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Effect of board structure and ownership structure on organization performance

[1] Tonye Ogiriki, [2] Layegue Ebure Kelvin
[1, 2] Department of Accounting, Niger Delta University, Amasoma, Bayelsa State, Nigeria

Corresponding Author: **Layegue Ebure Kelvin**

Abstract
This study title as effects of board structure and ownership structure on the Organizational performance of Nigeria banking sector. This study examines the effect of board structure and ownership structure on the financial performance of Nigeria banking sector. The outcome was established through the relationship between board structure and ownership structure on financial performance of Nigeria banks. The result found that ownership structure and board structure have a great effect on the financial performance in banking sector. Therefore, it is suggested that banks should exercise such practice which will improve their financial performance. All the hypotheses developed for this study has been achieved through the analysis of this research study.

Keywords: Board Structure, Ownership Structure, Board Size, Board Composition

1. Introduction

Corporate governance is a wide-ranging subject of study that may be used in a variety of ways. All stakeholders benefit from corporate governance, which enables the company to be better managed and fulfil its goals in a timely manner. According to Baker and Anderson (2010), corporate governance eliminates agency problems—the problems between managers and the company's shareholders.

The corporate owners deal with the firm's ownership structure and give managerial responsibilities to those who work as their agents to govern the organization while safeguarding the owner's interests. These managers then further appoint the company's board of directors. Berle and Means (1932) [7] found that true owners in today's era are separated from the company's affairs. Simply, the owners try to avoid interference in the affairs of the corporation. However, it is evident that these kinds of practices also create the agency problem, which impacts the firm's financial performance adversely.

Corporate governance refers to the connection between shareholders, the board of directors, and senior management in order to make strategic choices for the organization. Monks and Minnow (1995) argued that corporate governance specifies the right people to be asked, which means what questions to be asked of whom. The board structure helps in ensuring the value and profitability of the firm. Eisenhardt and Borjous (1992) viewed strategic decisions related to a firm as of the primary interest and greatly appreciated them. They have to decide about issues like products, location, financing, and time. These issues tell us about the firm's survival. Langton and Robbins (2007) argued that board structure helps properly coordinate all board members to achieve the goals. Langston (2007) [25] viewed the board structure and its competencies as the most important organizational resources.

The financial performance of a corporation affects stakeholders and shareholders. The stakeholders, like creditors, human resources, consultants, society at large, and the government, are interested in the corporation's growth because each has an individual interest in the corporation. For example, creditors are interested in receiving their token interest on time. The business consultant strives to increase the chances of earning an additional profit. The need of society is that the corporation be a good and excellent citizen, i.e., corporate social responsibility. The government is interested in collecting taxes. All the stakeholders are interested in their interests and willing to get the maximum without any interest in achieving the organization's overall goal, which may lead to a clash as an agency problem. Some of them have great control in developing decision-making strategies to secure their interests despite the corporation's other interests or group stake. These agency problems should be addressed, which need a developed system for allocating and fortifying sole and combined interest stakeholders. Corporate governance is the developed system applied to accomplish each stakeholder's stake and the corporation's goal (Butt, 2012).

Nimalthasan (2013) argued that ownership structure is concerned with the fortification of the stakes of the stakeholders by interested people for the advancement of banking firms, creating an atmosphere in which managers and other stakeholders take part and assume a system for the purpose of improving performance at al. Javed and Iqbal's (2007) findings showed the effects of board structure and ownership structure on banking financial performance. They analyzed the technique of generating indices. The conclusion showed a significant positive relationship between the indices and the financial performance of the banking firm. Owen (2003) described how, in competition, whether locally or internationally, most shareholders, financiers, companies, and governments have recognized the importance of board structure and ownership structure. Most researchers worked on board structure, ownership structure, and firm performance. They stressed that these structures are much better at creating investors' confidence and positively affecting firm financial performance, especially in the banking sector. Board structure and ownership structure in a corporate social responsibility atmosphere create goodwill. Doing business as a responsible person locally and abroad boosts the firm's financial performance. Similarly, when firms are not properly administered, it destroys the overall image of the firms, losing the trust of the related stakeholders and thus negatively affecting the firm's financial performance.

Brick and Chidambaran (2008) state that the company faces a significant risk because of the overburdened board members, a shaky governance structure, and a lack of adequate oversight. The company's risk and financial performance are influenced by the structure of the board of directors. In the same way, effective governance lowers company risk, whereas bad governance raises it. This is the difference between the two. According to Graham and Harvey (2001), a board's structure has a primary relationship with the financial structure and portfolio management of a corporation.

