Journal of Finance and Accounting
2023; 11(3): 107-112
http://www.sciencepublishinggroup.com/j/jfa
doi: 10.11648/j.jfa.20231103.16
ISSN: 2330-7331 (Print); ISSN: 2330-7323 (Online)

Board Dynamics and Corporate Performance: The Moderating Effects of CEO Power A Study of Listed Non-Financial Firms in Sub-Sahara Africa

Dheseviano Emiaso, Gloria Ogochukwu Okafor

Department of Accountancy, Faculty of Management Sciences, Nnamdi Azikiwe University, Awka, Nigeria

Email address:
dh.emiaso@stu.unizik.edu.ng (Dheseviano Emiaso), go.okafor@unizik.edu.ng (Gloria Ogochukwu Okafor)

To cite this article:
Dheseviano Emiaso, Gloria Ogochukwu Okafor. Board Dynamics and Corporate Performance: The Moderating Effects of CEO Power A Study of Listed Non-Financial Firms in Sub-Sahara Africa. *Journal of Finance and Accounting*. Vol. 11, No. 3, 2023, pp. 107-112. doi: 10.11648/j.jfa.20231103.16

Received: May 2, 2023; **Accepted**: June 14, 2023; **Published**: June 27, 2023

Abstract: The Board of Directors (BoD) is a company's highest executive body and the entity responsible for strategic decision-making and representation. The board of directors of a company can have an impact on the formulation of business and investment strategies, policies, and performance. In addition to examining the CEO power's moderating impact on the association between board independence and financial performance of listed non-financial companies in Sub-Saharan Africa, this study also investigated the relationship between board dynamics and corporate performance. Since the study used an ex post facto research design, secondary sources were used to collect the data. All listed non-financial firms in Sub-Saharan Africa made up the study's population. The study found a positive but non-significant link between board size, board independence, and CEO power and firm financial performance utilising financial statement statistics and exploratory factors in a regression model. The study's findings also suggest that the CEO's influence reduces the association between board independence and corporate financial performance. Therefore, the study draws the conclusion that board dynamics affects the corporate financial performance of listed non-financial corporations in Sub-Saharan Africa. It also makes several recommendations, such that companies adopt a manageable board size in order to enhance corporate financial performance.

Keywords: Board Size, Board Independence, CEO Power, Non-Financial Firms, Sub-Sahara Africa

1. Introduction

The Board of Directors (BoD) is a company's highest executive body and the entity responsible for strategic decision-making and representation. The board of directors of a company can have an impact on the formulation of business and investment strategies, policies, and performance. A corporation's corporate board is made up of a mix of people who, in addition to making money for the company as a whole, ethically enhance the company's social and environmental performance. In order to defend the interests of stakeholders while taking other factors into consideration, such as the environment, fair and competitive trade, the operational health of employees, and safety, it has the oversight obligation to oversee management on behalf of stakeholders. Board dynamics refers to how the individual board members interact with one another as they carry out their responsibilities as directors with the aim of generating financial value for the organization as a whole. The language used in the boardroom, the climate of constructive criticism and healthy debate, and ultimately the decisions and actions of the board itself can all be indicators of the dynamics of the board [8].

Before practitioners and academics, the significance of the Board of Directors' organizational structure as a vehicle that affects stakeholders' interests cannot be overstated. The topic of board structure as it relates to corporate governance has recently dominated most business discussion [4]. The issues with corporate governance that are currently present in the majority of nations are largely caused by ineffective ethical considerations. Written corporate ethics serve as guidelines for organizational management and strengthen loyalty to the firm's stakeholders. An essential part of establishing such strict commitment to ethics is the function that corporate boards of directors play [24].

Over the past three decades, various studies have examined the relationship between the make-up of the board of directors and corporate performance, with the one result that has remained constant being the absence of strong evidence for any overall or cross-sectional association. Numerous studies have extensively examined various dimensions of corporate governance dynamics, including these research [18, 19, 3, 15, 8]. They include disclosures, regulations including audit committee, board characteristics, sustainability and financial reporting, ownership structure and the general board control level, and have revealed that such features have varying degree of effect on firm performance.

While the above studies, although relatively few, have added to the understanding of board dynamics and corporate governance issues; the key argument in this study is that CEO power in a firm may affect decision making, thereby affecting financial performance. This is because, as the firm's senior management, CEOs are responsible for resource allocation, provision of information, and critical to decision making that will affect the financial performance of a firm.

