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Corporate Diversity, Directors Qualification, Board Size and Financial Performance in Nigerian Manufacturing Industry

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Abstract: **The major objective of this study is to investigate the relationship between corporate diversity and financial performance of manufacturing companies in Nigeria, with specific reference to how gender diversity, educational diversity, and board size affect financial performance of manufacturing companies listed on the Nigerian Stock Exchange. This study selects 10 listed manufacturing companies using non-probability sampling method in the form of availability sampling technique for a period of 5 years i.e. 2014 to 2018. Using Return of Asset (ROA) and Return on Equity (ROE) as measures of firm performance. For the purpose of this work, the study variables were analyzed using multiple regression to determine the variation in financial performance due to variation in corporate diversity. Descriptive statistics was used to provide summary statistics for the variables and subsequently, correlation analysis was carried out using Pearson Correlation technique for the Correlation between the dependent and independent variables, the findings of this study reveal that board size have a positive influence on manufacturing companies' performance. Also the findings on educational diversity indicates a significant positive relationship between corporate diversity and performance of manufacturing companies in Nigeria. These findings have the implications that an increase in the number of directors on the boards of manufacturing companies in Nigeria will enhance their performance likewise diverse educational background on each person influence the performance of companies i.e. directors with higher educational qualification are able to deliver high quality output for the company, resulting in increased organizational and financial performance. Thus, this study recommends that companies should consider this when hiring employees for a certain position as differences in educational background hold an impact on the performance of the company itself.**

Keywords: **Gender Diversity, Educational Diversity, Board Size and Financial Performance.**

1. INTRODUCTION

The globalization of business practices and financial crisis brought corporate governance to the fore front of research. Thus, Corporate governance has been the subject of numerous theoretical and empirical studies especially after the fraudulent financial reporting scandals such as Enron, world.com, Adelphia, Parmalat, Tyco, AIG, Global crossing, HIH Insurance, lever brothers, and the eight Nigerian banks of 2009, These corporate meltdowns raised the consciousness of regulators and policy makers to the negligence or weakness of corporate governance/organizations (Edemand & Noor, 2014; Nwaiwu, 2014).The collapse of these Nigerian financial institutions was as a result of poor corporate governance standard, corruption and lack of transparency. Shareholders lost confidence totally in both public and private companies

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in Nigeria, in order to gain back the confidence, Security and Exchange Commission came up with the Code of Best Practice. It provides guidelines on the principles of corporate governance in Nigeria.

Therefore, a good system of corporate governance is considered as an important element in running the affairs of the company for the best interest of the shareholders. It assists in controlling the performance of the board in business operations (Edem & Noor 2014). Hence, by practicing good corporate governance, it is able to reduce principal-agent problems and preclude corporate scandals, frauds, civil and criminal liability of the organization. In addition, it can improve the image and reputation of the organization to attract more stakeholders' involvement in the organization. Therefore, better firm performance is the result of better corporate governance, which good-governed firms should perform better than bad-governed firms (Rohail, Maran & Satirenjit 2015).

In recent years, corporate diversity has become an emerging issue within corporate governance practice and research. There has been an increasing focus on studies about board composition such as board size, board diversity and board independence (Carter, Simkins, and Simpson, 2003; Alireza V., Kamran A., & Paul M, 2005; Erhardt, Werbel, & Shrader, 2003). In the modern global business practice, organization transparency, financial disclosure, independency, board size, board composition, board committees, board diversity among other is seen as the cornerstone of good governance practices source. These variables are in the main agenda of most meetings and conferences worldwide including the World Bank, International Monetary Fund (IMF) and Organization of Economic Co-operation and Development (OECD) (Inyanga, 2009). Accoding to (Progress S., Hlanganipai N. & Godfrey N). According to (Tukur G. & Bilkisu A. A.), There are number of boards' diversity mechanisms and constructs i.e. board size, board composition, board education level, boards gender diversity, non-executive directors, executive directors which ultimately contribute towards the firm performance and success. Several studies have been conducted on most of the corporate government mechanism are of paramount importance in achieving goals and objectives of the firm. It includes setting the company's strategic aims and effective implementation in line of action to achieve them, to keep a strict watch on management and their practices which they carry out to run the show, and their reporting and auditing mechanisms. One of the thought provoking areas which have gained popularity among the researchers in recent times is gender diversity in firms, at different levels in management as well as board of directors.

