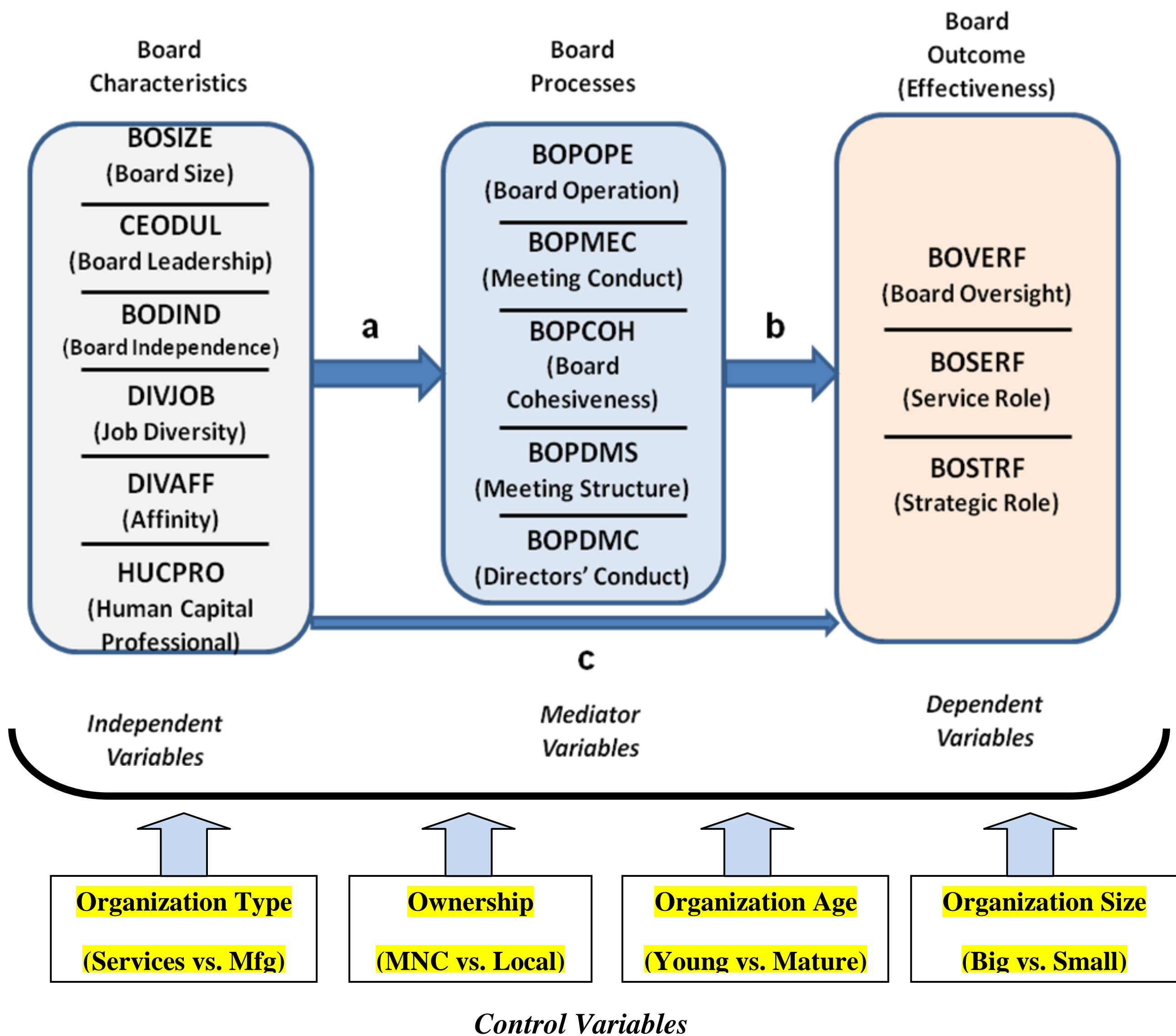

Figure 8.1: New Theoretical Framework

8.4.1 Regression Analysis Results – Mediator Variables on Independent variables

Table 8.4 shows the regression of Board Operations (BOPOPE) on board characteristics. Only three of the variables are significant, board independence (BODIND) at .05 significance level; job related diversity (DIVJOB) and professional human capital (HUCPRO), at 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.349	.457		7.2328	.000		
	CEODUL	.315	.408	.048	.772	.441	.935	1.069
	BODIND	-.657	.314	-.127	-2.092	.038	.991	1.009
	BODSIZ	.016	.021	.049	.793	.429	.950	1.052
	DIVJOB	.186	.068	.181	2.753	.006	.851	1.175
	DIVAFF	.039	.038	.062	1.013	.312	.972	1.029
	HUCPRO	.199	.048	.271	4.170	.000	.873	1.145

a. Dependent Variable: BOPOPE
Adjusted R-Square is 0.146

Table 8.4: Regression of Board Operation on Board Characteristics

The regression equation is:

BOPOPE = 3.349 – 0.657*BODIND + 0.186*DIVJOB + 0.199*HUCPRO

This implies that board operation is improved with lower level of board independence; higher level of diversity and professional human capital on the board. The relatively low adjusted R square figure suggests that this relationship is a weak one.

Table 8.5 shows the regression of Board Meeting Conduct (BOPMEC) on board characteristics. None of the variables is significant at both 0.05 and 0.01 significance levels. This implies that the conduct of board meeting is not significantly influenced by any of the board characteristics.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.670	.812		4.521	.000		
	CEODUL	-.379	.724	-.036	-.523	.602	.935	1.069
	BODIND	.047	.558	.006	.084	.933	.991	1.009
	BODSIZ	-.045	.037	-.082	-1.212	.227	.950	1.052
	DIVJOB	.054	.120	.032	.451	.650	.851	1.175
	DIVAFF	.032	.068	.031	.461	.646	.972	1.029
	HUCPRO	.132	.085	.110	1.562	.120	.873	1.145

a. Dependent Variable: BOPMEC
Adjusted R-Square is 0.002

Table 8.5: Regression of Board Meeting Conduct on Board Characteristics

Table 8.6 shows the regression of Board Cohesiveness (BOPCOH) on board characteristics. Only two of the variables, job related diversity (DIVJOB) and professional human capital (HUCPRO) are significant at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.445	.531		6.490	.000		
	CEODUL	-.498	.473	-.067	-1.052	.294	.935	1.069
	BODIND	.206	.365	.035	.565	.573	.991	1.009
	BODSIZ	-.009	.024	-.023	-.368	.713	.950	1.052
	DIVJOB	.219	.079	.186	2.781	.006	.851	1.175

	DIVAFF	.041	.044	.058	.928	.354	.972	1.029
	HUCPRO	.207	.055	.247	3.744	.000	.873	1.145

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.117

Table 8.6: Regression of Board Cohesiveness on Board Characteristics

The regression equation is:

BOPCOH = 3.445 + 0.219*DIVJOB + 0.207*HUCPRO

This implies that board cohesiveness is enhanced with higher level of diversity and professional human capital on the board. The relatively low adjusted R square figure suggests that this relationship is a weak one.

Table 8.7 shows the regression of Board Meeting Structure (BOPDMS) on board characteristics. Only two of the variables are significant, job related diversity (DIVJOB) at 0.05 significance level, and professional human capital (HUCPRO) at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.064	.484		8.391	.000		
	CEODUL	.102	.432	.015	.235	.814	.935	1.069
	BODIND	-.249	.333	-.046	-.748	.455	.991	1.009
	BODSIZ	-.007	.022	-.019	-.307	.759	.950	1.052
	DIVJOB	.144	.072	.134	2.003	.046	.851	1.175
	DIVAFF	-.017	.040	-.027	-.427	.669	.972	1.029
	HUCPRO	.235	.051	.306	4.647	.000	.873	1.145

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.119

Table 8.7: Regression of Board Meeting Structure on Board Characteristics

The regression equation is:

BOPDMS = 4.064 + 0.144*DIVJOB + 0.235*HUCPRO

This implies that structure of board meetings is positively influenced by higher level of diversity and professional human capital on the board. The relatively low adjusted R square figure suggests that this relationship is a weak one.

Table 8.8 shows the regression of Directors' Conduct (BOPDMC) on board characteristics. Only one of the variables, CEO duality (CEODUL) is significant at the 0.05 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.499	.755		4.632	.000		
	CEODUL	1.464	.673	.146	2.175	.031	.935	1.069
	BODIND	-.637	.519	-.080	-1.229	.220	.991	1.009
	BODSIZ	.044	.034	.086	1.283	.201	.950	1.052
	DIVJOB	.113	.112	.071	1.011	.313	.851	1.175
	DIVAFF	.052	.063	.055	.829	.408	.972	1.029
	HUCPRO	.006	.079	.006	.079	.937	.873	1.145

a. Dependent Variable: BOPDMC
Adjusted R-Square is 0.017

Table 8.8: Regression of Board Directors' Conduct on Board Characteristics

The regression equation is:

BOPDMC = 3.496 + 1.464*CEODUL

This implies that the conduct of directors is significantly influenced by CEO duality. However, the relatively low adjusted R square figure suggests that this relationship is a weak one.

8.4.2 Regression Analysis Results – Dependent Variables on Mediator Variables

Table 8.9 shows the regression of Board Oversight Role (BOVERF) on board processes of board operation (BOPOPE), conduct of board meeting (BOPMEC), board cohesiveness (BOPCOH), structure of board meeting (BOPDMS) and directors' conduct (BOPDMC). Only two of the variables, board operation (BOPOPE) and structure of board meeting (BOPDMS), are significant at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.299	.358		3.628	.000		
	BOPOPE	.428	.055	.441	7.785	.000	.766	1.305
	BOPMEC	.022	.030	.037	.729	.467	.949	1.054
	BOPCOH	.041	.050	.048	.814	.416	.704	1.420
	BOPDMS	.260	.059	.279	4.398	.000	.611	1.637
	BOPDMC	.029	.033	.046	.887	.376	.908	1.102

a. Dependent Variable: BOVERF

Adjusted R Square is 0.431

Table 8.9: Regression of Board Oversight Role on Board Processes

The regression equation is:

BOVERF = 1.299 + 0.428*BOPOPE + 0.260*BOPDMS

This implies that board oversight function is improved with more efficient board operation and structure of board meeting. The relatively high adjusted R square figure suggests that this relationship is a strong one.

Table 8.10 shows the regression of Board Service Role (BOSERF) on board processes of board operation (BOPOPE), conduct of board meeting (BOPMEC), board cohesiveness (BOPCOH), structure of board meeting (BOPDMS) and directors' conduct (BOPDMC). Only two of the variables are significant, board operation (BOPOPE) at 0.05 significance level, and board cohesiveness (BOPCOH) at 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.366	.604		2.262	.025		
	BOPOPE	.203	.093	.153	2.185	.030	.766	1.305
	BOPMEC	.029	.051	.036	.570	.569	.949	1.054
	BOPCOH	.278	.085	.239	3.280	.001	.704	1.420
	BOPDMS	.080	.100	.063	.802	.423	.611	1.637
	BOPDMC	.037	.055	.042	.661	.510	.908	1.102

a. Dependent Variable: BOSERF

Adjusted R Square is 0.132

Table 8.10: Regression of Board Service Role on Board Processes

The regression equation is:

BOSERF = 1.366 + 0.203*BOPOPE + 0.278*BOPCOH

This implies that board service function is more effective with better board operation and increase in board cohesiveness. The low level of the adjusted R square figure suggests that this relationship is a relatively weak one.

Table 8.11 shows the regression of Board Strategic Role (BOSTRF) on board processes of board operation (BOPOPE), conduct of board meeting (BOPMEC), board cohesiveness (BOPCOH), structure of board meeting (BOPDMS) and directors' conduct

(BOPDMC). Only two of the variables are significant, board operation (BOPOPE) at 0.05 significance level, and structure of board meeting (BOPDMS) at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.238	.593		2.087	.038		
	BOPOPE	.187	.091	.140	2.055	.041	.766	1.305
	BOPMEC	-.008	.050	-.010	-.164	.870	.949	1.054
	BOPCOH	.065	.083	.055	.778	.437	.704	1.420
	BOPDMS	.393	.098	.307	4.013	.000	.611	1.637
	BOPDMC	.040	.054	.046	.735	.463	.908	1.102

a. Dependent Variable: BOSTRF

Adjusted R Square is 0.173

Table 8.11: Regression of Board Strategic Role on Board Processes

The regression equation is:

BOSTRF = 1.238 + 0.187*BOPOPE + 0.393*BOPDMS

This implies that board strategic function is more effective with more efficient board operations and better structure of board meetings. The low level of the adjusted R square figure suggests that this relationship is a relatively weak one.