Saleem (2013) argued that the ownership structure reduces the capital cost, which increases the corporation's worth. Li and Cui (2003) state that decisions are made by board structure for the enhancement of a shareholder's share value, shareholder equity, and operational financing. Various theories on the organization of the board and ownership structure According to Velnampy and Niresh (2012), the choice of ownership structure, such as a debt and equity financing hybrid, affects the profitability of a firm. Options for increasing wealth and maximizing the use of available money make up a substantial portion of business financial plans.

1.1 Statement of the problem

Every bank desire a balanced combination of all its key performance determinants, i.e., board structure, ownership structure, risk management, and capital structure. This needs to be investigated to develop a more balanced combination to enhance the firm's return and profitability. This research investigated the impact of ownership structure and board structure on the financial performance of Nigeria's banking sector.

1.2 Objective of the study

This study aims to check the board structure and ownership structure in Nigerian banks' growth, taking a critical look at how board structure and ownership structure have impacted and contributed to the growth. Other objectives are to:

1. investigate and assess how ownership structure affects banking sector financial performance.
2. determine how board structure affects banking sector financial performance.
3. suggest measures to improve the effectiveness of these two key determinants on firm financial performance.

1.3 Research questions

1. How can we research and assess the impact of the banking sector's ownership structure on its financial performance?
2. How can we research and assess how board structure affects banking sector financial performance?
3. How do we suggest measures to improve the effectiveness of these two key determinants of firm financial performance?

1.4 Significant of research

This research study reflects how these ownership structures and board structures impact the financial performance of the Nigerian Banking sector in particular and all other firms in general. This research study enables the board of directors to re-think their corporate structure and make a balance of ownership and board structure, which will enhance the firm value and financial performance. This research helps the practitioners and policymakers overcome the deficiencies regarding the ownership structure and exercise the best combination of ownership and board structure to achieve the desired goals. In short, the research holds multi-dimensional significance as follows:

1. This helps add to the knowledge related to the relationship between ownership and board of Director Structure and the firm's performance.
2. Help guide the business firm to strengthen the owner Board structure as key determinants of their financial performance.
3. The research finding contributes to improving the financial performance of the firms by adding to the Nigerian economy.

2. Literature review

2.1 Ownership structure

It has two dimensions, i.e., Managerial ownership and institutional ownership.

2.1.1 Managerial ownership

Managerial ownership can be defined as shareholders or the existing members concurrently carrying out the task of running a firm. In the beginning, Berle and Means (1932) [7] argued that problems arise between agent and principle. They stated that the public corporation must have an agent representing its principals. This will increase the firm's profitability and professionalism. While the agency theory cancelled this concept.

According to agency theory, agency problems exist when, for representation, shareholders appoint agents. The principal is the owner who appoints an agent to maximize their wealth. Several times, it has been noticed that managers are trying to improve their powers. Moreover, an increasing managerial stake can solve agency problems as well. Generous managerial shareholders will automatically bring into line the goals of owners and managers (Jensen and Meckling, 1976).

In recent years, much attention has been given to the corporate effect on the firm's financial performance (Zeitoun, 2007), explaining that the firm's ownership depends on a country's political, social, economic, and cultural factors. The given factors are different from one country's economy to another, and the given factors are different in emerging markets in developed countries.

The ownership structure is not a clear phenomenon because of the outcome of the ownership structure and firm performance. The background investigation found that there are three possible outcomes between ownership structure and a firm's performance. Moreover, it depends on the study conducted from country to country and even region to region. The ownership structure also has a positive relationship with economic and financial performance. External discipline plays an important role in the performance of an organization. Furthermore, the last results of the study also explain no significant relationship between performance and external discipline from 1987. A sample of 383 large firms in the United States was drawn by Agrval and Kmoeber (1996), who determined that insider ownership plays a huge role in the company's performance. Furthermore, insider ownership has a beneficial impact on a company's success. Southey (2009) concluded that insider ownership featly increases the firm's performance. Ownership concentration hurts a firm's financial performance in transition and emerging economies (Filatotchev, Kapelyushnikov, Dyomina, &Aukutsionek, 2001 [18]; Ivashkovskaya, Ivantsova, &Stepanova, 2012 [24]; Stancic *et al*., 2014). There is not enough safety for minority shareholders to allow majority shareholders to seize considerable amounts of corporate wealth.

