

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Corporate Board Diversity and Asset Generation of Private Sector Firms in Nigeria

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Abstract:

Over the last two decades, the question of board diversity as drivers of effective corporate governance has considerably been on the increase, as a diverse board is believed to be more effective in carrying out its control functions. We examine the relationship between corporate board diversity and asset generation in the Nigerian private sector. We make a case for Nigeria considering that research on the area of board diversity is still at its infancy. Specifically, we consider gender diversity and foreign directorship as measures of diversity and the effect on total assets. Random effect Panel data multiple regression technique was adopted to analyze the data collected from firms listed on the consumer goods segment of the Nigerian stock exchange (NSE) between 2015-2018. Data were obtained from published financial statements of the sample companies and the Nigerian stock exchange fact book. For the purpose of uniformity, we excluded firms with incomplete records for the period under consideration. The results of the study show a statistically significant and positive relationship between corporate board diversity and total assets. Our study also reveals that the percentage of female directors and foreign directors on the boards of companies listed on the Nigerian stock exchange for the period under review is quite low compared to what is obtainable in other climes. The most recent codes of corporate governance in Nigeria are silent onboard composition and diversity as it gives organizations the powers to appoint directors with the requisite skills and knowledge to chart the affairs of the organization to achieve its set objectives. Considering the positive and significant effect on performance of corporate diversity, we recommend that subsequent codes of corporate governance are more explicit as regards board diversity by specifying a minimum representation of women on boards, foreign directors.

Keywords: Corporate governance, board diversity, asset generation, Nigeria

1. Introduction

Increasing corporate scandals and business failure has sparked a lot of research interest in the area of corporate governance, specifically, the director's ability to protect the shareholders from the self-serving decisions of management, which may hinder the shareholders from getting a fair return on their investment. In the light of the recent financial crisis, business organizations have attempted to strengthen their corporate governance practices. In Nigeria, the collapse of the financial institutions was blamed on weak corporate governance practices, lack of transparency and corruption (Akpan & Amran, 2014). This called for the review of the corporate governance codes to restores the confidence of shareholders in both the private and public sectors. Corporate governance codes provide for both external and internal mechanisms to reduce agency cost as a result of the separation of ownership from control of business organizations. Developing economies such as Nigeria's are characterized by weak legal framework, weak contracting in the business environment, weak shareholder rights, corruption, low levels of transparency, inadequate disclosure of information and lack of adequate enforcement which makes it easier for the agents to be more self-serving than act in the best interest of the owners. This emphasizes the role of internal mechanisms such as the board of directors as they reduce agency cost by monitoring and rewarding top executives leading to shareholders' wealth maximization. The board of directors is the shareholders first line of defense, as they rely on the board of directors to ensure that their investments are well managed and protected. (Brennan, 2010). The board of directors is accountable for setting objectives, monitoring and controlling firm's actions to align managers and shareholders interest (Fama and Jensen, 1983). From the theoretical perspective, the interest of the shareholders can be protected from self-seeking management through effective monitoring of the management via corporate governance structures like board of directors, board committees etc, or by providing the directors with incentive to align their interests with that of shareholders (Fama & Jensen 1983; Jensen & Meckling 1976).

To carry out this monitoring role effectively, the composition of the board of directors is equally very important for good corporate governance, as it pertains to identifying structures that align the interests of management and stakeholders (Rose,2007).According to Fama and Jensen (1983) and Hermalin and Weisbach (2003), the firm's board is by far the most important internal control device seeking to control management and deter it from opportunistic behavior. The discussion of board composition has focused extensively on various board attributes such a board size, board committee composition, number of meeting etc, and how to ensure the independence of corporate boards. However, in

recent years, the issue of board diversity has gained considerable interest in governance literature. Corporate board diversity is fast becoming an emergent issue in the world of corporate governance research as there has been a shift from a mere 'box ticking' exercise in terms of compliance with corporate governance codes to what the directors bring to the table in terms of carrying out their oversight function effectively. Boardroom diversity covers age, background, gender and ethnic diversity, and also diversity in terms of skills, thinking, competencies, experiences, and careers.