8.4.3 Regression Analysis Results – Dependent Variables on combination of Independent and Mediator Variables

Table 8.10 shows the regression of Board Oversight Role (BOVERF) on combination of board characteristics and board processes. Only three of the variables are significant, board professional human capital (HUCPRO), board operation (BOPOPE), and structure of board meeting (BOPDMS) at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.901	.429		2.110	.037		
	CEODUL	.600	.319	.095	1.880	.061	.904	1.106
	BODIND	.020	.245	.004	.081	.936	.961	1.041
	BODSIZ	.008	.016	.024	.481	.631	.932	1.073
	DIVJOB	.039	.054	.039	.727	.468	.808	1.238
	DIVAFF	-.011	.030	-.019	-.383	.702	.955	1.047
	HUCPRO	.149	.039	.208	3.776	.000	.761	1.314
	BOPOPE	.376	.056	.387	6.762	.000	.704	1.419
	BOPMEC	.019	.029	.033	.657	.512	.942	1.062
	BOPCOH	.018	.050	.022	.366	.714	.666	1.501
	BOPDMS	.218	.059	.234	3.722	.000	.585	1.709
	BOPDMC	.032	.033	.051	.982	.327	.867	1.154

a. Dependent Variable: BOVERF

Adjusted R Square is 0.464

Table 8.12: Regression of Board Oversight Role on combination of Board Characteristics and Board Processes

The regression equation is:

BOVERF = 0.901 + 0.149*HUCPRO + 0.376*BOPOPE +

0.218*BOPDMS

This regression equation shows that with the combination board operations and board decision making still have positive impact on board oversight. In addition, board human capital also has positive impact on board oversight role. The relatively high adjusted R square figure indicates that the relationship is strong.

Table 8.13 shows the regression of Board Service Role (BOSERF) on combination of board characteristics and board processes. Only two of the variables are significant, board operation (BOPOPE) at 0.05 significance level, and board cohesiveness (BOPCOH) at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.193	.744		1.604	.110		
	CEODUL	.945	.553	.110	1.711	.089	.904	1.106
	BODIND	.636	.425	.093	1.494	.137	.961	1.041
	BODSIZ	.005	.028	.012	.192	.848	.932	1.073
	DIVJOB	-.053	.093	-.039	-.570	.569	.808	1.238
	DIVAFF	.020	.051	.024	.381	.703	.955	1.047
	HUCPRO	.106	.068	.109	1.558	.121	.761	1.314
	BOPOPE	.189	.096	.142	1.958	.052	.704	1.419
	BOPMEC	.026	.051	.033	.521	.603	.942	1.062
	BOPCOH	.264	.087	.227	3.040	.003	.666	1.501
	BOPDMS	.062	.101	.049	.611	.542	.585	1.709
	BOPDMC	.035	.056	.041	.625	.532	.867	1.154

a. Dependent Variable: BOSERF

Adjusted R-Square is 0.137

Table 8.13: Regression of Board Service Role on combination of Board Characteristics and Board Processes

The regression equation is:

BOSERF = 1.193 + 0.189*BOPOPE + 0.264*BOPCOH

This regression equation shows that the board characteristics factors do not have any significant impact on board service role with the combination. Board service role was found

to be positively impacted by board operations and board cohesiveness but the low adjusted R square figure indicates that the relationship is weak.

Table 8.14 shows the regression of Board Strategic Role (BOSTRF) on combination of board characteristics and board processes. Only two of the variables, board professional human capital (HUCPRO) and structure of board meeting (BOPDMS) are significant at the 0.01 significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.660	.715		.923	.357		
	CEODUL	.688	.531	.079	1.296	.196	.904	1.106
	BODIND	-.152	.409	-.022	-.372	.710	.961	1.041
	BODSIZ	.033	.027	.075	1.243	.215	.932	1.073
	DIVJOB	-.053	.089	-.038	-.591	.555	.808	1.238
	DIVAFF	.029	.049	.035	.583	.560	.955	1.047
	HUCPRO	.256	.066	.261	3.912	.000	.761	1.314
	BOPOPE	.108	.093	.080	1.161	.247	.704	1.419
	BOPMEC	-.012	.049	-.014	-.235	.814	.942	1.062
	BOPCOH	.034	.083	.029	.411	.681	.666	1.501
	BOPDMS	.338	.097	.264	3.465	.001	.585	1.709
	BOPDMC	.044	.054	.051	.813	.417	.867	1.154

a. Dependent Variable: BOSTRF
Adjusted R-Square is 0.214

Table 8.14: Regression of Board Strategic Role on combination of Board Characteristics and Board Processes

The regression equation is:

BOSTRF = 0.660 + 0.256*HUCPRO + 0.338*BOPDMS

This regression equation shows that with the combination, the impact of board operations is no longer significant only board decision-making is the only process factor that has significant impact on board strategic role. However, board professional human capital was found to have significant impact on board strategic role. The relatively low figure of adjusted R square implies that these relationships are weak.

8.5 Summary of Hypotheses Testing on Regression Results

Hypotheses	Regression Analysis Results
Board size and speed of decision-making are positively related.	Negative relationship that is not significant
Board size is negatively related to board cohesiveness.	Negative relationship that is not significant
Board size and efficiency of operations are positively related	Positive relationship that is not significant
Board CEO Duality is positively correlated to board decision-making speed	Positively related at 5% significant level
Board CEO Duality is positively correlated to cohesiveness	Negative relationship that is not significant
Board CEO Duality is positively correlated to board operations efficiency	Positive relationship that is not significant
Board independence is negatively correlated to board decision-making speed	Negative relationship that is not significant
Board independence is negatively correlated to cohesiveness	Positive relationship that is not significant
Board independence is positively correlated to board operations efficiency	Negative relationship that is not significant
The degree of job-related diversity on the board is negatively related to the speed of decision-making	Positive relationship that is not significant
The degree of job-related diversity on the board is negatively related to the board's cohesiveness	Positively related at 5% significant level
Board job-related diversity is positively correlated with board operations efficiency.	Positively related at 1% significant level
Level of human capital on the board is positively correlated to board decision-making speed.	Positively related at 1% significant level
Level of human capital on the board is negatively correlated to board cohesiveness.	Positively related at 1% significant level
Level of human capital on the board is positively correlated to board operations efficiency.	Positively related at 1% significant level
Speed of Board decision-making will be positively related to Board Oversight Role Board Service Role Board Strategic Role	 Positively related at 1% significant level Positive relationship that is not significant Positively related at 1% significant level
The effect of cohesiveness on Board Oversight Role will be positive Board Service Role will be positive	 Positive relationship that is not significant Positively related at 1% significant level

Board Strategic Role will be positive.	Positive relationship that is not significant
The effect of efficient board operations on Board Oversight Role Board Service Role Board Strategic Role will be positive.	 Positively related at 1% significant level Positively related at 5% significant level Positively related at 5% significant level

Table 8.15: Summary of Hypotheses testing on Regression Results

The regression results show a similar pattern to the correlation results. The overall results show that board processes have more impact than board characteristics on board task outcomes of board control, service and strategic roles and these board outcomes determine board effectiveness. The regression results therefore reveal that in Nigeria processes factors are more important than structural factors in determining board effectiveness.

8.6 Review of the Hypotheses

The researcher's theoretical framework which links board effectiveness to board characteristics with board processes as mediator led to the development of hypotheses that were tested with the correlation and regression analyses that were performed on the data.

Hypotheses 1a, b and c predicted that board size is related to board decision-making, and board operations; but negatively related to board cohesiveness. Correlation results support the hypotheses but they are not significant. However, regression results do not support the hypotheses. .

Hypotheses 2a, b, and c predicted that board CEO duality is positively related to board decision-making, cohesiveness and operations. Correlation and regression results support only the hypothesis that 'CEO duality is positively related to board decision making' at a significant level.

Hypotheses 3a and b predicted that board independence is negatively related to board decision-making and cohesiveness and positively related to board operation efficiency. Correlation and regression results do not support these hypotheses.

Hypotheses 4a predicted that job-related diversity is negatively related to board decision-making. Correlation results show that job-related diversity is positively related to

board decision making at a significant level, which is the opposite of the hypothesis, and the regression results also support the positive relationship at a significant level.

Hypotheses 4b predicted that job-related diversity is negatively related to board cohesiveness. Correlation and regression results show that job-related diversity is positively related to board cohesiveness at a significant level, which is a reverse of the hypothesis.

Hypotheses 4c predicted that job-related diversity is positively related to board operation. Correlation and regression results show that job-related diversity is positively related to board operation at a significant and as such supports the hypothesis.

Hypothesis 5a predicted that board human capital is positively related with board decision-making. Correlation and regression results show that board human capital is positively related to board decision-making at a significant level and as such support the hypothesis.

Hypothesis 5b predicted that board human capital is negatively related with board cohesiveness. Correlation and regression results show that board human capital is positively related to board cohesiveness at a significant level and as such is a reverse of the hypothesis.

Hypothesis 5c predicted that board human capital is positively related with board operation. Correlation and regression results show that board human capital is positively related to board operation at a significant level and as such supports the hypothesis.

Hypothesis 6a predicted that board decision-making is positively associated with board effectiveness (board control, service and strategic roles). Correlation results support this hypothesis at significant level. While regression results support part (board control and strategic roles) of the hypothesis at a significant level

Hypothesis 6b predicted that board cohesiveness is positively associated with board effectiveness (board control, service and strategic roles). Correlation results support this hypothesis at a significant level. However, regression result only supports part (board service role) at a significant level.

Hypothesis 6c predicted that board operation is positively associated with board effectiveness (board control, service and strategic roles). Correlation and regression results support this hypothesis at a significant level.

In reviewing these results, the only endogeneity test that was carried out is the Durban – Watson test. This showed figures that are between 1.5 and 2.5, therefore suggesting that they are no serial correlations and as such no serious endogeneity problems. However, since the model used is considered exploratory and not confirmatory the researcher was not particularly concerned about endogeneity problem. In future work, the researcher plans to conduct confirmatory study where instrumental proxies could be obtained to deal with probable endogeneity issues.

8.7 Conclusion

The results confirm some of the hypotheses, show a reverse relationship for some, and did not confirm others. The confirmed hypotheses show that board processes have significant impact on the performance of boards.

CHAPTER 9: DISCUSSIONS, RECOMMENDATIONS AND CONCLUSION

9.1 Introduction

This chapter provides a discussion of the results and summary of the key findings of this study. Limitations of the research along with contributions of this study are discussed. Finally, suggested directions for further research are offered.

9.2 Discussions

This thesis examined the effect of board characteristics on board processes, board processes on board effectiveness, and then effect of board characteristics on board effectiveness through intervening variables of board processes. The researcher conducted his analysis on firms listed in the Nigerian stock exchange. To understand the impact of each of the board variables, the researcher used some board related theories such as agency theory, stewardship theory, resource dependence theory, and stakeholder theory. He argued that some board characteristics such as board size, board leadership (CEO duality), board independence, board job-related diversity and board human capital have positive impact on board processes, which in turn have positive impact on board performance. Board performance in this case means how well the board performs its roles of control of management, service to management and working with management in strategy development. Zahra and Pearce (1989) opined that the effectiveness of the board will result in better subsequent firm performance.

The control task is about the oversight function of the board to ensure that the company has proper internal control processes and that management abides by them. The service role is more advisory, such as mentoring and supporting the management, and also networking on behalf of the company. The strategic role requires board directors to be involved in the strategy development and monitoring of the implementation.

