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EFFECT OF BOARD DIVERSITY ON FINANCIAL PERFORMANCE OF QUOTED HOSPITALITY FIRMS IN NIGERIA

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ABSTRACT

This study examined the effect of board diversity on financial performance of quoted hospitality firms in Nigeria for a period of nineteen years (19) years spanning from 2003 to 2021. Specifically, this study ascertained the effect of gender diversity, age diversity and board independence diversity on cash flow return on investment. The panel data sets used in this study were obtained from the annual reports and accounts and Nigerian Exchange (NGX) Group fact books for the study period. Ex-post facto research design was employed. Inferential statistics using Pearson Coefficient Correlation and Panel Least Square Regression analysis were applied to test the hypotheses of the study. The findings showed that Gender diversity has a significant and positive effect on cash flow return on investment ($\beta1 = 0.141799$; P-value = $0.0000 < 0.05$); Age diversity has a significant and positive effect on cash flow return on investment ($\beta2 = 0.018494$; P-value = $0.0000 < 0.05$); Board independence has a significant and positive effect on cash flow return on investment ($\beta3 = 0.289258$; P-value = $0.0000 < 0.05$) at 5% level of significance respectively. The study recommended inter alia that Company boards should have an independent majority since an independent majority on the board is more likely to consider the best interests of shareowners first. In times of high environmental uncertainty, outside directors can link the firm with scarce resources, help in effective strategy development and execution which can ultimately improve firm performance

KEYWORDS: Gender Diversity, Board Independence, Cash Flow, Return on Investment

Background to the Study

The increasing cases of corporate scandal and failure in the recent past have encouraged greater media and public interest in corporate governance than ever before. The aim of corporate governance is to protect the shareholders from self–interest of the directors so that they can get fair return on their investment. However, with the prevalence of enormous cases of corporate scandal and failure, there is doubt whether the existing mechanisms of corporate governance effective. Ejembi, Ijeoma, Amahalu and Obi (2022) argued that there will be greater agency problem, where corporate governance mechanisms are weak. From the theoretical perspective, the interest of the shareholders

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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.

Board diversity arises as a result of corporate governance which entails separation of ownership and control of a business enterprise. Board diversity has taken a significant place in the field of corporate governance today. This is because board diversity is viewed as an apparatus for a solid inward control framework as it expands proficient and powerful dynamic exercises of the board of directors in the corporate organisation. Diversity advances the utilitarian capacity of the board, especially it is capacity to take part in complex critical thinking, vital dynamics, and the executives observing. Board of directors is one of the most influential decision-making bodies in every organization. Their major responsibilities is making important strategic and financial decisions, such decisions may include choosing the firm's top executive officers, decision on merger and acquisition and changes in capital structure when the need arises. The interest of those stakeholders requires serious effort from managers to sustain and at the same time maximize the financial performance of the firm they managed (Onyeka & Amahalu, 2022).

A fierce debate has emerged in corporate governance literature on the effect of board diversity on firm performance. Proponents suggest greater demographic diversity can enhance a firm's competitive advantage in a number of ways such as through cost savings (Aurelian, Dumitrescu, Micu and Lobda, 2022; Modozie & Amahalu, 2022). Also, a more diversified board of directors can provide a source of inspiration and unity with the firm's workforce (Habash & Abuzarou, 2022). Proponents of the pessimistic view of board diversity, however, challenge the proposed benefits of more diverse boards (Fahad, Mahmud & Rahman, 2022; Chukwuka, Okegbe, Amahalu, & Obi, 2022). Specifically, the pessimistic view suggests that as diversity increases communication and understanding between board members diminishes. The divergent views held by different scholars on this theme created a lacuna which this study tends to fill.

Objectives of the Study

The main objective of this study is to examine the effect of board diversity on financial performance of quoted hospitality firms in Nigeria. The specific objectives are to:

i. To determine the effect of gender diversity on cash flow return on investment of quoted hospitality firms in Nigeria.
ii. To evaluate how age diversity affects cash flow return on investment of quoted hospitality firms in Nigeria.
iii. To examine the extent to which board independence diversity affects cash flow return on investment of quoted hospitality firms in Nigeria.

Research Hypotheses

The following null hypotheses were formulated:

Ho1: Gender diversity has no significant effect on cash flow return on investment of quoted hospitality firms in Nigeria.