An effective board will usually comprise a mixture of directors with the requisite skill, expertise and experience to carry out their oversight function. As Sally Freeman (2017) puts it, 'having a board that consists of more than one 'type' of person will bring great benefit to an organization. Generally, diversity looks at the board composition of individual directors to allow for a balanced board which is the essence of corporate governance. Diversity brings new perspectives, a move away from the potential 'group think' mentality that can occur when like-minded people discuss issues and make decisions'. A diverse board enhances stakeholder's wealth as it directly affects the quality of the monitoring role of the boards. A diverse and inclusive board of directors usually provides an organization with relationships to many groups, relationships that can open up multiple opportunities to build strategic alliances. On the contrary, homogeneous board of directors tends to build alliances with the same groups over and over again and is often self-perpetuating (Saldar, Shah & Roa 2014)

It been shown that one of the most effective ways to enhance corporate governance is through board diversity. It is believed that good corporate governance is positively associated with board diversity (Carter, Simkins, and Simpson, 2003). Advocates of corporate diversity claim that diversity improves decision making process as well as financial and social performance (Rhode and Peckel, 2010, Hasfi & Turgut, 2013, Coffey & Wang ,1998), reduces information asymmetry.

Corporate board diversity has become an increasingly popular topic across the globe, and despite the gains associated with a diverse board, the pace at which organizations in developing countries such as Nigeria are adopting diversity on the board is quite low. It is on the premise of this that this study seeks to examine the extent to which organizations operating in Nigeria have adopted a diverse board and its effect on the asset generation of these firms. Specifically, this study focuses on companies listed on the consumer goods segment of the Nigerian stock exchange (NSE) between 2015-2018. Diversity for the purpose of this study covers gender diversity and foreign directorship

2. Literature Review and Empirical Review

2.1. Corporate Governance

The concept of corporate governance has been defined by various scholars, academics and researchers giving it different meanings and connotations. Shleifer and Vishny (1997) stated that corporate governance deals with the ways in which suppliers of finance of corporations assure themselves of getting a return on their investment. This assertion however is consistent with the position of Garrey and Siran (1994) who argued that corporate governance determines how the firms' top decision makers actually administer such contracts. Akinsulire (2010) submitted that corporate governance is a system by which companies are directed and managed in the best interest of the owners and investors. In a more comprehensive manner, the Institute of Internal Auditors (US) IIA (as cited in Dana & Larry 2003) defined 'governance as a process that deals with the procedures utilized by the representatives of the organizations' stakeholders to provide oversight risk and control processes administered by management'. The monitoring of organizational risks, and the assurance that controls adequately mitigate those risks both contribute directly to the achievement of organizational goals and the preservation of organizational value. Those performing governance activities are accountable to the organization's stakeholders for effective stewardship. The OECD provides a more comprehensive definition of corporate governance, as a set of relationship between a company's management, its board, its shareholders and other stakeholders. The definition by OECD highlights the importance an internal control mechanism and the role of the board of directors as very vital organ of the business organization. The board of directors has been a major corporate governance mechanism, and an effective board is fundamental to the success of a firm and vital for good corporate governance.

2.2. Gender Diversity

Gender simply means female representation on the board of directors (Carter et al, 2003). Gender diversity has received considerable attention in governance literature recently which has prompted countries to pass legislations concerning female representation on corporate board. In Sweden and Norway for Instance, a legislation was passed imposing gender quota on the board of listed companies (Rondoy, Oxelheim & Thomson, 2006). In Nigeria, the most recent codes of corporate governance require a balance of skill, expertise, gender and competence but does not specify a clear percentage of female representation on the board, but Sener & Karaye (2014) in their comparative study between Turkey and Nigeria, found about 68% female representation on corporate boards in Nigeria. It is believed that women on the board can enhance the effectiveness of the board as they are more trustworthy and stricter and are usually more risk averse than men(Byrnessetal.,1999). It is also believed that electing women on the board can provide access to a wealth of resources such skill, prestige knowledge and connection to external resources (Dang & Vo, 2012). Taghizadeh & Saremi (2014), show that a high percentage of female representation on the board increases performance.