The empirical analyses provide interesting results. Board decision making was found to be positively related to board effectiveness at significant levels, which means that the board's performance as regards its control, service and strategic roles are dependent on the quality of its decision making. Zona and Zattoni (2007) in their study found that the

effectiveness of boards of directors is strongly influenced by group-level processes such as open and critical debate (cognitive conflict), which affects the quality of decision making.

Board cohesiveness was found to be related to board effectiveness at significant levels, this means that high degree of board cohesiveness will impact on the board's ability to performance its control, service and strategic roles effectively. A cohesive board is one that works as a strong team. Sharon Kemp (2010) argued that teamwork is seen as important to the board process and enhance board effectiveness, and it was mentioned by ninety percent (90%) of board members in her study. Since board members are confronted with complex and ambiguous strategic decisions, they too are required to work together by sharing information, resources, and decisions (Hambrick, 2007). Boards that are unable to work as a team end up less able to rein in and control powerful CEOs. Without a team approach boards are also likely to be less effective at providing the advice and counsel to top management.

Board operations was found to be have a positive influence on board effectiveness at a significant level, this implies that a board with good operations (support services) will perform its control, services and strategic roles more effectively. Good board operations will ensure quality and timely board papers, follow up responsibilities that are well defined, clear understanding of directors' roles and responsibilities and board meetings that are well conducted.

The researcher also found that board size is not significantly associated with any of the mediator variables of board decision-making, cohesiveness, and operations. It was also found that can then be deduced by proxy that board size does not have an impact on board effectiveness in the Nigerian environment. If board effectiveness is used as a proxy for firm performance then this finding is consistent with many other studies that examined the effect of board size on firm performance. For example, Randoy and Jenssen (2004) and Zahra and Stanton (1988), found that board size was not significantly associated with financial performance. However, these results are inconsistent with some other studies, which found that board size was significantly associated with firm performance measures, for example, Bozec, (2005); Cole et al. (2001) and Guest (2008).

Board independence and CEO duality were not found to have any significant relationship with board processes, and hence no effect on board effectiveness in the study. Randoy and Jenssen (2004) found that board independence is not associated with firm

performance based on accounting measures. Bhagat and Black (2002) also failed to show that greater board independence leads to improve better firm performance. According to Adams, Hermalin and Weisbach (2009), there is no robust empirical evidence that board independence improves firm performance.

As a result of the recent corporate governance scandals, regulators and reformers all over the world are increasingly demanding that the role of the CEO be separated from that of the chair (Wilson, 2008; Lorsch and Zelleke, 2005). It is claimed that boards undertake more effective monitoring when the chair is independent. CEOs become more effective leaders when the positions of chair and CEO are separated because it allows them to concentrate on the firm's operations while empowering the board (Wilson, 2008). However, our results did not show any significant relationship between CEO duality and board processes and indirectly no significant relationships with board control, service and strategic roles.

A few recent papers also challenge the notion of independence, and state that boards that are independent on paper can be ineffective monitors when the directors are socially or professionally connected to the CEO (Hwang and Kim, 2010; Dey and Liu, 2010).

Finally, Wintoki et al. (2009) report no relationship between board size or board independence and firm performance. Their findings are consistent with the evolving board structure determinants literature that the constitution of boards depends on their information and contract environment (Adams and Ferreira, 2007; Harris and Raviv, 2008; Linck, Netter and Yang, 2008; Coles, Daniel and Naveen, 2008).

Board job-related diversity was found to be positively related to board decision-making, board cohesiveness and board operations at significant levels. This suggests that a more diverse board will lead to better decision-making. This is in line with the findings of other researchers who have found that a more diverse board may be more innovative, creative and capable of higher quality decision making (Zahra and Pearce, 1989; Bilimoria and Wheeler, 2000), and better at strategic decision making and planning (Coffey and Wang, 1998).

The findings also imply that a more diverse board will lead to stronger board cohesiveness. This is contrary to the general belief that a group that is highly diverse might find it difficult to be cohesive because of the likely divergent views. It has been argued that diversity might have a negative impact on the ability a team of persons has to reach a

strategic consensus (Knight et al., 1999). A diverse board is expected to have broader experience that could enhance better board operations. This positive relationship in the Nigerian environment could be as a result of the influence chairmen, CEOs and dominant shareholders have in the appointment of directors and these directors have to operate to satisfy their sponsors.

Board job-related diversity was also found to be positively related to board decision-making, cohesiveness and operations at significant levels and so indirectly related to the board effectiveness. This implies that the higher the diversity of the board the more effective is the board's oversight function; the better the level of service provided by the board to management and the better the board's contribution to strategy. Nielsen et al (2008) in their study of Italian firms have results that suggest the positive effects of board job-related diversity on board effectiveness, measured as the performance of board service and control tasks, which are mediated through board open debate.

Board professional human capital was found to have a positive effect on board cohesiveness, and decision making operations at significant levels. This implies that board cohesiveness level increases as board human capital level increases. Board professional human capital, which is also board competence, refers to the presence and use of directors' knowledge and experience (Forbes and Milliken, 1999; Alessandro et al., 2009; Melkumov, 2011).

Board human capital was also found to be positively related to board decision-making, cohesiveness and operations at significant levels, and indirectly to board effectiveness. Support to management and participation in the strategic process requires specialized knowledge, and higher background diversity which will likely produce board members with the required competences and skills. An effective board is one that can successfully execute the roles required of it. This implies that to be effective, a board should be composed of directors that possess relevant expertise, knowledge and skills. Stewart (1997) argued that the greater the human capital intensity of the board, the higher its contribution to the success of the firm's strategy.

The results show that in Nigeria, board diversity and human capital are the most important board structural factors that impact board processes and indirectly impact board effectiveness. They also show that board processes of operations, cohesiveness and decision making have significant impact on board effectiveness. Finally the results show that board

process factors are more important than board structural factors in determining board effectiveness.

Further analyses (see appendix 6), using the control variables of organization size, business type, age of organization and ownership type, show that there were no significant differences in the results obtained as discussed above. This means that the relationships observed and the confirmed hypotheses are not dependent on the size, type, age and ownership of the companies. The minor difference could be attributed the sample size of the subsets.

9.3 Importance of Board Effectiveness

People often question whether corporate boards matter because their day-to-day impact is difficult to observe. But when things go wrong, they can become the center of attention.

The BP crisis in the Gulf of Mexico and the death of 29 miners on April 5, 2010, at Massey Energy-owned coal mine in West Virginia, New Zealand have brought up new criticisms of weak board oversights. Such tragic crises have raised the issue of the need for board effectiveness particularly in the area of board oversight of the CEO and management. It is also argued that this will require a board that is independent. A primary question about board independence is whether a board member will diligently analyze board proposals and corporate issues and act in the corporation's best interest – even if it is contrary to other board member or CEO positions. In emerging markets like Nigeria, where CEO tend to be powerful, in many cases, board members, though technically independent, just follow the CEO's lead in approving actions, instead of voting in the corporation's interests. In a difference-in-differences estimation, Duchin, Matsusaka and Ozbas (2010) find that increases in director independence improve performance in those firms in which the costs of obtaining information are low, while performance worsens in firms in which information costs are high.

The recent corporate scandals have resulted in regulators and reformers increasingly demanding that the role of the CEO be separated from that of the Chair (Wilson 2008, Lorsch and Zelleke 2005). They argued, like Kajola (2008), that concentration of decision management and decision control in one individual hinders boards' effectiveness in monitoring top management. Many advocates claim that having an independent Chair results in superior monitoring by the board. According to them, CEOs become more effective

leaders when the two positions are separated because it allows them to concentrate on the firm's operations while empowering the board (Wilson 2008).

While independence of the board is considered a key criterion in the governance of firms, there is no robust evidence that board independence improves firm performance (Adams et al. 2010). An important issue that is highlighted in recent research on this latter topic is that increased independence also comes at a cost – the possibility of breakdowns in communication between the CEOs and directors (Adams and Ferreira 2009). Some researchers have also argued that a board's monitoring role is more efficiently performed by more independent boards (Guest, 2008; Lehn et al., 2009). However, a few recent papers also challenge the notion of independence, and document that boards that are independent on paper can be ineffective monitors when the directors are socially or professionally connected to the CEO (Hwang and Kim (2010); Dey and Liu (2010).

As our results show, for board members to perform well, provision of necessary information in a timely manner is critical. Board members need to have enough time to prepare adequately for board meetings and the decisions that will be made. It's important that the information be relevant, clear, complete and concise to avoid information overload. Information quality is also important to ensure adequate preparation for board meetings. Having high-quality information also facilitates more active board discussion and improves the quality of decision making.

Competence of board members, referred to as board human capital, is another critical factor, revealed the results, for board effectiveness and so the need to improve the quality of people serving on boards. Boards of directors are seen as groups of competent people that contribute to the boardroom debate through their experiences, competences and different viewpoints. Lack of expertise among directors is a perennial problem in Nigeria and so there is the need for companies to put in place processes that enable them select directors who have the expertise to properly evaluate the information they get from managers and add value to the companies. More importantly, the directors must know what questions to ask about information they are not getting.

9.4 Focus of this Study

Research on board effectiveness was motivated by renewed interest on the role of boards arising from the recent corporate failures and scandals in different parts of the world, including emerging markets. Many countries have issued corporate governance frameworks and codes aimed at focussing attention on accountability, transparency, integrity and trust. Most of these corporate governance codes tend to concentrate on board structure and practices, based on the assumption that following these normative guidelines would result in good governance and better board performance leading to better firm performance. Not much emphasis is placed on the soft issues that lead to better board performance such as board cohesiveness, decision making and operational processes.

Corporate boards are expected to be more proactive in discharging their roles of oversight or control function, service to CEO and his top management team and strategic function for better board performance and hence firm performance. In this thesis, the researcher examined the impact of board characteristics viz., board size, CEO duality, board independence, board job diversity, board professional human capital on board processes and the impact of board processes on board effectiveness. The researcher also investigated the effect of mediating variables of board processes on board effectiveness, whiling controlling for firm size, age, industry, and ownership type.

To understand the role of boards, the researcher used different governance theories such as agency theory, stewardship theory, resource dependence theory and stakeholder theory. The researcher also used the performance of the distinct board roles of control, service and strategic as the basis for evaluating board effectiveness.

Based on the review of extant literature and different theoretical perspectives and frameworks on board effectiveness, the researcher developed a theoretical framework on board effectiveness and a set of hypotheses.

The data for this study were based on the questionnaires administered to chairpersons and directors of publicly quoted firms on the Nigerian stock exchange between May and August 2010. The statistical method used to test the hypotheses is correlation/regression analysis. The use of factor analysis helped in reducing the number of variables in the constructs.

9.5 Summary of Findings

The empirical examination of the hypotheses developed from the theoretical framework presented in this study show some interesting results. Board size, CEO duality and board independence were found not to have any significant impact on board processes or on board effectiveness. This is in contrast with many research findings which link board performance to structural aspects of a board.

Board job diversity was found to have significant impact on board processes of operation, cohesiveness and decision making, and also on board effectiveness. Board professional human capital was found to have a significant impact on board processes of operation, cohesiveness and decision making, and also on board effectiveness.

Board process variables (board operations, board cohesiveness and board decision making), were found to have significant impact on board control role, board service role and board strategic role. This implies that efficient board processes will lead to board effectiveness.

In summary, the researcher found that board characteristics, apart from job diversity and professional human capital, do not have significant impact on board processes and board effectiveness. However, board processes have significant impact on board effectiveness. The "unimportance" of board characteristics can be seen to be contrary to board reforms throughout the world in the last decade. The study indicates the critical importance of board job diversity, professional human capital, board cohesiveness, board decision making and board operation in ensuring board effectiveness. In effect board processes of more preparation for board meetings, better decision-making, less personal conflicts and more usage of all the available skills on the board are more important than board structure. Overall, the results support the idea that board design involves both structural and process variables as propounded by Forbes and Milliken (1999); Finkelstein and Mooney (2003); Pye and Pettigrew (2005); Roberts et al (2005); and boards that want to be more effective must devote more attention to their processes and not just focus on the structure.