1.1. Objectives of the Study

The main objective of this study is to explore the relationship between board dynamics and corporate performance and further examine the CEO power's moderating effect on the relationship between board independence and financial performance of listed non-financial companies in Sub-Saharan Africa. The specific objectives are to:

1) Evaluate the effect of board size on corporate performance.
2) Evaluate the effect of board independence on corporate Performance.
3) Investigate the extent to which the CEO power moderates the impact of board independence on corporate performance.

1.2. Scope of the Study

This study evaluated the effect of board dynamics on the corporate performance of listed non-financial companies in Sub-Saharan Africa. Sub-Saharan Africa was divided into three (3) sections thus: Western Africa, represented by Nigeria; Eastern Africa, represented by Mauritius and Southern Africa, represented by South Africa and a comprehensive comparative analysis carried out. The study used audited financial statements that were collected from quoted non-financial companies in Sub-Saharan Africa from 2012 to 2021 financial years.

2. Literature Review

2.1. Concept of Board Dynamics

This refers to characteristics of corporate boards that have overall management of the companies as their responsibility. These characteristics are referred to or associated with the concept of corporate governance in some research [9]. Thus, the management's function and company governance as a process are related to the success or failure of businesses. According to Vafeas N [22], board dynamics are the uniqueness which makes the board of directors different from every other board setup in the firm. The uniqueness ranges from the frequency of meetings, the number of professionals, size of the board, independence of the board and equity holding of the board members. The board of directors is appointed by shareholders to monitor management and oversee the affairs of the company on their behalf. The board is made up of executive directors and non-executive directors. The board is mandated to have such sub-committees that will enable them discharge their roles effectively. Henceforth the board of directors and its sub-committees to fulfill its function of monitoring management, there are some things that must characterize the board. The issues can range from frequency in meetings, the number of professions, size of the board, independence of the board, equity holding of the board members etc. According to Vafeas N. [22], the board that frequently meets may have time to set targets, develop strategy and monitor activities of management. They are likely to perform their duties in the best interest of the shareholders.

2.2. Board Independence and Corporate Performance: The Moderating Role of CEO Power

A chief executive officer's (CEO) primary duty is to develop and carryout the organization's strategic objectives, goals, and policies. On the other hand, the board of directors is in charge of conducting business in a way that will consistently benefit shareholders over the long term. The auditing of the CEO's present or upcoming administrative actions is one of the crucial duties of the board of directors. It is recommended that a sound and independent board be established to serve as monitoring and checks on the actions of the CEO because the managing director should perform significant operational and decision-making tasks. According to Kakabadse N. K. et al. and Vafeas N. [11, 22], board independence is directly related to the corporate governance mechanism of firms. Abundant evidence exists in the literature to suggest that independent directors are better monitors of management [14, 16, 21] and even regulators consider them as a key mechanism of corporate governance [2]. It is more acceptable for businesses to encourage independent members on the board for better oversight in order to pay the agency cost of CEO power. Thus, a company that wants to align its interests with those of the shareholders will support independent directors on the board, but a company that wants to dominate board decisions in order to shield itself from external scrutiny will oppose their participation (entrenchment effect). The previous literature examining the CEO power advocates that strong CEO promotes CEO entrenchment and, consequently, weakens corporate boards' strength to perform their monitoring role [5]. A few studies on CEO power [10, 17, 13] suggest that in most cases increase in CEO power is associated with the following features: board chair duality, CEO status as the corporation founder or firms founded by the CEO's siblings, CEO performance as a proxy of firm profitability, and CEO share ownership.

There are, however, few research examining how CEO authority affects board independence and/or how it modifies the relationship between board independence and financial performance. For example, Lindorff M. and Jonson E. P. [13] reported that higher CEO power strengthens the environmental, social, and CG disclosure effect on firm value in a sample of 367 UK firms between 2004 and 2013. However, their study mainly focused on environmental and social information disclosure and deployed only CEO remuneration as a proxy for CEO power.

In the instance of Nigeria, the structure of corporate governance and company performance were examined by (34). A negative relationship between CEO dualism and corporate performance measures (ROA, ROE, price-earnings ratio (PE), TOBIN's Q.) has been discovered, according to the findings of an empirical investigation. However, this finding was not statistically significant, and its potential to moderate the association between board independence and corporate performance was not explored. Ramadan E [20] studied the effect of independent member of board of directors and duality on performance of companies operating in Indonesia, Malaysia, South Korea and Thailand. A negative relation has been found between the size of board of directors and company performance, and a positive relation has been found between duality and company performance as results of the study.