Many researchers argue that in a transition economy, profitability and ownership concentration ratio are negatively correlated. Numerous studies (Claessens, Demirguc-Kunt, & Huizinga, 2001; Micco, Panizza, & Yanez, 2007) researched the comparison of domestic and foreign banks and found that domestic banks are more profitable as compared to foreign banks, as they have more economies of scale. It has been observed that state-owned banks in developing countries lose money compared to privately owned banks because developing countries lack the resources to solve the problems associated with government ownership of banks (Micco *et al*., 2007). On the other hand, public banks working in developing countries play a vital role in accomplishing social tasks for the society rather than maximizing the shareholder's wealth as a major objective. Claessens *et al*., (2001) argued that the entrance of overseas banks has an extreme effect on local and national banks. It improves the overall performance of a society's banking sector because the developing country's banks have higher interest rates, profitability, and tax payments than the local ones. However, according to Ivashkovskaya *et al*., (2012) [24], foreign ownership negatively affects bank profitability in developing countries. In the absence of motivation and negotiation factors with overseas shareholders compared to local shareholders in emerging markets, the owner has a positive effect on banks' profitability because of various government benefits such as subsidies and lower rate loans facilities.

2.1.2 Institutional ownership

Investing large sums of money in a corporation's stock is what is meant by institutional ownership. They handle a lot of money from people who have saved and invest it for them in productive businesses. Their primary goal is to increase the wealth of the institution's investors. As a result, these proprietors are primarily concerned with minimizing transaction costs. In their study, Chen *et al*., (2009) examined the connection between a company's financial success and its institutional ownership. For example, the initial public offering is negatively affected by institutional ownership, according to the results of the study.

In institutional ownership, the shareholders have many funds in the shape of share equity; hence, they invest in large amounts to maximize the per-share value and increase the corporation's current profit. The main aim of institutional ownership is to maximize the investor's wealth by making suitable and sensible portfolios that give maximum profit on a predefined risk. Pound studies (1998) analyze institutional ownership and its impact on a firm's performance. The study proposed three hypotheses:

1. The first hypothesis of the proposed study analyzed that some institutional owners are those organizations or people that accept savings from those who have access to funds or who have savings. Then the investing firms invest the same savings in other firms. Investment in these savings needs experience, skill, and great intelligence. This hypothesis is known as the "efficient monitoring hypothesis." That is why; the hypothesis indicates a boost to the firm's performance.
2. The second hypothesis states that institutional owners must be with management, especially in the case of another cost-effective business enterprise. That is why the hypotheses are called conflict of interest hypotheses.
3. The last hypothesis stated that in some cases, the management and institutional owners cooperate for their benefit, which may decrease the organization's overall value because small shareholders manage the management. The hypothesis is the so-called strategic alignment hypothesis.

2.2 Board structure

First, we can define corporate governance as the relationship between a shareholder and a board of directors. The top authorities make strategies and policies for the organization. A company's board normally has absolute powers to conduct its affairs. In other words, whatever a company is authorized to do by its Memorandum of Association, the board can do it on behalf of the company. They can also hold rights. The highly qualified people the corporate government has will be managing and condoling the long profitability and value of the organization.

Stanley, Cupic, & Rakocevic (2012) claimed that corporate governance might defend minority shareholders' interests. In such a setting, the company's performance is expected to increase more than in nations where it is not. Investors are well-protected by the law in cases where other forms of corporate governance are in place. Although it's true that nations with poor investor protection lack such authority, it's also true that the board is more forgiving of the controlling shareholder in these countries. The approaches to board efficiency of financial and non-financial firms generally look at their two basic characteristics: board composition and board size. The board composition varies from firm to firm. It depends upon the shareholders and stakeholders of the firm. They have different observing capabilities and benefits. The prose pays attention to the proportion of independent or outside directors. However, Ivashkovskaya *et al*., (2012) [24] stated a negative relationship between board independence and firm performance.

2.2 Board composition

How many non-executive directors there are on the Board of

Directors compared to how many directors there are overall is known as board composition. Non-executive directors who are not affiliated with the company are known as "autonomous non-executive directors" (Clifford and Evans 1997). Boards with more external directors are expected to make better choices than those dominated by insiders. According to Fama and Jensen (1983) [17], there is a clear link between the existence of non-executive directors and efficient decision-making. However, in real life, the results have been varied. It has been shown that non-executive directors are far more successful in ensuring the interests of the company's shareholders, as well as improving the company's financial performance, stock return, credit rating, and auditing.

2.3 Board size

The number of board members is referred to as the board size. Board size is an issue that divides scholars. According to certain studies, the better the communication and coordination among the board's members, the smaller the company's board should be. Researchers claim that the larger the advisory board, the better outcomes are achieved, since numerous board members can participate. The number of board members is referred to as the board size. Board size is an issue that divides scholars. According to certain studies, the better the communication and coordination among the board's members, the smaller the company's board should be. Researchers claim that the larger the advisory board, the better outcomes are achieved, since numerous board members can participate.