9.6 Contributions

Some important contributions emerge from this research. Firstly, to be best of my knowledge this is the first empirical study of a framework similar to the researcher's framework. The frameworks of Nicholson and Kiel (2004) and Levrau and Van den Berghe (2007) have not been tested empirically. This study is there a contribution to empirical study of board effectiveness.

Secondly, the study contributes to understanding of board effectiveness in an emerging market where board roles and processes are still developing by examining both the traditional variables such as board size, CEO duality, board independence and other organizational attributes such as board job diversity and board professional human capital variables. In addition this is the first study to examine board effectiveness in publicly traded companies in Nigeria.

Thirdly, the study will add to better governance practices in Nigeria. The lack of good governance amongst Nigerian companies has been blamed for the economic backwardness of the country (Dike, 2006).

Finally, the study will be useful to practitioners as the results show that in an emerging market, like Nigeria, board size, CEO duality board independence and board job diversity are not as critical as board cohesiveness, board decision making and board operations in ensuring board effectiveness. Members of the board have to work together to make things happen and they have to be supported with efficient administrative back up. For institutional investors and rating agencies, this study highlights the danger of limiting attention to structural board characteristics when assessing the quality of corporate governance and board performance at a company level.

9.7 Limitations and Future Research Directions

The study faced some limitations. First, the response rate of 14.7% is relatively low for a population of over 1580 board members. Board members in Nigeria are a difficult group to engage in any form of research because of their busy schedules. A higher response rate is likely to provide better results.

Second, the responses of directors to the questions on board processes and outcomes are more of their perception and might not be the reality. It could have been ideal to observe boards in action to get first hand information but this is not possible in an environment like Nigeria where fear and lack of trust are prevalent.

Third, the model developed by the researcher is primarily for one-tier or unitary boards. Although the unitary board of directors is internationally the most prevalent, it should be noted that some European have two-tier board structure.

Fourth, the model has used a limited number of process variables in studying board effectiveness. There are several other process variables that have been identified in literature that are not included in this model. Examples are debate and conflict norms (Levrau and Van den Berghe, 2007), decision comprehensiveness (Simons et al., 1999). Future research should address the limitations of this study. Several extensions to this study can be undertaken. The researcher focused only on certain set of board characteristics for their impact on board effectiveness. There are other board characteristics such as age, gender, ethnicity and specialised educational qualifications that could have been considered.

There will be a need to investigate further why the traditional board characteristics do not directly influence board effectiveness. Roberts, McNulty and Stiles (2005) explored the concept of accountability through a qualitative survey of directors of FTSE 350 companies. They argued that while board demography conditions board effectiveness, it is the real behaviour of board members that determines board effectiveness. Further research is therefore needed to study behaviour of directors particularly in emerging markets. More research is needed on how demographic variables and process variables may interact or jointly influence the board task performance.

David Wan and C.H. Ong (2005) in their study of public-listed companies in Singapore suggest that board structure does not matter, while board process does. Further work has to be done in the area of board processes and explore various aspects of board committees.

Further research could be undertaken to examine the role of non-executive directors, their compensation, and degree of independence on board effectiveness in emerging markets.

Researchers are invited to draw on existing literature on group dynamics and effectiveness and to use qualitative methods, such as case studies, to gain a clearer understanding of board dynamics.

Future research may focus on the actual behaviour of directors (inside and outside the boardroom) with the aim of analyzing when and how they contribute to board effectiveness.

In addition, given regulators' focus on preventing future corporate governance scandals, it would be useful to have more research explore whether there are board attributes that promote more ethical corporate behaviour (e.g., Harrison and Freeman, 1999) and attributes that make boards more effective in managing a crisis.

We are in search of a theory that could show researchers the way forward, in board research, by identifying the characteristics that a board must possess if it is to be active and effective

The Nigerian code of corporate governance recommends the inclusion of independent directors in boards of quoted companies and so it will be good to assess the impact of independent directors on board effectiveness.

Finally, the study has examined the impact of board characteristics and board processes on board effectiveness. It may be useful to extend this study to include the impact of board effectiveness on firm performance.

9.8 Concluding Remarks

Mainstream empirical studies have assumed the effectiveness of the board is a function of its structure and independence from management. Only a few studies have attempted to adopt a comprehensive approach by studying the effect of board functions, processes, and behaviour on the effectiveness of the board. This study shows that process variables and, to a lesser extent, demographic variables significantly influence board task performance. A board performs well through cooperation, discussion and quality decision making based on quality information.

In sum, in order to create well-functioning boards it is not sufficient to demand changes in board demography, i.e. to add more independent directors, as codes of good governance recommend. On the contrary, boards wanting to improve their task performance must devote more attention to their internal processes.

In conclusion, the researcher strongly believes that the theoretical framework and the findings of this thesis will stimulate practitioners and scholars of strategy, organizational behaviour and corporate governance to examine boards and their activities from many perspectives, particularly from the process side. The findings of this study have implications for all stakeholders – directors, management, regulators and shareholders.

APPENDICES

Appendix 1: Questionnaire for Quantitative Phase of the Research on Key Determinants of Effective Board of Directors in Nigerian quoted firms

This is a research project is being undertaken by Chris Ogbechie of the Lagos Business School in collaboration with Brunel Business School, as part of his PhD program. The main objective of the project is to understand better, document and operationalize board variables and board effectiveness especially in emerging markets like Nigeria. It is aimed at getting a more profound insight into the concept of board effectiveness as the effectiveness of boards in Nigeria will have a significant impact on the state of corporate governance and hence, the need to understand the key factors that make these boards effective is a pressing one.

Your co-operation is critical to the success of this project. Kindly answer all the questions as fully and honestly as possible. Please note that there are no “right” or “wrong” answers to any of the questions and it is your initial impression and candid response which we are looking for.

All the information provided in this questionnaire remains absolutely confidential and would only be seen by the academic researchers involved in this study. Neither your name nor that of your organization will be mentioned in the report.

Once completed please return the questionnaire in the enclosed self-addressed envelope.

Chris Ogbechie
Lagos Business School
Km 22 Lekki-Epe Expressway
Ajah, Lagos

Section A (Questions 1-9). In this section we seek to understand the composition of your Board of Directors.

1. Is the Chairperson of the Board also the company’s Chief Executive Officer (CEO)?

   Yes ◯ **No** ◯

2. What is the total number of Board members? ☐

3. Please indicate below the number of your Board members that are male and female.

Male	Female

4. What is the gender of the Chairperson? Male ◯ Female ◯

5. What is the gender of the Chief Executive Officer (CEO)? Male ◯ Female ◯

6. What is the number of inside/internal Board members? ☐

   (inside/internal board members are also referred to as executive directors)

7. What is the number of outside/external Board members? ☐

   (outside/external board members are defined as those who are **not** employees of your company)

8. How many of the outside/external board members can be characterized as affiliated? ☐

   (**Affiliate** board members are defined as those that meet any of the following conditions: affiliation with the Organization/firm as a supplier, a banker or creditor within the past two years, association with a law or audit firm engaged by your firm, being an employee of your firm's subsidiaries or holding companies or relation by blood/marriage with a member of the board.)

9. Please indicate here whether the following committees (i.e. consisting of board members) exist in your board and the number of members in each committee:

Types of Committee	**Do they exist in the Board?**		**No of Board members in the committee**	**No of independent members**
	Yes	**No**	**(Pls. Write in)**	
Nominating Committee				
Remuneration Committee				
Audit Committee				
Succession Committee				
Risk Management Committee				
Human Resources (Personnel) Committee				
Finance and General Purpose Committee				
Credit Committee				
Governance Committee				
Others (Please write in)				

Section B (Questions 1-3). In this section we seek to understand the human capital your Board of Directors puts to use to create wealth for the company.

1. How would you rate the level of diversity of your board in terms of having a mix of people? (Please rate your board members on the under listed factors on a scale of 1 to 7, where 1 means very low diversity and 7 means very high diversity

	Very low diversity						**Very high diversity**
a) Educational backgrounds (formal educational qualifications)?	1	2	3	4	5	6	7
b) occupational backgrounds (e.g. engineer, economist, accountant) ?	1	2	3	4	5	6	7
c) functional positions (e.g. Marketing, Human Resources, Production, Finance)?	1	2	3	4	5	6	7
d) network ties (e.g. membership of social clubs, professional associations?	1	2	3	4	5	6	7
e) religious affinity	1	2	3	4	5	6	7
f) tribal affinity	1	2	3	4	5	6	7

2. How many of your board members are:

a) Lawyers ☐

b) Accountants ☐

c) Engineers ☐

d) Economists ☐

e) Academicians ☐

f) Medical Doctors ☐

g) Bankers ☐

h) Others (please specify) ☐

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3. Kindly rate the external board members on their knowledge of the following on a scale of 1 to 7, where 1 means very low and 7 means very high.

	Very low						**Very high**
a) Understanding of the business of your organization?	1	2	3	4	5	6	7
b) Understanding of the industry in which your organization operates?	1	2	3	4	5	6	7
c) Knowledge about financial matters	1	2	3	4	5	6	7
d) Knowledge about legal matters	1	2	3	4	5	6	7
e) Knowledge about risk matters	1	2	3	4	5	6	7

Section C (Questions 1 - 10). In this section we seek to understand the Operations adopted in the running of your Board in managing the future of your firm. Kindly indicate the extent to which you agree or disagree with these statements on a scale of 1 to 7, 1 means strongly disagree and 7 means strongly agree.

	Strongly Disagree						Strongly Agree
1. The board members have the time to do their job well	**1**	**2**	**3**	**4**	**5**	**6**	**7**
2. The board has a clear understanding of its roles and responsibilities	**1**	**2**	**3**	**4**	**5**	**6**	**7**

3. Board meetings run on too long 1 2 3 4 5 6 7

4. Board meetings are conducted well 1 2 3 4 5 6 7

5. It is clear who has responsibility for following up actions agreed by the board 1 2 3 4 5 6 7

6. Board members are provided with the right quality of board papers 1 2 3 4 5 6 7

7. The board papers are timely 1 2 3 4 5 6 7

8. Quality of the Board's Charter is high 1 2 3 4 5 6 7

9. The Chairperson leads the board well 1 2 3 4 5 6 7

10. How often does your Board meet? Please Tick (✓) appropriate box below

Once a year	**Twice a year**	**Every three months**	**Every two months**	**Every month**	**Others (Please specify)**

Section D (Questions 1 - 7). In this section we seek to understand how cohesive the Board is in managing the future of your firm. Kindly indicate the extent to which you agree or disagree with these statements on a scale of 1 to 7, 1 means strongly disagree and 7 means strongly agree.

Strongly Disagree Strongly Agree

1. The board and management periodically review how they are working together **1 2 3 4 5 6 7**

2. Misunderstandings are rare between the board and management **1 2 3 4 5 6 7**

3. The board and management are able to resolve conflict between themselves constructively **1 2 3 4 5 6 7**

4. Board members are able to resolve conflict between themselves constructively **1 2 3 4 5 6 7**

5. Members of the board respect and trust each other. **1 2 3 4 5 6 7**

6. Members of the board socialize with each other outside board meetings **1 2 3 4 5 6 7**

7. Disagreement is dealt with openly in the board **1 2 3 4 5 6 7**

Section E (Questions 1 - 10). In this section we seek to understand the decision-making process adopted by the Board in managing the future of your firm. Kindly indicate the extent to which you agree or disagree with these statements on a scale of 1 to 7, 1 means strongly disagree and 7 means strongly agree.

Strongly Disagree — Strongly Agree

1. The board has adequate notice of important issues to be discussed at board meetings **1 2 3 4 5 6 7**

2. Board meetings have clearly constructed agenda **1 2 3 4 5 6 7**

3. Important items are prioritised on board Agendas **1 2 3 4 5 6 7**

4. The board has trouble reaching conclusions **1 2 3 4 5 6 7**

5. The business of the board conducted with openness and transparency **1 2 3 4 5 6 7**

6. The board meetings are pervaded with integrity **1 2 3 4 5 6 7**

7. Discussions during board meetings are constructive **1 2 3 4 5 6 7**

8. When discussing an issue directors state clear disagreement with each other **1 2 3 4 5 6 7**

9. Directors openly challenge each others' **1 2 3 4 5 6 7** opinion.

10. When discussing an issue different directors **1 2 3 4 5 6 7** propose different approaches to the issue

Section F (Questions 1-5). In this section we seek to understand the extent to which your board deploys network of extra-organizational/informal contacts to create wealth for your company. Please rate external members of your board on the under listed factors on a scale of 1 to 7, where 1 means very low and 7 means very high.