Ho2: Age diversity has no significant effect on cash flow return on investment of quoted hospitality firms in Nigeria.

Ho3: Board independence diversity has no significant effect on cash flow return on investment of quoted hospitality firms in Nigeria.

CONCEPTUAL REVIEW

Board Diversity

Board of Directors Diversity is the diversity of a company's board of directors. Udo, Oraka and Amahalu (2022), characterized the diversity of the board as an individual contrast of the board. Board diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom. A simple and common measure to promote heterogeneity in the boardroom commonly known as gender diversity is to include female representation on the board. Okudo and Ndubuisi (2021) posit that board diversity arrangements ranged from women, ethnic and racial minorities (non-Anglo-Australian individuals) on the board.

Gender Diversity

Gender diversity is an umbrella term that is used to describe gender identities that demonstrate a diversity of expression beyond the binary framework. Gender diversity in a work place means that men and women are hired at a similar and consistent rate, are paid equally and are given the same working opportunities with the same promotional opportunities (Okocha, Okoye. Amahalu & Obi, 2022). Gender diversity in the workplace involves the consideration, recognition and promotion of different skills, resources and potential of women and men in all their diversity. It is achieved when all employees, regardless of sex, gender, race, ethnicity, ability, sexual orientation, and age, receive equal respect and recognition and are able to access and benefit from the same rewards, resources and opportunities (Udo, Oraka & Amahalu, 2022)..

Age Diversity

Age diversity is the acceptance of employees of different ages in the workplace. Age diversity is an acceptance of different ages in a professional environment. Companies can take measures to adjust to an aging population and prevent ageism in the workplace. By creating an age diverse workplace, employers encourage a productive and inclusive work culture (Wu, Triana & Richard, 2021). The implementation of age-diversity practices requires the organization to assume a proactive stance in

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hiring, promoting, and retaining workers of all ages, and also educating managers about leading age diverse workforces. Age diversity proportion = (No. Directors≤ 50 years)/Total number of Board members

Board Independence

Independent director is one who the board affirmatively determines has no materiality relationship with the company either directly or as a partner, shareholder, or officer of an organization that has a relationship with the company (Onyeozili, Okoye, Amahalu & Obi, 2022). Board independence is the state in which all or a majority of the members of a board of directors do not have a relationship with the company except as directors. For example, they may not be relatives of the company's founders, key players or major employees.

Board Independence is measured as the ratio of non-executive directors on the Board divided by total directors on the Board.

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Financial performance is a broad term that describes a company’s overall fiscal health. Financial Performance refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms (Amahalu & Obi, 2020). It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Cash Flow Return on Investment (CFROI)

A cash flow return on investment (CFROI) is a valuation metric that acts as a proxy for a company's economic return. This return is compared to the cost of capital, or discount rate, to determine value-added potential. CFROI is defined as the average economic return on all of a company's investment projects in a given year. The return on investment (ROI) is a measure of how well an investment performs.CFROI gives investors insight into how a company works internally, how the company creates cash, finances its operations, and spends its money.CFROI can be used to look at a company's performance over time or to compare a company's performance with peers in its sector (Durišová, Tokarcíková, Virlanuta & Chodasová, 2019).

CFROI = OCF / Capital Employed

Where:

OCF = Operating Cash Flow (OCF = revenue - operating expenses) + depreciation - income taxes - change in working capital.

Capital Employed (CE) = Total Assets – Current Liabilities

Board Diversity and Financial Performance

Women continue to face tremendous challenges in achieving gender equality. Women do the great majority of unpaid work in most sectors around the world, and office cultures mainly in the emerging countries are frequently outdated and not geared to accommodate the needs of women. Furthermore, women are not given the same level of assistance and opportunity as their male counterpart, which often leads to their success. Adetula, Owolabi, Egbide and Adeyemo (2019) examined the impact of diversity in working groups on performance found that the diversity of social categories has a negative impact on performance which is mainly motivated by board diversity. Okudo, Amahalu, Obi and Okafor (2022) indicated that board diversity significantly and positively affects the financial performance. Salloum, Jabbour and Mercier-Suissa (2019). Dupatta, Rao, Malani, Scrimgeour and Patnaik (2019) identified a positive link between women directors and firm performance, while, Iren (2016) found no link or even a negative link between board diversity and business performance.