The number of people on the corporation's board is referred to as board size. Normally, researchers prefer small boards. On the back of this idea, they asserted that as and when the number of people on board is small, they can easily cooperate. Because of cooperation, the communication flow should be very efficient and effective.

According to Golden and Zajac (2001), boards differ from one another. Others are "passive," while others are "active." It is dependent on the contribution to strategy development. An exceptional number of changes in board duties were discovered from the 1980s to the 1990s, when the boards were transformed from passive to active. According to Wheelen and Hunger (2004), the primary roles are as follows: 1. Monitor: The board must manage and monitor the firm's internal and external actions. 2. Evaluate and influence: The board must review the management plan, whether they agree or disagree, and the board can provide advice and recommendations. 3. Initiate and decide: An active board is capable of initiating and deciding. Management is given a specific assignment and a determined selection.

Pearce and Zahra (1992) argued that board size and the presence of outside directors in a vague situation positively affect strategy making. An external social connection can help the business. Thus, the board can play a vital role in developing good relations with the external environment. The boards protect the assets and business from the pressure of outsiders (Carpenter & Westphal, 2001). A company's board of directors has a significant impact on its performance (Barnhart, Marr & Rosenstein, 1994; Shleifer & Vishny, 1997).

Large boards encounter a variety of challenges, according to O'Reilly, Caldwell, and Barnett (1989). Communication problems, cohesiveness and conflicts between members are mostly common. According to Blue Ribbon Commission NACD (1995), the large board has many more issues while the small board easily solves them by discussing with each other efficiently and effectively as good communication flow in the management hierarchy.

Some researchers believe that on a large board, many members enjoy having nothing to do, and many face problems of community repugnance. That is why the small board is the best solution to this problem.

Multinational companies are in need of a large board. Without a large board, they cannot run their business so far. The chief executive officer should have an advisory committee for decision making and an expert there in geographical location. That is why the large board should be functional in multinational corporations. Chaganti (1985) analyzed bankrupt firms and found that failure was due to smaller boards compared to solvent firms. Large boards are essential for the survival of firms like multinational companies. Dalton and Daily (1999), Hermalin and Weisbach (1988), and Yermack (1996) believe that larger boards are better than smaller ones. Pfeffer, Adam, and Mehran (1972); Anderson, Mansi, and Reeb (2004); Klein (1998); and Coles (1995), on the other hand, advocate for smaller boards.

3. Findings

The study's findings are summarized in the following paragraphs.

1. According to the findings of this study, having a diverse board of directors is linked to a higher return on equity.
2. A negative correlation was established between board size and return on equity, meaning that as the size of these boards grows, returns on equity tend to decline. The study indicated that the firm's equity return was inversely correlated with the presence of a dual CEO.
3. Both returns on equity and returns on assets are favourably associated with institutional ownership.
4. Managerial ownership was also shown to be associated with higher returns on equity in these industries.
5. According to the findings, both board size and CEO duality have a considerable negative influence on the firm's return on equity.

4. Suggestions

All of the independent factors, such as board composition, board size, and CEO duality, were found in the data analysis. The financial performance of a company is strongly linked to institutional and management ownership. Having more women on the board has a beneficial effect on the company's financial performance because of the positive link between board composition and board diversity. In order to maximize profitability, it is recommended that all of these companies boost the number of female board directors on their boards. More directors, it appears, have an adverse effect on the company's finances, leading to conflicting viewpoints and agency concerns, which in turn slow down the company's otherwise steady financial progress. The firm's profitability will rise if its board of directors remains at this level. There is a strong correlation between financial success and CEO dualism, which suggests that a CEO should only do one role in order to receive the best outcomes. All of these companies should enhance their institutional and managerial owners in order to get better results in terms of profitability, according to this study.

5. Conclusion

This study looked at the influence of board structure and ownership on bank financial performance. Having a diverse board of directors has been linked to better financial results. Banks' financial performance is also severely impacted by CEO duality and board size. Both managerial and industrial ownership have a good effect on the financial health of banks, according to research. According to the findings, management ownership has a favourable and substantial influence on bank financial performance, whereas institutional ownership has a positive but minor impact. The research was able to test all of the assumptions, and the results were consistent with the hypothesis that was formed. According to the study's findings, banks should pay close attention to their board structures as well as their ownership structures in order to ensure successful operations.

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