		Very low						Very high
1.	**Relationship with government officials at the Federal Level**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
2.	**Relationship with government officials at the State Level**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
3.	**Involvement with social clubs such as Ikoyi Club, etc.**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
4.	**Involvement with professional associations**	**1**	**2**	**3**	**4**	**5**	**6**	**7**

5.	**Involvement with trade Associations and Chambers of Commerce**	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Section G (Questions 1 - 7). In this section we seek to understand how well the Board is performing its oversight (control) role.

Please indicate to what extent your board carries out the following functions on a scale of 1 to 7, 1 being not at all and 7 to a large extent.

		Not at all						**To a large extent**
1.	Oversee the financial management of the Organisation	1	2	3	4	5	6	7
2.	Ensure the organisation has adequate financial systems and procedures	1	2	3	4	5	6	7
3.	Monitor organisational performance and taking action where necessary	1	2	3	4	5	6	7
4.	Monitor the organisation's chief executive and top management	1	2	3	4	5	6	7
5.	Have procedure for recruiting new directors	1	2	3	4	5	6	7
6.	Ensure that the organisation fulfils its legal Obligations	1	2	3	4	5	6	7
7.	Ensure accountability to the organisation's Stakeholders	1	2	3	4	5	6	7

Section H (Questions 1 - 7). In this section we seek to understand how well the Board is providing service to management.

Please indicate to what extent your board carries out the following functions on a scale of 1 to 7, 1 being not at all and 7 to a large extent.

	Not at all						**To a large extent**
1. Support and advise management	1	2	3	4	5	6	7
2. Review board performance and ensure it works well	1	2	3	4	5	6	7
3. Represent the interest of shareholders in the organisation	1	2	3	4	5	6	7
4. Act as a link with important groups or organisations your firm deals with	1	2	3	4	5	6	7
5. Represent the organisation externally	1	2	3	4	5	6	7
6. Help to raise funds or other resources for the organisation	1	2	3	4	5	6	7
7. Help to generate businesses for the Organisation	1	2	3	4	5	6	7

Section I (Questions 1 - 9). In this section we seek to understand how well the Board is performing its strategic role. Please indicate to what extent your board carries out the following functions on a scale of 1 to 7, 1 being not at all and 7 to a large extent.

	Not at all						**To a large extent**
1. Sets the organisation's mission and values	1	2	3	4	5	6	7
2. Reviews and decide the organisation's strategic direction	1	2	3	4	5	6	7
3. Determines and reviews company objectives to match the mission and values, and to form the basis of company strategy	1	2	3	4	5	6	7

4. Determines, supports and enforces company policies	1	2	3	4	5	6	7
5. Reviews and evaluates present and future opportunities, threats and risks in the external environment, and current future strengths, weaknesses and risks of your company	1	2	3	4	5	6	7
6. Determines corporate and financial strategic options, reviews and selects those to be pursued, and decides the resources, contingency plans and means to support them	1	2	3	4	5	6	7
7. Determines the business unit strategies and plans designed to implement the corporate strategy	1	2	3	4	5	6	7
8. Ensures that your company's organization structure and capabilities are appropriate for implementing its chosen strategies	1	2	3	4	5	6	7
9. Adapts performance measures to monitor the implementation of strategy, policies and plans, and the legal/fiduciary obligations affecting the business and the board	1	2	3	4	5	6	7

	Not Effective						**Very Effective**
Overall how effective would you say your board is	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Section J (Questions 1 and 2). In this section we seek to understand the factors that contribute to the effectiveness of boards.

1. **Below are factors directors and corporate governance experts think are responsible for effective boards. The factors are not exhaustive, so you can add to them in the spaces provided. Based on your knowledge and experience as a director, please indicate which of the factors you consider relevant for the effectiveness of boards? Please answer in the table below.**

2. **For these factors you have indicated, kindly show their relative importance in the effectiveness of boards by using numbers 1,2,3…..where 1 means the most important, 2 is the next most important, 3 is next, …………**

Question 1: Factors responsible for Board effectiveness		**Please Tick (✓) Those You Consider Relevant**	**Question 2: Relative Importance (Use Numbers: 1, 2, 3….)**
1.	Competence (knowledge and skills) of directors		
2.	Integrity of directors		
3.	Compliance with international best practices		
4.	Having a network of extra-organizational contacts with people/groups that are vital to the business		
5.	Good interpersonal relations among directors		
6.	Ability to accept criticism in good faith		
7.	Level of preparation for board meetings		
8.	Diversity of the board		
9.	Board transparency and openness		
10.	Board independence		
11.	Compliance with codes/laws/regulations		

12	Commitment of individual directors		
13	Participation of board in strategy		
14	Chairman's leadership style		
15	Board oversight/control functions		
16	Timely and balanced reports by management		

Section K (Questions 1-5). In this section please provide us with some background information regarding your company for classification purposes only.

1. What was your company' previous year's turnover?

____

2. What was the number of full-time employees working in your company last year?

____

3. What type of company do you best resemble? Please Tick (✓) appropriate box below

Local Nigerian Company	Nigerian International Company	Subsidiary of an Foreign Company	Joint Venture between Nigerian and Foreigners

4. Please indicate the classification that best describes your company

Aviation and Road Transportation	Commercial Services	Construction and Real Estate	Financial Services	Healthcare

Hotel and Tourism	ICT	Manufacturing	Media, Printing and Publishing	Petroleum Marketing

5. In what year was your company established? ____________________

Finally, if there are any other comments you would like to make that you feel may help us to better understand the specific aspects of board effectiveness in your company, or any other comments you wish to make, please use the space provided below. (If you would like to continue, please do so on a separate sheet and attach it to the questionnaire).

THANK YOU FOR YOUR PARTICIPATION IN THIS STUDY WHICH IS GREATLY APPRECIATED

Please return the questionnaire in the self-addressed envelope provided.

Please attach your business card or provide us with your name and mailing address in order to avoid sending you reminders and to dispatch your personal copy of the final report.

Business Card

Appendix 2: Letter of Notification

May 7, 2010

Dear ….,

<u>Notification: Research on Board Effectiveness in Nigerian Companies</u>

In about a week's time a research questionnaire will be sent to you to be completed on the above subject matter. It would be greatly appreciated if you could spare some of your valuable time to participate in the study.

This research is being undertaken by Chris Ogbechie of the Lagos Business School in collaboration with Brunel Business School as part of his PhD programme. The aim of the project is to understand, document and operationalize board variables and board effectiveness in the Nigerian business environment. The study will contribute to a better understanding of board dynamics and give some insight on what should be taken into consideration in the appointment of directors in Nigeria.

Your views and comments will be invaluable to the success of the study.

Thank you in advance for your support.

Yours truly,

Chris Ogbechie
Director, Etisalat CSR Center

Appendix 3: Letter Accompanying Questionnaire

14th May, 2010.

Dear

RESEARCH ON BOARD EFFECTIVENESS IN NIGERIAN COMPANIES

It would be greatly appreciated if you could spare a little of your valuable time to participate in the above study which is of considerable importance to companies operating in Nigeria.

This is a research project is being undertaken by Chris Ogbechie of the Lagos Business School in conjunction with Brunel Business School as part of his PhD programme. The main objective of the project is to understand better, document and operationalize board variables and board effectiveness especially in emerging markets like Nigeria. It is aimed at getting a profound insight into the concept of board effectiveness as the effective boards in Nigeria will have a significant impact on the state of corporate governance and hence, the need to understand the key factors that make these boards effective is a pressing one. The study will also contribute to a better understanding of board dynamics and give some insight into what should be considered in appointing directors in Nigerian companies.

Your co-operation is critical to the success of this project. Kindly answer all the questions as fully and honestly as possible. Please note that there are no “right” or “wrong” answers to any of the questions and it is your initial impression and candid response which we are looking for.

All the information provided in this questionnaire remains absolutely confidential and would only be seen the academic researchers involved in this study. Neither your name nor that of your organization will be mentioned in the report.

Once completed please return the questionnaire in the self-addressed envelope.

Thank you in advance for your support

Yours sincerely,

Chris Ogbechie
Director Etisalat CSR Centre

Appendix 4: First Reminder Letter

May 28, 2010

Dear …..,

<u>Research on Board Effectiveness in Nigerian Companies</u>

About two weeks ago a research questionnaire was sent to you to be completed on the above subject matter.

The research project is being undertaken by Chris Ogbechie of the Lagos Business School in collaboration with Brunel Business School as part of his PhD programme. The aim of the study is to understand, document, and operationalize board variables and board effectiveness in the Nigerian business environment.

Our records show that we are yet to receive from you the completed questionnaire. Kindly take some time off your busy schedule to complete the questionnaire and return to the undersigned. If however, you have completed and returned the questionnaire, kindly disregard this letter.

Thanks you in advance for your support

Yours Truly,

Chris Ogbechie
Director, Etisalat CSR Center

Appendix 5: Final Reminder Letter

June 11, 2010

Dear …..,

Research on Board Effectiveness in Nigerian Companies

About four weeks ago a research questionnaire was sent to you to be completed on the above subject matter.

This research study is being undertaken by Chris Ogbechie of the Lagos Business School in collaboration with Brunel Business School as part of his PhD programme. The purpose of the study is to understand, record, and operationalize board variables and board effectiveness in the Nigerian business environment.

Our records show that we are yet to receive from you the completed questionnaire. If you are yet to fill the questionnaire, please do so and return to the undersigned in the enclosed self-addressed envelope. Find enclosed another copy of the questionnaire. However, if you have already completed and returned the questionnaire, kindly disregard this letter.

Thank you in advance for your support

Yours truly,

Chris Ogbechie
Director Etisalat CSR Center

Appendix 6: Regression Analysis with Control Variables

The four control variables are:

Variable	Components	Parameter	Percentage Share
Size	Small Big	Up to N5 billion turnover More than N5 billion turnover	58.9 41.1
Ownership	Nigerian Foreign		83.7 16.3
Age	Young Mature	Up to 20 years More than 20 years	34 66
Type of business	Manufacturing Non-Manufacturing		18.4 81.6

Regression Analysis

BIG FIRMS

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.525	.560		4.505	.000		
BOPOPE	.406	.071	.450	5.726	.000	.877	1.140
BOPMEC	.025	.037	.050	.676	.500	.976	1.025
BOPCOH	-.040	.056	-.055	-.708	.480	.882	1.134
BOPDMS	.179	.076	.190	2.360	.020	.832	1.202
BOPDMC	.015	.039	.029	.385	.701	.941	1.062

a. **Dependent Variable: BOVERF**
Adjusted R- Square is 0.258
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.724	.895		1.928	.056		
	BOPOPE	.303	.113	.231	2.680	.008	.877	1.140
	BOPMEC	.025	.059	.035	.425	.671	.976	1.025
	BOPCOH	.226	.090	.215	2.506	.013	.882	1.134
	BOPDMS	.005	.121	.004	.041	.967	.832	1.202
	BOPDMC	.046	.062	.062	.741	.460	.941	1.062

a. **Dependent Variable: BOSERF**
Adjusted R- Square is 0.107
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.249	.811		2.773	.006		
	BOPOPE	.301	.103	.254	2.933	.004	.877	1.140
	BOPMEC	.024	.054	.036	.437	.662	.976	1.025
	BOPCOH	.028	.082	.029	.341	.734	.882	1.134
	BOPDMS	.160	.110	.129	1.451	.149	.832	1.202
	BOPDMC	.068	.057	.100	1.195	.234	.941	1.062

a. **Dependent Variable: BOSTRF**
Adjusted R- Square is 0.099
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.406	.609		7.231	.000		
	CEODUL	.851	.603	.117	1.411	.161	.946	1.057
	BODIND	-1.150	.348	-.267	-3.307	.001	.993	1.007
	BOSIZE	.020	.023	.071	.857	.393	.954	1.048
	DIVJOB	.101	.087	.102	1.161	.248	.832	1.202
	DIVAFF	.049	.045	.090	1.103	.272	.978	1.022
	HUCPRO	.114	.072	.139	1.588	.115	.850	1.176

a. **Dependent Variable: BOPOPE**
Adjusted R-Square is 0.113
Regression of Board Operations on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.144	1.168		2.692	.000		
	CEODUL	-.887	1.156	-.067	-.767	.444	.946	1.057
	BODIND	.640	.666	.082	.960	.339	.993	1.007
	BOSIZE	-.014	.044	-.027	-.312	.756	.954	1.048
	DIVJOB	-.029	.167	-.016	-.175	.861	.832	1.202
	DIVAFF	-.039	.086	-.039	-.457	.649	.978	1.022
	HUCPRO	.292	.137	.197	2.128	.035	.850	1.176

a. **Dependent Variable: BOPMEC**
Adjusted R-Square is 0.003
Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.660	.777		4.709	.000		
	CEODUL	-1.974	.769	-.216	-2.566	.011	.946	1.057
	BODIND	.215	.443	.040	.484	.629	.993	1.007
	BOSIZE	.010	.029	.028	.333	.740	.954	1.048
	DIVJOB	.192	.111	.155	1.725	.087	.832	1.202
	DIVAFF	.083	.057	.121	1.465	145	.978	1.022
	HUCPRO	.144	.091	.140	1.576	.117	.850	1.176