A number of empirical studies have been carried out linking gender diversity and performance both in Nigeria and across the globe using both market and firm level measures of performance. The empirical studies linking gender diversity and performance show conflicting results. Some of the studies show a negative relationship or insignificant relationship between gender diversity and performance Darmadi (2011), Akpan & Amran (2014), Akpan & Amran (2014). Abad, Lucas-Perez, Minguez-Vera & Yague(2017) found a negative relationship using both Blau's and SHANNON diversity index and

information asymmetry using Bid-ask spread and price impact probability (PIN) in the stock market. On the other hand, a number of other studies also show a positive relationship between gender diversity and various measure of performance. Ahmad & Hamzah (2014) found a positive relationship between board women and dividend payout. Taieb & Turgut (2012) found a positive relationship between gender diversity and corporate social performance. Similarly, Julizaema & Zulkanian (2012), Oba & Fodio (2013) Turkur and Bilkisu and Taghizadeh & Saremi (2013), all show that the presence of female directors on corporate boards increases firm's performance.

2.3. Foreign Directorship

Foreign directorship is another dimension of corporate board diversity, which means the presence of foreign directors on the board. More research tends support the presence of foreign directors on the board, as it believed that the presence of foreign directors on the board improves the monitoring role of the board, increase board independence, reduce expropriation and enhance the competitive advantage of the firm (Oxelheim and Randoy, 2003). The presence of foreign directors on the board, is believed to improve the quality of the board as a result of their diverse opinions and views, expertise and diverse thoughts they bring. Empirical research on foreign directorship show a positive relationship between the presence of foreign directors on firm a performance (Turkur & Bilkisu, 2012, Ahmad & Hamzah, 2014 and Shukeri, Shin & Shaari, 2012).

In Nigeria, there is fair number of foreign directors on corporate boards; this is the case particularly for firms which are largely foreign owned. In the case of locally owned firms, the percentage of foreign directorship is not as high,

Prior empirical studies have shown a number of ways by which corporate board diversity is measured. Firstly, some researchers adopt the heterogeneity index, with Blau's diversity index and SHANNON's diversity index being the most popularly adopted (Abad, Lucas-Perez, Miguez-Vera & Yague, 2017; Ararat et al., 2010). Secondly, some researchers also adopt dichotomous variables to indicate whether or not certain diversity variables exists or not on the board (Darmadi 2011, Oba & Fodio 2013). Thirdly, some researchers measure diversity by computing basic proportions of board members with particular dimensions (Oxelheim and Randoy, 2003). The most commonly adopted method of measuring diversity as seen revealed from the review of literature is method three.

For the purpose of the study, a mix of methods is adopted. We use the percentage of female directors and foreign directors to measures gender diversity and foreign directorship.

2.4. Theoretical Framework

This study draws its theoretical underpinnings from the agency theory and the resource dependency theory. The agency theory was developed as a result of the agency problem as initiated by Berle and Means (1932). The agency problem arises as a result of the separation of management from ownership of business organizations. This separation gives rise to divergent interest between the principal and agent. The agency theory holds that this diverse interest can be reduced by giving appropriate incentives to the agents and also to monitor the actions taken by the agents (Jensen and Meckling, 1976). The boards of directors, who are appointed by the shareholders to carry out the control function on their behalf, play a vital role in mitigating the agency problem. The agency theory holds that a diverse board will act objectively and independently and also serve as effective monitors to ensure the shareholders interest is protected (Hillman & Dalziel, 2003).

The resource dependency theory on the other hand according to Teriesen, Sealy and Singh (2009), views the firm as operating in an environment that requires the exchange of resource in order to thrive. The resource dependency theorist holds that the main function of the board of directors is the provision of resources. It is argued that given the complex and constantly changing business environment, a diverse board is better able to make available resources and also attract the resources needed from the environment.