THEORETICAL FRAMEWORK

Resource Dependence Theory (RDT)

Pfeffer and Salancik (1978) devised the resource dependence theory to explain how organisations' behaviour is affected by the external resources they possess. Resource dependence theory (RDT) is concerned with how organisational behaviour is affected by external resources the organisation utilises, such as raw materials. The theory is important because an organisation's ability to gather, alter and exploit raw materials faster than competitors can be fundamental to success. RDT is underpinned by the idea that resources are key to organisational success and that access and control over resources is a basis of power. Resources are often controlled by organisations not in the control of the organisation needing them, meaning that strategies must be carefully considered in order to maintain open access to resources.

Empirical Review

Ilaboya and Ashakofe (2017) investigated the diversity and corporate performance of the board of directors in Nigeria. The study evaluated the relationship between board diversity and corporate performance in Nigeria. The study used information from all banks listed on the Nigerian Stock Exchange from 2010 to 2015. The study used the usual least-squares recurrence (OLS) method to analyze the information. The study then reiterated that gender diversity has a negative and critical relationship to corporate performance.

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Maniruzzaman (2019) investigated the effects of board independence on financial performance of publicly held manufacturing companies in Bangladesh using both accounting (ROA) and market-based (Tobin's Q) performance measures. The study selected 150 manufacturing companies but only 85 companies remained in the study sample after fulfilling the data availability criteria over a period from 2006-2017. The OLS regression model reveals that board independence has positive effects on both ROA and Tobin's Q.

Abdullahi and Alifiah (2021) measured the moderating role of institutional ownership on the relationship between board independence and firms' capital structure. The study analysed the balanced panel data of 56 Nigerian non-financial listed companies for seven years (2012-2018) using the random effects technique. This study presented evidence that higher levels of institutional ownership strengthen the effect of board independence on the firms' leverage.

METHODOLOGY

This study utilised *Ex-post Facto* research design in conducting the research. The population of this study comprised of the five (5) hospitality firms listed on the floor of the Nigerian Exchange Group (NGX) as at 31st December 2021. They include: Capital Hotel Plc, Ikeja Hotel Plc, Tantalizers Plc, Tourist Company of Nigeria Plc, Transcorp Hotels Plc. The five (5) hospitality firms purposively constituted the sample size of this study. This study made use of secondary data. The data were sourced from publications of the Nigerian Exchange (NGX) Group and the annual report and accounts of the sampled firms.

Measurement of Research Variables

Table 1 Variables Definition and Measurement Units

Variable Type	Indicators	Variable Symbols	Definition and Measurement
Independent Variable (Board Diversity)			
	Gender Diversity	GDV	$\frac{\text{Number of Women on Board}}{\text{Total Number of Directors on Board}}$
	Age Diversity	AGD	$\frac{\text{No. of Directors} < 50 \text{ years}}{\text{Total Number of Board Members}}$
	Board Independence Diversity	BIND	$\frac{\text{Number of Non-Executive Directors}}{\text{Total Directors on the Board.}}$

Dependent Variable (Financial Performance)			
	Cash Flow Return on Investment	CFROI	$\frac{\text{Operating Cash Flow}}{\text{Capital Employed}}$

Model Specification

This study adapts and modifies the model of Onyeka and Amahalu (2022):

$MVA = \beta o + \beta_1 GDV_{it} + \beta_2 BDS_{it} + \beta_3 BIND_{it} + \mu_{it}$ - - - equ (i)

Where:

MVA = Market Value Added

BDS = Board Size

In line with the adapted model, this study thereby formulated the following model:

$CFROI_{it} = \beta o + \beta_1 GDV_{it} + \beta_2 AGD_{it} + \beta_3 BIND_{it} + \mu_{it}$

Where:

β_o = Constant term (intercept)

β_{it}= Coefficients of Board Diversity for hospitality firm í in period t

μ_{it} = Error term/unexplained variable(s) of hospitality firm in period t

$CFROI_{it}$ = Cash Flow Return on Investment of hospitality firm í in period t

GDV_{it} = Gender Diversity of hospitality firm í in period t

AGD_{it} = Age Diversity of hospitality firm í in period t

$BIND_{it}$ = Board Independence of hospitality firm í in period t

í = individual firms (1,2,…5)

t = time periods (1,2,3,… 19)

Table 2: Pearson Correlation Matrix

	CFROI	GDV	AGD	BIND
CFROI	1.0000			
GDV	0.1659	1.0000		
AGD	0.2180	0.1457	1.0000	
BIND	0.2150	0.5674	-0.0025	1.0000

Source: E-Views 10 Correlation Output, 2022

The Pearson Correlation matrix output in table 2 shows the existence of a positive relationship between GDV (0.1659), AGD (0.2180), BIND (0.2150) and CFROI.