According to Rohail *et al.* (2015), Diversity and corporate governance has a strong relationship in the context of top-level management. Boards of directors are the strategic leaders in the organization as they make strategic decisions and set its strategic directions. Through organizational performance, we can measure board effectiveness. Cognitive and demographic diversity require boards to operate effectively. Diversity includes gender diversity, therefore board of directors(BODs) can best carry out their roles and tasks (Marimuthu & Kolandaisamy, 2009). According to Prihatiningtias (2012), the board is an important part of the overall corporate governance mechanism within a firm. BODs are essentially driving the overall performance of company. Board characteristics and board composition that includes, the number of independent boards, the tenure of boards, the size of the board, as well as board diversity in terms of gender, age, ethnicity, nationality, educational background, industrial experience and organizational membership, may influence firm performance (Talke, Salomo, & Rost, 2010). Demographic diversity dimensions are race, gender, age while cognitive diversity dimensions are knowledge, education, values beliefs and perception. The reason why diversity is essential in an organisation is that because women are honest, they are not fund in fraud and, on the other hand women have moreover they have less commitments therefore they will concentrate on their work

Therefore, the main objective of this work is to investigate on the demographic diversity gender, & cognitive diversity (experience) among board members (BODs) and its impact on firm financial performance.

2. STATEMENT OF THE PROBLEM

Several studies have been conducted on corporate diversity in respect to firms' financial performance of different industries. Most of the researches established a positive impact of corporate diversity on firm's financial performance in different countries, economic sectors and different periods. For instance; Erik, (2013) in South Africa on listed companies on South African stock exchange; Alireza, Kamran & Paul, (2015) in Australia on listed companies on Australian stock exchange; Waweru & Assumptah, (2015) in Kenya on banking industries; Olayinka, (2010) in Nigeria on companies listed on Nigerian stock exchange; Sunday, Charles & Abosede, (2012) in Nigeria on Financial institutions; Nwaiwu, (2014) in Nigeria on companies listed on Nigerian stock exchange; Amarjit & Neil, (2011) in Canada on service industry;

Muzhar, (2013) in Pakistan on baking industry; Maryam & SeyedehYalda, (2013) in Malaysia on public listed firm; Edem & Noor, (2014) in Nigeria on companies listed on Nigerian stock exchange; Nosakhare, Ayoib & Noriah, (2016) in Nigeria on companies listed on Nigerian stock exchange; Odiwo, Chukwuma & Kifordu, (2015) in Nigeria on Manufacturing industry; Progress, Hlanganipai and Godfrey, (2014) in Zimbabwe on Banking industry.

However, studies by Muhammad, Carol & Isabel, (2008) in Australia on services and manufacturing organizations; Tukur & Bilkisu, (2014) in Nigeria on insurance companies; Marc, Patrick, & Carolin van, (2014) in Germany on publicly listed German organizations; Alexander, (2015) in Nigeria on some selected companies listed on Nigerian stock exchange; Merve, (2015) in Turkey on banking industry; Igors, (2015) in The Netherlands on some selected companies; Hammad, (2012) in Pakistan on some selected listed companies in Pakistan, showed a negative impact of corporate diversity on financial performance of businesses. While the study by Soku, Kiyoung & Young, (2011) established that corporate diversity has significant impact on financial performance of French companies.

