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Aims and Scope

Areas of interest for this journal include, but are not limited to, the following topics: behavioural economics, corporate finance, financial institutions and markets, financial services, insurance, international economics and trade, international finance, macroeconomics, monetary policy, financial economics, portfolio and security analysis, real estate, ethical finance, money and banking and accounting and financial reporting.

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BOARD SIZE DETERMINANTS: EVIDENCE FROM NIGERIA

Bazeet Olayemi Badru, Nordiana Osagie Davies, Rihanat Idowu Abdulkadir

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Board Size Determinants: Evidence from Nigeria

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ABSTRACT

This paper seeks to investigate the determinants of board size for Nigerian companies. To accomplish the aim of the study, a panel data set of public listed companies in Nigeria from 2005 to 2015 was employed. The results showed that the most common board size of Nigerian companies ranged from four to 18 members. Specifically, the findings indicated that board size was a function of company and industry characteristics. A significant and positive association was found between company size and board size, while CEO ownership and ownership concentration were negative. The results lend support to theoretical arguments that a company's board structure is determined by the scope of company operations and monitoring costs associated with the company. Since company-specific characteristics determine board size, the impact of board size on corporate outcomes may differ based on these characteristics. Therefore, it would be helpful if future studies could consider the interactive effect of company characteristics when investigating the impact of board size on corporate outcomes.

1. Introduction

In today's corporate environment, emphasis on improving corporate governance is mainly centred on the board of directors (BODs). The BODs is the most important corporate governance mechanism in companies and has a wide range of responsibilities, which include monitoring company operations, advising top management and making strategic decisions that may affect company financial performance and value as well as sustainability. However, for the BODs to carry out its responsibilities effectively, understanding the environment in which the company operates is vital. One key factor that affects board effectiveness and which reflects the ability of a company to link the company with the environment and to secure critical resources is the size of the board (Nguyen, Rahman, Tong, & Zhao, 2015; Pfeffer, 1972).

Board size, which is considered as the number of directors in the corporate boardroom and this number (small or large), is crucial in enabling the BODs to discharge its responsibilities. For instance, scholars arguing from the agency theory perspective have suggested that a small board can monitor more effectively, while a large board can be ineffective and slow in decision-making because of coordination and communication problems leading to the deterioration of company value (Jensen, 1993; Lipton & Lorsch, 1992). However, resource dependence theory scholars have opined that large boards provide directors with the chance to specialise, which in turn, can result in better advice on the company's management (Pfeffer, 1972; Zahra & Pearce, 1989). In fact, companies which are highly in need of advice benefit from having a large board (Coles, Daniel, & Naveen, 2008).

These two opposing arguments suggest that board size depends on the costs and benefits of board functions in terms of monitoring and advising. Thus, the question is what are the drivers of a company's board size? Some scholars mentioned that the scope and complexities of a company's operations as well as specific business and information environment, are the drivers of a