3. Methodology

3.1. Design and Data

Ex post facto research design was used in this study since secondary sources were used to get the data. The population of the study is all the quoted non-financial companies in Sub-Saharan Africa. The following numbers of non-financial companies existed in Sub-Saharan Africa: 75, 26 and 186 for Nigeria, Mauritius and South Africa respectively. The above were sourced from Nigerian Stock Exchange (NSE) 2021, Stock Exchange of Mauritius (SEM) 2021, and Johannesburg Stock Exchange (JSE) 2021. Using Taro Yamane formula a total of 214 companies were derived as the sample size for this study. The break down is shown in table 1 below:

Table 1. *Break down of Population.*

COUNTRY	POPULATION	SAMPLE SIZE
Nigeria	75	63
Mauritius	26	24
South Africa	186	127
TOTAL	287	214

Source: Field work 2023

3.2. Model Specification

A model showing the relationship between board dynamics and corporate performance was adopted for the study thus:

$$ROA=f(BSZ, BIN, CPW) \quad (1)$$

This can be mathematically expressed as:

$$ROA_{it}=\beta_0+\beta_1BSZ_{it}+\beta_2BIN_{it}+\beta_3CPW_{it}+e_t \quad (2)$$

Introducing the moderating variable into equation (2)

$$ROA_{it}=\beta_0+\beta_1BSZ_{it}+\beta_2BIN_{it}+(\beta_3BIN_{it}xCPW_{it})+e_t \quad (3)$$

Where:
ROA=Returns on Asset
BSZ=Board Size
BIN=Board Independence
CPW=CEO Power
i=sampled firms
t=time dimension

3.3. Measurement of Variables

3.3.1. Dependent Variable

The study used Return on assets (ROA) which is measured as profit after tax scaled by total assets as the dependent variable.

3.3.2. Independent Variables

(i) *Board Size*: Board size in this study is measured as the total number of members of board of directors as at the end of the financial year.
(ii) *Board Independence*: Board independence is measured as the proportion of independent directors of the total board size.

3.3.3. Moderating Variable: CEO Power

The CEO power factor analysis consists of five (5) indices, each of which is given a value of "1" if the required power condition is satisfied concerning it; otherwise, a value of "0" is given. This is scaled to a value between 0 and 100% after that. The table below provides more information on the prerequisites for each power source:

Table 2. *Construct of CEO Power.*

No.	Constructs
1	Presence of CEO in remuneration/nomination committee
2	CEO duality
3	CEO has been in the office for at least three years
4	CEO equity shareholding
5	CEO serves on other committees

Source: Field work 2023

4. Data Analysis and Results

Table 3 presents the comparative descriptive statistics of the variables investigated. The table shows the mean values and standard deviation of the three countries representing Sub-Saharan Africa regions of Eastern Africa, Western Africa and Southern Africa. The table also used a t-test statistics to compare the mean values of the three representative regions.

Table 3. *Descriptive Statistics Comparative Analysis.*

Variable	Mauritius (n=129)		Nigeria (n=740)		South Africa (n=1040)			
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	t-value	p-value
Return on Asset	0.0347	0.06597	0.0184	0.13868	0.0629	0.10675	2.113	0.189
Board Size	10.2538	2.23194	9.0243	2.99968	10.4471	2.96192	4.461	0.000
Board Independence	0.7902	0.15253	0.6769	0.14991	0.6799	0.13604	7.929	0.000
CEO Power	0.5127	0.11160	0.4512	0.14998	0.5218	0.14682	5.472	0.000

Source: Field work 2023

Table 4. *Linear Least Square Regression Results.*

Variable	POOLED OLS		PANEL OLS (RANDOM EFFECTS)		PANEL OLS (FIXED EFFECTS)	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	0.067044	0.0004	0.067044	0.0004	0.067044	0.0004
Board Size	0.004608	0.4158	0.004608	0.4160	0.004608	0.4160
Board Independence	0.007285	0.7950	0.007285	0.7951	0.007285	0.7951
CEO Power	0.044836	0.7040	0.044836	0.7041	0.044836	0.7041
BINx CEO Power	-0.070469	0.1551	-0.070469	0.1551	-0.070469	0.1551

Source: Field work 2023

The table shows that South Africa recorded a higher return on assets (ROA) for the period with a mean of 6.29 percent compared to Nigeria and Mauritius with mean 1.84 and 3.47 percent respectively. The mean difference is statistically significant ($t=2.113$, $p>0.05$). As regards board size, it can be observed from the table that South Africa and Mauritius recorded a mean board size of 10 members while Nigeria had a mean value of 9 board members. The mean difference is statistically not significant ($t=4.461$, $p<0.05$). The investigation also showed that board independence recorded a non-significant difference among the three regions with mean values of 0.79, 0.67 and 0.68 respectively for Mauritius, Nigeria and South Africa (t=7,929, $p<0.05$). CEO power also showed mean values of 51.2, 45.1 and 52.1 percent respectively for Mauritius, Nigeria and South Africa. The mean difference is statistically not significant with ($t=5.472$, $p<0.05$).