2.5. Methods

2.5.1. Population, Sampling and Data Collection

The population of this study comprise all 22 companies listed in the consumer goods sector of the Nigerian stock exchange (NSE) from 2015-2018. The consumer goods sector of the NSE was selected because no specific research on board diversity has been carried out in this sector and it is the largest sector after financial institutions. A total of 22 companies were listed in this sector for the period under review. A sample size of 13 companies was used for this study which represents all the companies with complete financial data for the 4-year period under review. Secondary data was employed for the purpose of this study. Data were obtained from the audited annual reports and accounts of the selected companies obtained from both the individual companies and the NSE website.

2.5.2. Method of Data Analysis

Given the nature of the data, having multiple observation spread over a period of time (4 years) for the same firms, multiple panel data regression using both fixed effects and random effects were used. Panel data regression takes into consideration individual heterogeneity, gives more data variation and degree of freedom with less collinearity. Panel data helps in detection and measurements of effects which will normally not be observed using either time series or cross sectional data. Furthermore, the Hausman test for endogeneity was performed to determine which of the random effect results or fixed effects results should be used.

2.6. Variables, Measurements and Model Specification

2.6.1. Dependent Variable (lnT_ASSET)

The dependent variable for this study is return on assets which is measured by log of total assets. The Independent variables for this study include:

2.6.2. Gender Diversity (FEPERT)

Gender diversity is measured by the percentage of women on the board (Akpan & Amran,(2014; Oba & Fodio, 2013), computed by $\text{number of female directors} \div \text{boardsize}$. In addition, gender diversity is also computed by the percentage of male directors measured by $\text{number of male directors} \div \text{boardsize}$

2.6.3. Foreign Directorship (FORPERT)

Is measured by the percentage of foreign directors on the board. Computed by; $\text{number of foreign directors} \div \text{boardsize}$.

The essence of using a variety of measures of diversity, is to boost the robustness of the results obtained.

Following, the model used is;

$$\ln T_ASSET_{it} = a_i + bFORPERT_{it} + bMAPERT_{it} + bFEPERT_{it} + u_{it}$$

Where:

$\ln T_ASSET_{it}$ = log of total asset

$a_i + bFORPERT_{it}$ = percentage of female directors

$bMAPERT_{it}$ = percentage of male directors

$bFEPERT_{it}$ = percentage of foreign directors

3. Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.872535	0.992389	5.917571	0.0000
FORPERT	-0.016156	0.003242	-4.982593	0.0000
MAPERT	0.027442	0.009587	2.862384	0.0070
FEPERT	0.008203	0.011996	0.683840	0.4985
R-squared	0.935577	Adjusted R-Square		0.908734
F-statistic	34.85356	Durbin-Watson stat		2.749698
Prob(F-statistic)	0.000000			

Table 1: Result of Panel Data Multiple Regression Random Effect (T_Asset)

Source: Researcher's Computation with Eviews 10.0

Table 1.1 shows the output of the fixed effects of panel data correlation matrix of the regression coefficient of the model. The model explained the behavior of each individual explanatory variable (percentage of female directors, percentage of male directors and percentage of foreign directors) on the regressor (log of total assets). The result shows a high statistically significant output of the model with probability value of 0.0000 and Fstatistics value of 34.85, the adjusted Rsquare is also very high with the value 0.91 meaning that the measurement of the explanatory variables on the regressor is best fit.