Test of Hypotheses

Table 3: Panel Least Square Regression analysis showing the effect of GDV, AGD, BIND on CFROI

Dependent Variable: CFROI
Method: Panel Least Squares
Date: 11/21/22 Time: 14:38
Sample: 2003 2021
Periods included: 19
Cross-sections included: 5
Total panel (balanced) observations: 95

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.138098	0.126897	1.088262	0.2794
GDV	0.141799	0.026232	5.405533	0.0000
AGD	0.018494	0.002401	7.702389	0.0000
BIND	0.289258	0.015557	18.59356	0.0000

R-squared	0.568806	Mean dependent var	1.024313
Adjusted R-squared	0.554591	S.D. dependent var	0.607588
S.E. of regression	0.405498	Akaike info criterion	1.073792
Sum squared resid	14.96301	Schwarz criterion	1.181324
Log likelihood	-47.00513	Hannan-Quinn criter.	1.117243
F-statistic	40.01397	Durbin-Watson stat	2.126430
Prob(F-statistic)	0.000000		

Source: E-Views 10 Regression Output, 2022

Interpretation of Regression Output

Table 3 shows the panel regression output of the effect of GDV, AGD, BIND on CFROI as:
$CFROI_{it} = 0.138098 + 0.141799\ GDV_{it} + 0.018494\ AGD_{it} + 0.289258\ BIND + \mu_{it}$
The model infers that 1% increase in GDV, AGD and BIND will exert 14.18%, 1.85% and 28.93% increase on CFROI of quoted hospitality firms in Nigeria respectively. The regression result also shows that GDV (β_1=0.141799); AGD (β_2=0.018494); BIND (β_3=0.289258) have a positive relationship towards CFROI. The slope coefficients reveal that; P(x_1=0.0000<0.05; x_2=0.0000<0.05; x_3=0.0000<0.05). The model shows that at 95% confidence level, there is a significant positive

relationship between GDV, AGD, BIND and CFROI. The Durbin-Watson Value of 2.126430 buttressed the fact that the model does not contain auto-correlation, since the value is less than 2 approximately, thereby making the regression fit for prediction purpose. The adjusted R-Squared of 0.554591 shows that 55.46% of the systematic variation in CFROI could be explained by GDV, AGD and BIND while the remaining 44.56% is explained by the error term as part of the CFROI which is not interpreted by the regression model. Following the F-statistics of 40.01397 with an associated P-value of 0.000000 ($p<0.05$) which is less than 5%, therefore, hypothesis H_1 is accepted while Ho is rejected. Hence, GDV, AGD and BIND have a significant and positive effect on CFROI of quoted Hospitality firms in Nigeria at 5% level of significance respectively.

Findings and Conclusion

In consonance with the analysis of this study, the following findings were deduced: Gender diversity has a significant and positive effect on cash flow return on investment ($\beta_1 = 0.141799$; P-value = $0.0000 < 0.05$); Age diversity has a significant and positive effect on cash flow return on investment ($\beta_2 = 0.018494$; P-value = $0.0000 < 0.05$); Board independence has a significant and positive effect on cash flow return on investment ($\beta_3 = 0.289258$; P-value = $0.0000 < 0.05$). conclusively, the results of the tested hypotheses revealed that there is a significant and positive relationship between board diversity and financial performance of quoted hospitality firms in Nigeria at 5% level of significance.

Recommendations

Based on the findings of this study, the following recommendations were made:

i. Since the found that an increase in the number of women on the boards is positively related to higher economic results. Therefore, it is suggested that gender diversity in boardrooms should be incremented and there should be a mandatory law being a key factor to do so.

ii. Considering the positive relationship between age diversity and financial performance, firms should be encouraged to imbibe the culture of age diversity, since it helps to increase innovation, enhances creative problem-solving and reduces employee turnover, thereby, increasing firm performance

iii. Company boards should have an independent majority since an independent majority on the board is more likely to consider the best interests of shareowners first. In times of high environmental uncertainty, outside directors can link the firm with scarce resources, help in effective strategy development and execution which can ultimately improve firm performance.

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