4.1. Regression Results

The study used three estimators of panel data; pooled OLS, random effects and fixed effects in order to take cognizance of the dynamics of change with short time series, and thereby control for the effect of the unobserved heterogeneity in the data set. The Hausman test was further conducted to validate the appropriate method in estimating the model which gave a chi-square statistics value of 0.000, df=6, p=1.00 ($p>0.05$). Thus, the random effect was used in estimating that which examines the relationship between board dynamics and corporate performance. As observed, the OLS regression estimation showed an R^2 value of 0.5482 which suggests a 54.82% explanatory ability of the model for the systematic variations in the dependent variable with an adjusted value of 0.4879. The F-stat (26.55) and p-value (0.0000) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level.

4.2. Discussion of Findings

4.2.1. Board Size and Corporate Performance

The study revealed that there is a positive relationship between size of corporate board and corporate performance of non-financial firms listed in sub-Saharan Africa. The estimation on corporate performance showed that board size had a positive but not significant relationship with return on assets. The result meets our apriori expectation. The implication of the result is that larger boards have better management and operational efficiency hence higher returns. This result is consistent with prior studies [23, 25].

4.2.2. Board Independence and Corporate Performance

Findings of the study indicated a positive and significant association between board independence and return on assets. By implication, company with an independent board experiences better financial performance in terms of return on assets. This result meets our apriori expectation. We expected a board with mix of non-executive directors to have a better management team with lots of experience and monitoring role to have a positive influence in the operations of the company. Prior studies [20, 7] support this finding.

4.2.3. CEO Power and Corporate Performance

The study found a positive but not significant association between CEO power and return on assets of the company. The implication of this finding is that a company with a powerful CEO encourages good financial performance even though it may not be a major determinant of the good performance of the company. The finding meets our apriori expectation and is consistent with previous study [12, 6].

4.2.4. The Moderating Impact of CEO Power on the Relationship Between Board Independence and Corporate Performance

The results on the moderating effect of CEO power on the positive relationship between board independence and corporate performance was seen to be negative. The implication is that powerful CEOs can use their influence to weaken the positive role of board independence in improving the financial performance of firms in Sub-Saharan Africa. The result meets our apriori expectation. Although only a few studies have been conducted to examine the moderating effect of CEO power on board independence and firm performance, our result is consistent with studies [13].

5. Conclusion and Recommendations

This study was carried out to explore the relationship between board dynamics and corporate performance and further examine the CEO power's moderating effect on the relationship between board independence and financial performance of listed non-financial companies in Sub-Saharan Africa. The study conducted some comparative analysis and analyzed some simple descriptive statistics. The study, using the results of the financial statement statistics and exploratory variables in a regression model showed that board size, board independence, CEO power, have a positive but non-significant association with corporate financial performance. Findings of the study further indicate that the CEO power weakens the positive relationship between board independence and corporate financial reporting. The study therefore concluded that board dynamics influences the corporate financial performance of listed non-financial firms in Sub-Saharan Africa.

In line with the findings of this study, the following recommendations are proffered:

1) Companies should adopt a manageable board size in order to improve corporate financial performance.
2) Board independence enhances corporate financial performance. This is observed in this research hence corporate boards should be composed of more independent directors so as to promote more monitoring activities of the board and top management.
3) Although the study showed that CEO power positively, it is recommended that companies should have strong and experienced committees to perform their oversight functions and minimize the empire building tendencies of powerful CEOs.
4) Thestudyalsorecommendsthatboardcompositionshouldcompriseofexperiencedboardmemberswithrequisiteprofessionalqualificationtoenhancecorporateperformance.