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.079
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5.472	.613		8.920	.000		
	CEODUL	.135	.607	.019	.223	.824	.946	1.057
	BODIND	-.208	.350	-.050	-.594	.554	.993	1.007
	BOSIZE	-.018	.023	-.070	-.805	.422	.954	1.048
	DIVJOB	.094	.088	.100	1.074	.285	.832	1.202
	DIVAFF	-.051	.045	-.096	-1.127	.262	.978	1.022
	HUCPRO	.113	.072	.144	1.562	.121	.850	1.176

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.017
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.585	1.118		3.206	.002		
CEODUL	1.646	1.106	.129	1.488	.139	.946	1.057
BODIND	-.1.095	.638	-.146	-1.716	.088	.993	1.007
BOSIZE	.063	.042	.131	1.512	.133	.954	1.048
DIVJOB	.082	.160	.048	.516	.607	.832	1.202
DIVAFF	.099	.082	.103	1.202	.232	.978	1.022
HUCPRO	-.039	.132	-.027	-.298	.766	.850	1.176

a. Dependent Variable: BOPDMC
Adjusted R-Square is 0.022
Regression of Board Directors' Conduct on Board Characteristics

SMALL FIRMS

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.495	.499		.992	.324		
BOPOPE	.434	.088	.418	4.949	.000	.686	1.457
BOPMEC	.016	.050	.024	.318	.752	.877	1.140
BOPCOH	.217	.107	.221	2.039	.044	.416	2.403
BOPDMS	.193	.110	.207	1.748	.084	.349	2.869
BOPDMC	.052	.058	.069	.893	.374	.820	1.220

a. Dependent Variable: BOVERF
Adjusted R- Square is 0.540
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.608	.893		1.801	.075		
	BOPOPE	.008	.157	.006	.053	.958	.686	1.457
	BOPMEC	.047	.090	.054	.515	.608	.877	1.140
	BOPCOH	.377	.191	.302	1.980	.051	.416	2.403
	BOPDMS	.046	.198	.039	.234	.816	.349	2.869
	BOPDMC	.051	.104	.053	.486	.628	.820	1.220

a. **Dependent Variable: BOSERF**
Adjusted R- Square is 0.091
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.603	.898		1.785	.078		
	BOPOPE	-.080	.158	-.058	-.507	.613	.686	1.457
	BOPMEC	-.047	.091	-.052	-.518	.606	.877	1.140
	BOPCOH	.027	.192	.021	.143	.887	.416	2.403
	BOPDMS	.598	.199	.479	3.007	.003	.349	2.869
	BOPDMC	.022	.105	.022	.210	.834	.820	1.220

a. **Dependent Variable: BOSTRF**
Adjusted R- Square is 0.170
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.005	.731		4.111	.000		
	CEODUL	.126	.572	.022	.221	.826	.904	1.106
	BODIND	.263	.623	.041	.421	.675	.943	1.061
	BOSIZE	-.006	.041	-.014	-.143	.886	.925	1.081
	DIVJOB	.274	.106	.264	2.579	.012	.860	1.163
	DIVAFF	-.003	.068	-.004	-.041	.968	.932	1.073
	HUCPRO	.206	.069	.297	2.966	.004	.898	1.114

a. **Dependent Variable: BOPOPE**

Adjusted R-Square is 0.153

Regression of Board Operation on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.693	1.207		3.060	.003		
	CEODUL	-.521	.945	-.059	-.551	.583	.904	1.106
	BODIND	-1.558	1.029	-.159	-1.514	.134	.943	1.061
	BOSIZE	-.116	.068	-.180	-1.699	.093	.925	1.081
	DIVJOB	.173	.176	.109	.988	.326	.860	1.163
	DIVAFF	.168	.112	.159	1.503	.136	.932	1.073
	HUCPRO	.053	.115	.050	.464	.644	.898	1.114

a. **Dependent Variable: BOPMEC**

Adjusted R-Square is 0.020

Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.668	.741		4.947	.000		
CEODUL	.402	.581	.066	.693	.490	.904	1.106
BODIND	.173	.632	.026	.274	.785	.943	1.061
BOSIZE	-.074	.042	-.167	-1.758	.082	.925	1.081
DIVJOB	.300	.108	.273	2.778	.007	.860	1.163
DIVAFF	-.043	.069	-.059	-.621	.536	.932	1.073
HUCPRO	.250	.070	.341	3.548	.001	.898	1.114

a. **Dependent Variable: BOPCOH**
Adjusted R-Square is 0.219
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.041	.818		3.716	.000		
CEODUL	.200	.641	.031	.312	.756	.904	1.106
BODIND	-.717	.698	-.101	-1.027	.307	.943	1.061
BOSIZE	-.002	.046	-.004	-.039	.969	.925	1.081
DIVJOB	.216	.119	.187	1.813	.073	.860	1.163
DIVAFF	.037	.076	.049	.491	.625	.932	1.073
HUCPRO	.265	.078	.344	3.416	.001	.898	1.114

a. **Dependent Variable: BOPDMS**
Adjusted R-Square is 0.143
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	4.025	1.103		3.648	.000		
CEODUL	1.406	.864	.178	1.627	.107	.904	1.106
BODIND	.466	.941	.053	.496	.621	.943	1.061
BOSIZE	-.007	.062	-.012	-.111	.912	.925	1.081
DIVJOB	.153	.160	.107	.952	.344	.860	1.163
DIVAFF	-.047	.102	-.049	-.459	.647	.932	1.073
HUCPRO	.022	.105	.023	.211	.833	.898	1.114

a. Dependent Variable: BOPDMC
Adjusted R-Square is -0.015
Regression of Board Directors' Conduct on Board Characteristics

MATURE FIRMS

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.249	.524		2.383	.019		
BOPOPE	.373	.081	.383	4.622	.000	.681	1.468
BOPMEC	.012	.040	.022	.307	.759	.944	1.060
BOPCOH	-.061	.071	-.069	-.860	.392	.723	1.384
BOPDMS	.453	.095	.423	4.793	.000	.599	1.668
BOPDMC	-.005	.039	-.010	-.140	.889	.954	1.048

a. Dependent Variable: BOVERF
Adjusted R- Square is 0.438
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.755	1.022		1.717	.089		
BOPOPE	.133	.157	.091	.846	.399	.681	1.468
BOPMEC	-.029	.077	-.035	-.379	.706	.944	1.060
BOPCOH	.275	.138	.208	1.993	.049	.723	1.384
BOPDMS	.081	.184	.050	.441	.660	.599	1.668
BOPDMC	.075	.075	.090	.996	.321	.954	1.048

a. **Dependent Variable: BOSERF**
Adjusted R- Square is 0.057
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.934	.873		1.070	.287		
BOPOPE	.075	.134	.056	.555	.580	.681	1.468
BOPMEC	-.002	.066	-.003	-.030	.976	.944	1.060
BOPCOH	-.024	.118	-.020	-.202	.840	.723	1.384
BOPDMS	.619	.157	.419	3.932	.000	.599	1.668
BOPDMC	.059	.064	.077	.915	.362	.954	1.048

a. **Dependent Variable: BOSTRF**
Adjusted R- Square is 0.182
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.292	.622		5.295	.000		
	CEODUL	.545	.456	.107	1.196	.234	.895	1.117
	BODIND	-.144	.474	-.026	-.303	.762	.985	1.016
	BOSIZE	.012	.027	.038	.433	.666	.919	1.088
	DIVJOB	.267	.092	.270	2.894	.005	.828	1.208
	DIVAFF	.042	.051	.072	.830	.408	.964	1.038
	HUCPRO	.139	.062	.206	2.259	.026	.867	1.154

a. Dependent Variable: BOPOPE
Adjusted R-Square is 0.138
Regression of Board Operation on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.850	1.168		2.440	.016		
	CEODUL	-.589	.857	-.067	-.688	.493	.895	1.117
	BODIND	.470	.891	.049	.527	.599	.985	1.016
	BOSIZE	-.005	.051	-.008	-.088	.930	.919	1.088
	DIVJOB	.104	.173	.061	.603	.548	.828	1.208
	DIVAFF	.030	.096	.029	.310	.757	.964	1.038
	HUCPRO	.166	.116	.141	1.432	.155	.867	1.154

a. Dependent Variable: BOPMEC
Adjusted R-Square is -0.014
Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.505	.713		6.322	.000		
	CEODUL	-1.050	.523	-.187	-2.009	.047	.895	1.117
	BODIND	.433	.544	.071	.796	.428	.985	1.016
	BOSIZE	-.024	.031	-.070	-.768	.444	.919	1.088
	DIVJOB	.152	.106	.139	1.439	.153	.828	1.208
	DIVAFF	.041	.058	.063	.698	.487	.964	1.038
	HUCPRO	.147	.071	.197	2.086	.039	.867	1.154

a. **Dependent Variable: BOPCOH**
Adjusted R-Square is 0.072
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.941	.583		8.472	.000		
	CEODUL	.072	.428	.016	.169	.866	.895	1.117
	BODIND	-.167	.445	-.033	-.376	.707	.985	1.016
	BOSIZE	-.016	.025	-.057	-.626	.533	.919	1.088
	DIVJOB	.082	.087	.091	.947	.346	.828	1.208
	DIVAFF	-.005	.048	-.009	-.096	.924	.964	1.038
	HUCPRO	.189	.058	.307	3.268	.001	.867	1.154

a. **Dependent Variable: BOPDMS**
Adjusted R-Square is 0.081
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.022	1.150		2.628	.010		
CEODUL	1.701	.843	.190	2.018	.046	.895	1.117
BODIND	-.833	.877	-.085	-.949	.344	.985	1.016
BOSIZE	.075	.050	.139	1.500	.136	.919	1.088
DIVJOB	.044	.171	.025	.257	.798	.828	1.208
DIVAFF	.216	.094	.208	2.293	.024	.964	1.038
HUCPRO	-.050	.114	-.042	-.442	.659	.867	1.154

a. **Dependent Variable: BOPDMC**
Adjusted R-Square is 0.052
Regression of Board Directors' Conduct on Board Characteristics