All the seven Nigerian studies (Olayinka, (2010); Sunday, Charles & Abosede, (2012); Nwaiwu, (2014); Nosakhare, Ayoib & Noriah, (2016); Odiwo, Chukwuma & Kifordu, (2015); Tukur & Bilkisu, (2014) and Alexander (2015)) reviewed in this study used either the elements of demographic diversity or cognitive diversity alone as their independent variable, the result of which cannot be generalised on the entire corporate diversity by neglecting either of the two, in view of the above, this study will use both the elements of demographic diversity (gender, ethnicity) & cognitive diversity as an independent variable.

In spite of the importance of corporate governance to the development of businesses in Nigerian economy, researches in corporate diversity and firm's performance are tilted to other sectors of the Nigerian economy. Thus, there is need to examine the impact of corporate diversity on financial performance of firms by relating it profitability and liquidity of those companies with a view to determine the extent of relationship. This study is carried out to fill this gap for the Nigerian manufacturing industry.

2.1 Hypothesis of the Study

Considering the problems and objectives of the study, the following hypotheses were formulated to provide a guide and direction to the study

H_o1: Board gender diversity has a negative impact on financial performance of listed

manufacturing firms in Nigeria.

H_o2: The presence Directors with qualification above first degree on the board has negative impact

on the financial performance of listed manufacturing firms in Nigeria.

H_o3: The number of directors on board has a negative impact on the financial performance of listed manufacturing firms in Nigeria.

3. LITERATURE REVIEW

3.1 Concept of Corporate Governance

There is no universally accepted definition of Corporate Governance which enjoys consensus of views in all scenarios and countries. Numerous researchers have viewed corporate governance from their own perspectives (Drobetz et al., 2004; Long et al., 2012a; Long et al., 2012b). Different definitions have been put forward by authors. The Code of Corporate Governance issued by Central Bank of Nigeria (2014) defines the subject as the rules, processes, or laws by which institutions are operated, regulated and governed. It is developed with the primary purpose of promoting a transparent and efficient system that will engender the rule of law and encourage division of responsibilities in a professional and objective manner. In Thailand, the National Corporate Governance Committee (NCGC) defined the term as a system having a corporate control structure combining strong leadership and operations monitoring. Its purpose is to establish a transparent working environment and enhance the company's competitiveness.

The Organization for Economic Cooperation and Development (OECD) also defines corporate governance as the system by which business corporations are directed and controlled. The Asian Development Bank defined the concept as the manner in which authority is exercised in the management of a country's social and economic resources for development

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(Eng & Mak, 2003; Cheng, 2008; Cadbury, 2002). Corporate governance was described to be a way and manner in which the affairs of companies are conducted by those charged with that duty. In Nigeria, the governance of a limited liability company is the responsibility of its board of directors. Dozie (2003) believes that corporate governance is characterized by transparency, accountability, probity and the protection of stakeholders' rights. Oyediran (2003) further observes that corporate governance refers to the manner in which the power of a corporation is exercised in the management of its total portfolio of socio and economic resources with the aim of increasing shareholders' value and safeguarding the interest of other stakeholders in the context of its corporate mission. Solomon & Solomon (2004), view it as the mechanism of checks and balances, both internal and external to companies, which ensures that organizations discharge their accountability to stakeholders and act in a socially responsible manner. Another opinion put across by Sanda et al. (2005), sees corporate governance as the ways in which all parties interested in the wellbeing of the corporation try to ensure that managers and other parties take necessary approach to safeguard the interest of all investors. Iskander & Chamlou (2000), stated that corporate governance is important not only to attract long-term foreign capital, but more especially to broaden and deepen local capital markets by attracting local investors both individual and institutional. Nielsen (2000), reported that corporate governance is the system of rights, structures and control mechanisms recognized internally and externally for the management of a listed public limited liability company, with the aim of protecting the interests of stakeholders.