References

[1] Adefemi F., Hassan A. and Fletcher M. (2017). The impact of corporate governance disclosure on firm performance. *International Research Journal of Business Studies*, *11 (2), 67-80.*

[2] Adetunji B. and Olawoye O. (2009). The effects of internal and external mechanism on governance and performance of corporate firms in Nigeria. *Corporate ownership & control* /*7 (2)–3330.*

[3] Appah E. and Tebepah S. F. (2020). Audit Committee Attributes and Reporting Lag of Listed Consumer Goods Firms in Nigeria. *International Journal of Economics and Financial Management*, *5 (2), 48-66.*

[4] Defond M., Rebecca N. and Xuesong Hu. (2005). Does the market value financial expertise on board characteristics of boards of directors? *Journal of Accounting Research. 43 (2), 153.*

[5] Fama E. F. and Jensen M. C. (1983). Separation of Ownership and Control. Source: *Journal of Law and Economics, 26 (2), 301-325.*

[6] Fauzil F. and Locke L. (2012). The role of board structure and the effect of ownership structures on firm performance. *Asian Academy of Management Journal of Accounting and Finance*, *8 (2), 43-67.*

[7] Ibe H. C. A., Ugwuanyi G. O. and Okanya O. C. (2017). The effect of corporate governance on financial performance of Insurance companies in Nigeria. *Journal of Finance and Accounting*. *5 (3), 93-103.*

[8] Jedi F. F. and Nayan S. (2018). The Effect of Oil Price Volatility, Board of Directors Characteristics on Firm Performance of Iraq Listed Companies: A Conceptual Framework. *International Journal of Economics and Financial Issues*, *8 (5), 342-350.*

[9] Johl S. K., Kaur S. and Cooper B. (2015). The impact of board characteristics and firm performance. *Journal of Economics, Business and Management*. *3 (2), 239-243.*

[10] Kajola *S. O (*2008*)*. Corporate Governance and Firm Performance: the Case of Nigerian Listed Firm. *European journal of Economics, Finance and Administrative Science*, *ISSN 1450-2275 issue 14.*

[11] Kakabadse N. K., Yang H. and Sanders R. (2010). The effectiveness of non-executive directors in China. *Management Decision, 48 (7), 1063-1079.*

[12] Kwanbo M. L. and Abdul-Qadir A. B. (2013) The impact of board composition on the performance of banks considered healthy by the Central Bank of Nigeria. *International Journal of Academic Research in Economics and Management Sciences, 2 (1), 109-122.*

[13] Lindorff M., Jonson E. P. (2013). CEO business education and firm financial performance: A case for humility rather than hubris. *Education Training*, *55 (4/5), 461-477.*

[14] Mahadeo J. D., Soobaroyen T. and Hanuman V. O. (2012). Board composition and financial performance: Uncovering the effects of diversity in an emerging economy. *Journal of Business Ethics*, *105 (3), 375-388.*

[15] Masum M. H. and Khan M. M. (2019). Impacts of Board Characteristics on Corporate Performance: Evidence from Bangladeshi Listed Companies. *International Business and Accounting Research Journal, 3 (1).*

[16] Modum C., Ugwoke S, and Onyeanu M. (2013). Auditor opinion shopping and the audit committee: an analysis of suspicious auditors witches. *International journal of auditing, 5 (1), 33–52.*

[17] Ogbeide S. O. (2018) Empirical assessment of female directors representation in the Nigerian listed companies. *International Journal of Research Studies in Management, 7 (2), 47-56.*

[18] Okaro S. C., Ofoegbu G. N. and Okafor G. O. (2018) Corporate governance and sustainable development in Nigeria-Perspectives and Challenges. *International Journal of Academic Research in Business and Social Sciences, 8 (9), 90-104.*

[19] Otuya S., Akporien F. and Ofeimun G. (2019). Influence of companies' governance process on sustainability reporting. *International Journal of Applied Economics, Finance and Accounting, 5* (1), 31-38.

[20] Ramadan E. (2014). Board of Directors and Tobin's Q: Evidence from U.K. Firms. *Journal of Finance and Accounting. 2 (4), 82-99.*

[21] Saat N. A. M., Karbhari Y., Heravi S. and Nassir A. M. (2011). Effective Oversight Roles of Board of Directors –The Case of Listed Firms on Bursa Malaysia. *World Review of Business Research, 1 (1), 231-245.*

[22] Vafeas N. (1999). Board Meeting Frequency and Firm Performance. *Journal of Financial Economics, 53, 113-142 http://dx.doi.org/10.1016/S0304-405X(99)00018-5*

[23] Vo D. H. and Nguyen T. M. (2014). The impact of corporate governance on firm performance: Empirical study in Vietnam. *International Journal of Economics and Finance, 6 (6), 1-13.*

[24] Zabojaikova G. (2016). The effects of board composition and direct incentives on firm performance. *Financial management*, *20 (4), 101-12.*

[25] Zied E. (2012). Corporate board performance: an investigation of the consequences associated with board characteristics Auditing *Journal of practice and theory, l (15), 87-103.*