The Percentage of foreigners represented by FORPERT in the model is also statistically significant with the probability value of 0.0000 and t-statistics value of -4.98 which test for the individual variable in the model. The male percentage also represented by MAPERT in the model is statistically significant with the probability value of 0.0070 with t-statistics value of 2.96 which test for the individual variable in the model. The percentage of female directors represented by FEPERT in the model is not statistically significant with the probability value of 0.4985 and t-statistics value of 0.683 which test for the individual variable in the model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.867423	0.995302	5.895118	0.0000
FORPERT	-0.016002	0.003051	-5.245267	0.0000
MAPERT	0.027335	0.009442	2.894956	0.0057
FEPERT	0.008737	0.011664	0.749033	0.4575
R-squared	0.555477	Adjusted R-Squared		0.527694
F-statistic	19.99361	Durbin-Watson stat		2.167312
Prob(F-statistic)	0.000000			

Table 2: Result of Panel Data Multiple Regression Random Effect (T_Asset)

Source: Researcher's Computation with Eviews 10.0

Table 1.2 shows the output of the random effects of panel data correlation matrix of the regression coefficient of the model. The model explains the behavior of each individual explanatory variable on the regressor. The result shows a high statistically significant output of the model with probability value of 0.0000 of the Fstatistics with value 19.993, the

adjusted Rsquare also a very high with the value 0.53 meaning that the measurement of the explanatory variables on the regressor is best fit.

The Percentage of foreigners represented by FORPERT in the model is also statistically significant with the probability value of 0.0000 with the t-statistics value of -5.245 which test for the individual variable in the model. The male percentage also represented by MAPERT in the model is statistically significant with the probability value of 0.0057 with the t-statistics value of 2.894 which test for the individual variable in the model. The percentage of female directors represented by FEPERT in the model is not statistically significant with the probability value of 0.4585 with the t-statistics of 0.749 which test for the individual variable in the model

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.543927	3	0.9091

Table 3: Summary of Effects Hausman Test (T_{Asset})
Source: Researcher's Computation with Eviews 10.0

The Hausman test in the Table 3 shows the Chi-Square statistics value of 0.543927, the Chi-Square degree of freedom value of 3. While the probability value of the Hausman test of 0.909 meaning that it is not statistically significant therefore we retain the null hypothesis over the alternative in the Hausman test statistics.

Decision; since the Hausman statistics test is not significant, meaning that fixed effect do not correlate with the explanatory variables, we use the null hypothesis of the Hausman test that states that the random effects are independent of the explanatory variable. Therefore, we use the results of the random effect regression over that of the fixed effect regression.

The results of the random effect panel data regression show a probability value (p-value) of 0.0000 meaning that it is highly statistically significant. Therefore, we reject the null hypothesis that there is a no significant relationship between corporate board diversity and total assets and accept the alternate hypothesis that there is a positive significant relationship between corporate diversity (put together) and total assets. Also the probability of Fstatistics is highly statistically significant showing that the model is suitable. The results of this study are in tandem with the resource dependency theory which favors a diverse board, considering the diverse wealth of resources the board members bring. The results are also in agreement with prior empirical studies such as; Ahmad & Hamzah,2014; Julizaema& Zulkhanian,2012; Oba & Fodio, 2013; Turkur and Bilkisu, 2012; and Taghizadeh & Saremi, 2013.

The values of the Adjusted Rsquare is 0.53 meaning that the measurement of the explanatory variables on the regressor is best fit and the rest value of 0.47is explained by other variables that are not captured in the model but have effects on the asset generation of the sample firms in the model which is not percentage of foreigners, percentage of male directors and, percentage of female directors as stated in the model. The percentage of male directors and the percentage of foreign directors in the model from their respective t-value are significant (0.0000, and 0.0057) respectively indicating a positive and significant relationship with ROA. The percentage of female directors on the hand with a t-value of 0.457 indicates an insignificant relationship with ROA. This result is in consonance with prior empirical studies including Darmadi (2011), Akpan & Amran (2014), Akpan& Amran (2014). Abad, Lucas-Perez, Minguez-Vera &Yague (2017).