Conclusively, what is evident from the various definitions reviewed is that corporate governance is the set of structures, processes, cultures and systems through which corporate objectives are determined, and companies are directed and controlled. Majority of the definitions are similar but presented in different ways.

3.2 Financial Performance

Financial performance is a determinant of an organization's income, profits, increase in value as supported by the appreciation in the entity's worthiness (Asimakopoulos, Samitas & Papadogonas, 2009). Measures of financial performance fall into two broad categories: investor returns and accounting returns. The basic idea of investor returns is that, the return should be measured from the perspective of shareholders e.g. share price and dividend yield. Accounting returns focus on how firm earnings respond to different managerial policies, which can be measured using different accounting ratios (Alan, 2008).

However, Fulbier, Silva & Pferdehirt (2008), maintained that financial ratios can be divided into three broad categories that will provide a review of the overall financial position of a company. These categories include; ratios that indicate the structural change within a company; ratios that indicate the profitability of a company, and ratios that have an impact on the valuation of companies from a market perspective. The table below shows these categories of ratios:

Table 3.2.1: Financial Ratios indicating Financial Performance of Companies

	RATIO	CALCULATION FORMULA
Financial Ratios indicating Structural Change	Debt to equity (D/E)	Total debt / Total equity
	Debt ratio (D/A)	Total debt / Total assets
	Interest cover	Earnings before interest and taxation / Interest paid
Financial Ratios indicating the Profitability of a Company	Net profit percentage	Net profit for the period / Revenue
	Return on equity (ROE)	Net profit / Total equity
	Return on assets (ROA)	Net profit / Total assets
Financial Ratios indicating Valuation of Companies From a Market Perspective	Earnings per share (EPS)	(Net profit – Preference dividends) / Weighted number of ordinary shares
	Price-earnings ratio	Market price per share / Earnings per share

Source: De Villiers & Middleberg (2013)

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The actual usefulness of any particular ratio, however, is strictly governed by the specific objectives of the analysis, different techniques are appropriate for different purposes. Many different individuals and groups are interested in the success or failure of a given business. The most important are owners (investors), management, lenders or creditors, employees, labour organisations, government agencies, and society in general (Helfert, 2011).

3.3 Corporate Diversity and Firm Performance

The traditional understanding of diversity is through the paradigm of discrimination and fairness, both through programs such as affirmative action attempting to select from underrepresented groups and through a numbers based approach where statistics are the most important tool. As looked at earlier in the study however, there are several other aspects that need consideration, in assessing how diverse a board really is. Board gender, board size and board member experience diversity values in firm performance are hereby discussed.

3.4 Gender Diversity and Firm Financial Performance

Gender diversity in the boardroom and in top executive positions has been the focus of public debate, academic research, government considerations and corporate strategy for more than a decade now, with interesting but mixed results. Previously considered a social issue and an issue of image, gender diversity is increasingly approached as a value-driver in organizational strategy and corporate governance, and as such has become a challenging issue in recent academic research. Positive performance effects of board gender diversity imply that a higher number of women in corporate top positions or on board of directors will relate to increased firm productivity and profitability (Marinova *et al.* 2010).

Hauwa, Badru & Abdulmumini (2015), empirically identify the vital role of gender diversity on corporate outcomes among the Nigerian firms. The review demonstrates that gender diversity matters for various corporate outcomes, such as financial performance, market reaction, survival, corporate risk taking, corporate financing decisions and financial reporting quality. Pathan & Faff (2013), also opined that excessive proportion of female setting on the board could adversely affect the possibility of catching up with more capable male in the board. This influence is stronger within firms with low market power and smaller in size. More so, gender diversity signifies the presence of women setting in the board and it leads to greater board diversity. Board gender is considered as an improvement to the organizational value and performance as it provides new insights and perspectives (Carter, Simkins & Simpson, 2003). Gender diversity in board composition contributes to effective corporate governance and company performance by being able to access a wide pool of talent available to the company at all levels. Companies with at least one female director on the board are advocated for as presenting a more positive picture (Lincoln, & Adedoyin 2012).