YOUNG FIRMS

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.062	.510		2.085	.040		
BOPOPE	.446	.077	.458	5.819	.000	.826	1.211
BOPMEC	.053	.046	.085	1.142	.256	.923	1.084
BOPCOH	.120	.071	.145	1.697	.093	.703	1.422
BOPDMS	.122	.081	.141	1.497	.137	.580	1.724
BOPDMC	.099	.058	.137	1.700	.092	.794	1.259

a. **Dependent Variable: BOVERF**
Adjusted R- Square is 0.431
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.918	.745		1.232	.221		
BOPOPE	.270	.112	.222	2.405	.018	.826	1.211
BOPMEC	.080	.067	.104	1.186	.238	.923	1.084
BOPCOH	.296	.104	.286	2.856	.005	.703	1.422
BOPDMS	.118	.119	.109	.990	.324	.580	1.724
BOPDMC	-.037	.086	-.040	-.430	.668	.794	1.259

a. Dependent Variable: BOSERF
Adjusted R- Square is 0.220
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.301	.860		1.512	.133		
BOPOPE	.238	.129	.178	1.836	.069	.826	1.211
BOPMEC	-.009	.078	-.011	-.118	.906	.923	1.084
BOPCOH	.134	.120	.117	1.119	.266	.703	1.422
BOPDMS	.280	.137	.236	2.040	.044	.580	1.724
BOPDMC	.018	.099	.018	.182	.856	.794	1.259

a. Dependent Variable: BOSTRF
Adjusted R- Square is 0.142
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.325	.680		4.893	.000		
	CEODUL	-.715	.840	-.076	-.850	.397	.963	1.038
	BODIND	-.878	.436	-.181	-2.013	.047	.945	1.058
	BOSIZE	.017	.032	.047	.522	.603	.967	1.034
	DIVJOB	.121	.100	.114	1.206	.230	.855	1.169
	DIVAFF	.031	.059	.048	.523	.602	.928	1.078
	HUCPRO	.267	.074	.339	3.602	.000	.867	1.153

a. **Dependent Variable: BOPOPE**

Adjusted R-Square is 0.147

Regression of Board Operation on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.524	1.168		3.874	.000		
	CEODUL	.402	1.445	.027	.278	.781	.963	1.038
	BODIND	-.105	.750	-.014	-.140	.889	.945	1.058
	BOSIZE	-.097	.055	-.171	-1.758	.082	.967	1.034
	DIVJOB	.015	.172	.009	.086	.932	.855	1.169
	DIVAFF	.039	.101	.039	.389	.698	.928	1.078
	HUCPRO	.091	.127	.074	.718	.475	.867	1.153

a. **Dependent Variable: BOPMEC**

Adjusted R-Square is -0.016

Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.503	.791		3.165	.002		
CEODUL	.677	.978	.061	.692	.491	.963	1.038
BODIND	.115	.508	.020	.226	.821	.945	1.058
BOSIZE	-.003	.037	-.006	-.071	.943	.967	1.034
DIVJOB	.287	.116	.232	2.467	.015	.855	1.169
DIVAFF	.014	.068	.019	.209	.834	.928	1.078
HUCPRO	.281	.086	.304	3.250	.002	.867	1.153

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.159
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.339	.773		4.321	.000		
CEODUL	-.275	.956	-.026	-.288	.774	.963	1.038
BODIND	-.191	.496	-.035	-.384	.701	.945	1.058
BOSIZE	-.008	.036	-.019	-.211	.833	.967	1.034
DIVJOB	.197	.114	.166	1.735	.086	.855	1.169
DIVAFF	-.056	.067	-.077	-.842	.402	.928	1.078
HUCPRO	.298	.084	.336	3.536	.001	.867	1.153

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.131
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.702	.982		3.771	.000		
	CEODUL	1.704	1.214	.135	1.403	.163	.963	1.038
	BODIND	-.300	.630	-.046	-.476	.635	.945	1.058
	BOSIZE	.031	.046	.066	.682	.497	.967	1.034
	DIVJOB	.137	.144	.097	.950	.344	.855	1.169
	DIVAFF	-.112	.085	-.130	-1.320	.190	.928	1.078
	HUCPRO	.109	.107	.103	1.013	.313	.867	1.153

a. Dependent Variable: BOPDMC
Adjusted R-Square is 0.004
Regression of Board Directors' Conduct on Board Characteristics

MULTINATIONAL FIRMS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.364	.568		4.163	.000		
	BOPOPE	.251	.083	.269	3.011	.003	.794	1.259
	BOPMEC	.060	.041	.121	1.467	.145	.928	1.078
	BOPCOH	.184	.077	.225	2.402	.018	.721	1.386
	BOPDMS	.089	.071	.113	1.250	.214	.777	1.288
	BOPDMC	.042	.042	.082	.987	.326	.905	1.105

a. Dependent Variable: BOVERF
Adjusted R- Square is 0.241
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.973	1.029		1.918	.058		
BOPOPE	.120	.151	.079	.796	.428	.794	1.259
BOPMEC	.075	.074	.093	1.014	.313	.928	1.078
BOPCOH	.359	.139	.268	2.581	.011	.721	1.386
BOPDMS	-.037	.128	-.029	-.286	.775	.777	1.288
BOPDMC	.004	.077	.005	.057	.955	.905	1.105

a. **Dependent Variable: BOSERF**
Adjusted R - Square is 0.067
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.641	.905		1.813	.072		
BOPOPE	.115	.133	.084	.864	.389	.794	1.259
BOPMEC	.044	.065	.060	.672	.503	.928	1.078
BOPCOH	.223	.122	.186	1.827	.070	.721	1.386
BOPDMS	.171	.113	.148	1.510	.134	.777	1.288
BOPDMC	.093	.068	.125	1.379	.170	.905	1.105

a. **Dependent Variable: BOSTRF**
Adjusted R - Square is 0.105
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.065	.668		4.587	.000		
CEODUL	.853	.529	.150	1.612	.110	.850	1.176
BODIND	.030	.403	.007	.076	.940	.995	1.005
BOSIZE	.035	.023	.136	1.553	.123	.954	1.048
DIVJOB	.202	.083	.219	2.445	.016	.922	1.085
DIVAFF	.087	.049	.156	1.778	.078	.957	1.045
HUCPRO	.157	.079	.183	1.973	.051	.858	1.166

a. Dependent Variable: BOPOPE
Adjusted R-Square is 0.116
Regression of Board Operation on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.326	1.310		1.776	.078		
CEODUL	.420	1.037	.039	.405	.686	.850	1.176
BODIND	.418	.789	.048	.529	.598	.995	1.005
BOSIZE	-.060	.045	-.124	-1.351	.179	.954	1.048
DIVJOB	.188	.162	.108	1.162	.248	.922	1.085
DIVAFF	-.070	.096	-.066	-.723	.471	.957	1.045
HUCPRO	.351	.156	.218	2.256	.026	.858	1.166

a. Dependent Variable: BOPMEC
Adjusted R-Square is 0.036
Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.478	.741		3.342	.001		
CEODUL	.594	.587	.092	1.012	.314	.850	1.176
BODIND	.497	.447	.093	1.113	.268	.995	1.005
BOSIZE	.004	.025	.015	.172	.864	.954	1.048
DIVJOB	.334	.092	.317	3.643	.000	.922	1.085
DIVAFF	.001	.055	.001	.017	.987	.957	1.045
HUCPRO	.258	.088	.265	2.933	.004	.858	1.166

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.162
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	4.040	.828		4.881	.000		
CEODUL	.580	.655	.086	.885	.378	.850	1.176
BODIND	.398	.499	.071	.798	.427	.995	1.005
BOSIZE	.004	.028	.014	.158	.874	.954	1.048
DIVJOB	.149	.102	.135	1.450	.150	.922	1.085
DIVAFF	-.058	.061	-.086	-.944	.347	.957	1.045
HUCPRO	.241	.098	.237	2.452	.016	.858	1.166

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.041
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.157	1.299		3.200	.002		
	CEODUL	.959	1.028	.092	.933	.353	.850	1.176
	BODIND	-1.094	.783	-.127	-1.397	.165	.995	1.005
	BOSIZE	.064	.044	.134	1.440	.153	.954	1.048
	DIVJOB	.186	.161	.109	1.159	.249	.922	1.085
	DIVAFF	-.036	.096	-.035	-.381	.704	.957	1.045
	HUCPRO	-.169	.154	-.107	-1.094	.276	.858	1.166

a. **Dependent Variable: BOPDMC**
Adjusted R-Square is 0.012
Regression of Board Directors' Conduct on Board Characteristics

LOCAL FIRMS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.721	.445		1.620	.108		
	BOPOPE	.423	.078	.425	5.437	.000	.621	1.610
	BOPMEC	-.011	.043	-.016	-.258	.797	.940	1.063
	BOPCOH	-.084	.068	-.098	-1.242	.217	.616	1.624
	BOPDMS	.494	.102	.470	4.867	.000	.409	2.447
	BOPDMC	.035	.050	.048	.710	.480	.839	1.192

a. **Dependent Variable: BOVERF**
Adjusted R- Square is 0.578
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.926	.746		1.242	.217		
BOPOPE	.180	.130	.149	1.383	.170	.621	1.610
BOPMEC	-.019	.071	-.024	-.271	.787	.940	1.063
BOPCOH	.193	.114	.184	1.702	.092	.616	1.624
BOPDMS	.259	.170	.203	1.524	.131	.409	2.447
BOPDMC	.090	.084	.100	1.073	.286	.839	1.192

a. Dependent Variable: BOSERF
Adjusted R- Square is 0.198
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.046	.799		1.309	.193		
BOPOPE	.056	.140	.042	.403	.687	.621	1.610
BOPMEC	-.049	.076	-.055	-.641	.523	.940	1.063
BOPCOH	-.108	.122	-.094	-.886	.378	.616	1.624
BOPDMS	.779	.182	.555	4.278	.000	.409	2.447
BOPDMC	-.008	.090	-.008	-.090	.929	.839	1.192

a. Dependent Variable: BOSTRF
Adjusted R- Square is 0.238
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.078	.719		5.670	.000		
	CEODUL	-.477	.640	-.067	-.746	.458	.919	1.088
	BODIND	-1.168	.477	-.215	-2.450	.016	.972	1.029
	BOSIZE	-.036	.041	-.081	-.875	.383	.872	1.147
	DIVJOB	.176	.109	.160	1.612	.110	.764	1.308
	DIVAFF	-.018	.059	-.027	-.301	.764	.952	1.051
	HUCPRO	.216	.070	.305	3.064	.003	.758	1.319

a. Dependent Variable: BOPOPE
Adjusted R-Square is 0.169
Regression of Board Operation on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.175	1.194		3.497	.001		
	CEODUL	-.564	1.062	-.054	-.531	.597	.919	1.088
	BODIND	-.257	.792	-.032	-.325	.746	.972	1.029
	BOSIZE	-.029	.068	-.044	-.422	.674	.872	1.147
	DIVJOB	-.054	.181	-.033	-.297	.767	.764	1.308
	DIVAFF	.106	.098	.107	1.077	.284	.952	1.051
	HUCPRO	.039	.117	.037	.336	.738	.758	1.319

a. Dependent Variable: BOPMEC
Adjusted R-Square is -0.039
Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	4.192	.869		4.826	.000		
CEODUL	-1.513	.773	-.185	-1.958	.053	.919	1.088
BODIND	-.035	.576	-.006	-.060	.952	.972	1.029
BOSIZE	-.032	.049	-.062	-.642	.522	.872	1.147
DIVJOB	.099	.132	.078	.755	.452	.764	1.308
DIVAFF	.064	.072	.083	.891	.375	.952	1.051
HUCPRO	.227	.085	.278	2.666	.009	.758	1.319

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.086
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	4.160	.679		6.126	.000		
CEODUL	-.407	.604	-.061	-.674	.502	.919	1.088
BODIND	-.836	.450	-.163	-1.856	.066	.972	1.029
BOSIZE	-.029	.039	-.070	-.757	.451	.872	1.147
DIVJOB	.151	.103	.145	1.465	.146	.764	1.308
DIVAFF	.016	.056	.026	.294	.769	.952	1.051
HUCPRO	.229	.066	.343	3.452	.001	.758	1.319

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.170
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.158	1.047		3.015	.003		
	CEODUL	1.607	.932	.169	1.725	.088	.919	1.088
	BODIND	-.418	.695	-.057	-.602	.548	.972	1.029
	BOSIZE	.053	.059	.089	.887	.377	.872	1.147
	DIVJOB	.017	.159	.012	.108	.914	.764	1.308
	DIVAFF	.143	.086	.159	1.651	.102	.952	1.051
	HUCPRO	.123	.102	.129	1.199	.233	.758	1.319

a. **Dependent Variable: BOPDMC**
Adjusted R-Square is 0.021
Regression of Board Directors' Conduct on Board Characteristics