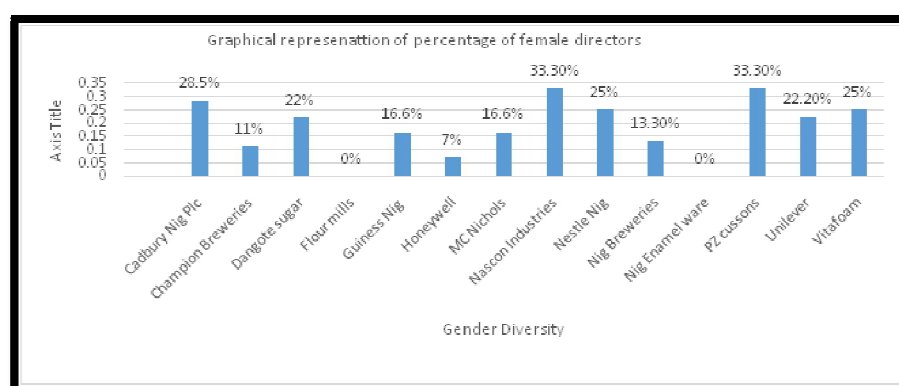


Figure 1: Graphical Representation of Percentage of Female Directors on the Board

Figure 1 above shows the graphical representation of the percentage of female directors on board of the sample companies in the consumer goods sector of the NSE. From the illustration, it is shown that 85.7% of the sample firms have female directors on their board. The graph shows that the board with the highest female representation has 33.3% of female directors and the least had no female on their board. On average, the board of the sample firms has 18% of female representation.

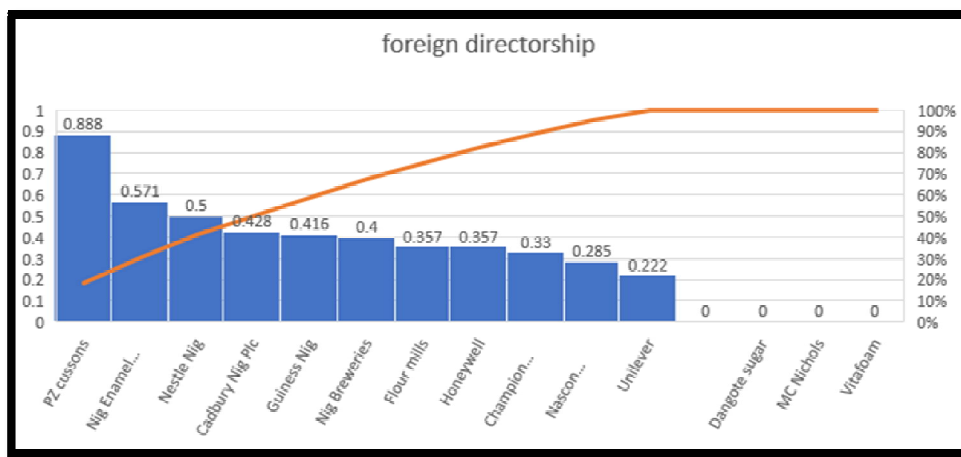


Figure 2: Graphical Illustration of the Presence and Percentage of Foreign Directors on the Board

Figure 2 shows the percentage of foreign directors on the sample board. About 71% of the sample firms have at least one director on their board, with the highest representation been 88% and the lowest being 0% with no foreign directors. The level of presence of foreign directors on the sample boards is greatly influenced by the nature of ownership of the companies. For wholly owned local companies, the percentage and presence of foreign directors is relatively low as compared to companies with majorly foreign ownership.

4. Conclusion

Corporate board diversity has featured significantly in governance literature as a diverse board is believed to be more value adding. This study empirically examines the effect of corporate board diversity on firm asset generation as measured by ROA. The results above show that board diversity has a positive and significant relationship with asset generation as measured by total assets. Individually, the percentage of male directors and the percentage of foreign directors on the board have a positive and significant relationship with total assets. On the other hand, the relationship between the percentage of female directors and total assets is not statistically significant.

5. Recommendations

Considering this positive and significant relationship that exist between corporate board gender diversity and performance, it is recommended that Nigerian corporate governance codes should be more explicit in with regards to board diversity especially setting a benchmark percentage of female directors and foreign directors even for locally owned companies. In addition, it is recommended that the appointment of directors should go beyond a mere box ticking exercise, that firms should appoint directors to taking into consideration their skill and expertise, and these directors should be given opportunities to bring their skills to bare.

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