MANUFACTURING FIRMS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.249	.524		2.383	.019		
	BOPOPE	.373	.081	.383	4.622	.000	.681	1.468
	BOPMEC	.012	.040	.022	.307	.759	.944	1.060
	BOPCOH	-.061	.071	-.069	-.860	.392	.723	1.384
	BOPDMS	.453	.095	.423	4.793	.000	.599	1.668
	BOPDMC	-.005	.039	-.010	-.140	.889	.954	1.048

a. **Dependent Variable: BOVERF**
Adjusted R- Square is 0.438
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.755	1.022		1.717	.089		
BOPOPE	.133	.157	.091	.846	.399	.681	1.468
BOPMEC	-.029	.077	-.035	-.379	.706	.944	1.060
BOPCOH	.275	.138	.208	1.993	.049	.723	1.384
BOPDMS	.081	.184	.050	.441	.660	.599	1.668
BOPDMC	.075	.075	.090	.996	.321	.954	1.048

a. Dependent Variable: BOSERF
Adjusted R- Square is 0.057
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.934	.873		1.070	.287		
BOPOPE	.075	.134	.056	.555	.580	.681	1.468
BOPMEC	-.002	.066	-.003	-.030	.976	.944	1.060
BOPCOH	-.024	.118	-.020	-.202	.840	.723	1.384
BOPDMS	.619	.157	.419	3.932	.000	.599	1.668
BOPDMC	.059	.064	.077	.915	.362	.954	1.048

a. Dependent Variable: BOSTRF
Adjusted R- Square is 0.182
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.292	.622		5.295	.000		
CEODUL	.545	.456	.107	1.196	.234	.895	1.117
BODIND	-.144	.474	-.026	-.303	.762	.985	1.016
BOSIZE	.012	.027	.038	.433	.666	.919	1.088
DIVJOB	.267	.092	.270	2.894	.005	.828	1.208
DIVAFF	.042	.051	.072	.830	.408	.964	1.038
HUCPRO	.139	.062	.206	2.259	.026	.867	1.154

a. Dependent Variable: BOPOPE
Adjusted R-Square is 0.138
Regression of Board Operation on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.850	1.168		2.440	.016		
CEODUL	-.589	.857	-.067	-.688	.493	.895	1.117
BODIND	.470	.891	.049	.527	.599	.985	1.016
BOSIZE	-.005	.051	-.008	-.088	.930	.919	1.088
DIVJOB	.104	.173	.061	.603	.548	.828	1.208
DIVAFF	.030	.096	.029	.310	.757	.964	1.038
HUCPRO	.166	.116	.141	1.432	.155	.867	1.154

a. Dependent Variable: BOPMEC
Adjusted R-Square is -0.014
Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.505	.713		6.322	.000		
	CEODUL	-1.050	.523	-.187	-2.009	.047	.895	1.117
	BODIND	.433	.544	.071	.796	.428	.985	1.016
	BOSIZE	-.024	.031	-.070	-.768	.444	.919	1.088
	DIVJOB	.152	.106	.139	1.439	.153	.828	1.208
	DIVAFF	.041	.058	.063	.698	.487	.964	1.038
	HUCPRO	.147	.071	.197	2.086	.039	.867	1.154

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.072
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.941	.583		8.472	.000		
	CEODUL	.072	.428	.016	.169	.866	.895	1.117
	BODIND	-.167	.445	-.033	-.376	.707	.985	1.016
	BOSIZE	-.016	.025	-.057	-.626	.533	.919	1.088
	DIVJOB	.082	.087	.091	.947	.346	.828	1.208
	DIVAFF	-.005	.048	-.009	-.096	.924	.964	1.038
	HUCPRO	.189	.058	.307	3.268	.001	.867	1.154

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.081
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.022	1.150		2.628	.010		
CEODUL	1.701	.843	.190	2.018	.046	.895	1.117
BODIND	-.833	.877	-.085	-.949	.344	.985	1.016
BOSIZE	.075	.050	.139	1.500	.136	.919	1.088
DIVJOB	.044	.171	.025	.257	.798	.828	1.208
DIVAFF	.216	.094	.208	2.293	.024	.964	1.038
HUCPRO	-.050	.114	-.042	-.442	.659	.867	1.154

a. Dependent Variable: BOPDMC
Adjusted R-Square is 0.052
Regression of Board Directors' Conduct on Board Characteristics

SERVICE (NON-MANUFACTURING) FIRMS

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.113	.368		3.023	.003		
BOPOPE	.411	.057	.419	7.199	.000	.759	1.317
BOPMEC	.012	.031	.020	.379	.705	.941	1.063
BOPCOH	.045	.060	.049	.747	.456	.606	1.649
BOPDMS	.316	.066	.331	4.760	.000	.533	1.878
BOPDMC	.016	.035	.024	.449	.654	.870	1.150

a. Dependent Variable: BOVERF
Adjusted R- Square is 0.456
Regression of Board Oversight Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.201	.624		1.925	.056		
BOPOPE	.130	.097	.097	1.345	.180	.759	1.317
BOPMEC	.017	.053	.021	.325	.745	.941	1.063
BOPCOH	.452	.102	.358	4.433	.000	.606	1.649
BOPDMS	.036	.112	.028	.324	.747	.533	1.878
BOPDMC	.004	.059	.004	.063	.950	.870	1.150

a. **Dependent Variable: BOSERF**
Adjusted R- Square is 0.166
Regression of Board Service Role on Board Characteristics

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.974	.622		1.566	.119		
BOPOPE	.173	.096	.128	1.796	.074	.759	1.317
BOPMEC	-.007	.053	-.009	-.134	.894	.941	1.063
BOPCOH	.149	.102	.117	1.467	.144	.606	1.649
BOPDMS	.364	.112	.277	3.244	.001	.533	1.878
BOPDMC	.035	.059	.040	.602	.548	.870	1.150

a. **Dependent Variable: BOSTRF**
Adjusted R- Square is 0.184
Regression of Board Strategic Role on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.361	.467		7.192	.000		
	CEODUL	.990	.655	.098	1.512	.132	.955	1.047
	BODIND	-.647	.316	-.130	-2.046	.042	.993	1.007
	BOSIZE	.017	.022	.051	.797	.427	.969	1.032
	DIVJOB	.181	.070	.180	2.584	.010	.830	1.205
	DIVAFF	.044	.041	.070	1.081	.281	.956	1.046
	HUCPRO	.194	.051	.261	3.835	.000	.864	1.158

a. **Dependent Variable: BOPOPE**
Adjusted R-Square is 0.155
Regression of Board Operation on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.734	.832		4.487	.000		
	CEODUL	.941	1.166	.057	.806	.421	.955	1.047
	BODIND	.051	.563	.006	.091	.928	.993	1.007
	BOSIZE	-.057	.039	-.103	-1.471	.143	.969	1.032
	DIVJOB	.069	.125	.042	.554	.580	.830	1.205
	DIVAFF	.053	.073	.051	.724	.470	.956	1.046
	HUCPRO	.110	.090	.090	1.221	.223	.864	1.158

a. **Dependent Variable: BOPMEC**
Adjusted R-Square is 0.004
Regression of Board Meeting Conduct on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.474	.490		7.095	.000		
	CEODUL	.471	.686	.044	.686	.493	.955	1.047
	BODIND	.219	.331	.041	.662	.508	.993	1.007
	BOSIZE	-.013	.023	-.036	-.565	.573	.969	1.032
	DIVJOB	.178	.074	.166	2.426	.016	.830	1.205
	DIVAFF	.017	.043	.025	.394	.694	.956	1.046
	HUCPRO	.275	.053	.348	5.188	.000	.864	1.158

a. Dependent Variable: BOPCOH
Adjusted R-Square is 0.178
Regression of Board Cohesiveness on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.178	.486		8.594	.000		
	CEODUL	.437	.681	.042	.641	.522	.955	1.047
	BODIND	-.246	.329	-.048	-.748	.455	.993	1.007
	BOSIZE	-.016	.023	-.047	-.715	.475	.969	1.032
	DIVJOB	.152	.073	.147	2.086	.038	.830	1.205
	DIVAFF	-.034	.043	-.052	-.789	.431	.956	1.046
	HUCPRO	.237	.053	.312	4.519	.000	.864	1.158

a. Dependent Variable: BOPDMS
Adjusted R-Square is 0.133
Regression of Board Meeting Structure on Board Characteristics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.494	.778		4.491	.000		
	CEODUL	1.403	1.090	.090	1.287	.199	.955	1.047
	BODIND	-.649	.526	-.085	-1.232	.219	.993	1.007
	BOSIZE	.039	.036	.076	1.092	.276	.969	1.032
	DIVJOB	.143	.117	.092	1.224	.222	.830	1.205
	DIVAFF	.038	.068	.039	.554	.580	.956	1.046
	HUCPRO	-.003	.084	-.003	-.036	.971	.864	1.158

a. Dependent Variable: BOPDMC
Adjusted R-Square is 0.005
Regression of Board Directors' Conduct on Board Characteristics

Hypotheses proven at Significant levels	**Overall**	**Big**	**Small**	**Mature**	**Young**	**Multinational**	**Local**	**Manufacturing**	**Service**
Board CEO Duality is positively correlated to board decision-making speed	Positive at 5%			Positive at 5%				Positive at 5%	
Board CEO Duality is positively correlated to cohesiveness		Negative at 1%		Negative at 5%				Negative at 5%	
Board independence is positively correlated to board operations efficiency		Negative at 1%			Negative at 5%		Negative at 5%		Negative at 5%
The degree of job-related diversity on the board is negatively related to the speed of decision-making									Positive at 5%
The degree of job-related diversity on the board is negatively related to the board's cohesiveness	Positive at 5%		Positive at 1%		Positive at 5%	Positive at 1%			Positive at 5%
Board job-related diversity is positively correlated with board operations efficiency.	Positive at 1%		Positive at 1%	Positive at 1%	Positive at 1%	Positive at 5%	Positive at 1%		Positive at 1%
Level of human capital on the board is positively correlated to board decision-making speed.	Positive at 1%		Positive at 1%	Positive at 1%	Positive at 1%	Positive at 5%	Positive at 1%	Positive at 1%	Positive at 1%
Level of human capital on the board is negatively correlated to board cohesiveness.	Positive at 1%		Positive at 1%	Positive at 5%	Positive at 1%	Positive at 1%	Positive at 1%	Positive at 5%	Positive at 1%
Level of human capital on the board is positively correlated to board operations efficiency.	Positive at 1%	Positive at 5%	Positive at 1%	Positive at 5%	Positive at 1%	Positive at 5%	Positive at 1%	Positive at 5%	Positive at 1%
Speed of Board decision-making will be positively related to									
Board Oversight Role	Positive at 1%	Positive at 5%	--	Positive at 1%	--	--	Positive at 1%	Positive at 1%	Positive at 1%
Board Service Role	--	--	--	--	--	--	--	--	--
Board Strategic Role	Positive at 1%	--	Positive at 1%	Positive at 1%	Positive at 5%	--	Positive at 1%	Positive at 1%	Positive at 1%
The effect of cohesiveness on									
Board Oversight Role will be positive	--	--	Positive at 5%	--	--	Positive at 5%	--	--	--
Board Service Role will be positive	Positive at 1%	Positive at 5%	--	Positive at 5%	Positive at 1%	Positive at 5%	--	Positive at 5%	Positive at 1%
Board Strategic Role will be positive.	---	--	Positive at 1%	--	--	--	--	--	--

The effect of efficient board operations on Board Oversight Role Board Service Role Board Strategic Role will be positive.	 Positive at 1% Positive at 5% Positive at 5%	 Positive at 1% Positive at 1% Positive at 1%	 Positive at 1% -- --	 Positive at 1% -- --	 Positive at 1% Positive at 5% --	 Positive at 1% -- --	 Positive at 1% -- --	 Positive at 1% -- --	 Positive at 1% -- --

Regression Results based on the Control variable

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