Moreover, Tukur & Bilkisu (2014), investigate the relationship between board diversity and financial performance of insurance companies in Nigeria, with specific reference to how gender diversity and other diversity characteristics affect financial performance of insurance companies listed on the Nigerian Stock Exchange. They select 12 listed insurance companies for a period of 6 years i.e. 2004 to 2009. Using ROA, ROE and TOBIN's Q as measures of firm performance and applying Feasible Generalised Least Squares (FGLS) and random effects estimators their findings have the implications that an increase in the number of female directors and foreign directors on the boards of insurance companies in Nigeria will enhance their performance. In addition, Kang, Ding & Charoenwong (2010), examines whether investors react systematically to the different positions that women directors hold on corporate boards in Singapore. They found out that investors generally respond positively to the appointment of women directors. This means that increase in the number female appointment in the board of directors would lead to increase in firm value. Also, Darmadi (2011), examine the effect of level of female board representation on accounting based performance. The empirical evidence showed that a negative effect of the level of female board representation on accounting based performance using ROA and cumulative stock returns as measures of performance. This means that increase in the number female board representation would lead to increase in firm performance.

In contrary, Alexander *el al.,* (2015), conducted a study which aimed at finding the impact of corporate governance on firm performance of selected companies quoted on the Nigerian stock exchange with a sample of 248 companies. With the used the econometrics analysis software E-views 7.0 to analyze the data, return on equity and return on assets were used as the proxies for firm performance, while gender diversity and other variables were used for measuring corporate governance. The study result reveal that board gender diversity does not have significant impact on firm performance. Eklund, Palmberg & Wiberg (2009), examined the relationship between female board members and bank performance.

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They find out that a negative relationship exists between female board members and bank performance. This in other word means that increase in the number of women setting on the board will lead to a decrease in bank performance. Similarly, Rose (2007), conducted a study on the influence of female board member on firm performance. The empirical finding revealed that there is no significant relationship between female board and firm performance.

Furthermore, Hammad *et al.* (2012), in their study "Diversity and Firm Performance: Evidence from Pakistan" on 395 listed nonfinancial companies of Karachi Stock Exchange (KSE) Pakistan from 2004 to 2009 also shows consistency with the previous study that if females are working on top of the firm it will give negative sign to the investors and leads the firm performance toward decline. Finally, a study on the Impact of Corporate Governance on the Performance of Manufacturing Firms in Nigeria carried out by Odiwo, Chukwuma & Kifordu (2015), reveal that board gender has a negative and an insignificant impact on organizational performance at more than 10% level of significance.

3.5 Board Size and Firm Financial Performance

Board size is the total number of directors sitting on the board of any corporate organization. The determination of an ideal board size for an organization is very important because the number and quality of directors in a firm determines and influences the board functioning and hence firm performance. One of the disadvantages associated with large board is communication coordination problem which makes large board has less efficient monitor than small board. The director's free-rider problem is also more intense in large board than small board (Jensen, 2003 as cited in Nosakhare, Ayoib, & Noriah 2016), examined the impact of corporate governance on performance of manufacturing firms in Nigeria on thirty (30) manufacturing firms drawn from the quoted manufacturing companies that audited their annual financial statement from the period of 2010 to 2014.The result revealed descriptive statistics, correlation and White Heteroskedasticity revealed that board size has positive and a significant impact on organizational performance at 1% level of significance. Similarly, Topal and Dogan (2014), as cited in Odiwo, Chukwuma and Kifordu (2015), investigated the impact of board size on financial performance in Turkey. The result showed that a significant positive relationship exists between board size and financial performance. This means that increase in board size would significantly lead to increase in financial performance. In addition, Amarjit and Neil (2011), examine the impact of board size, CEO duality, and corporate liquidity on the profitability of Canadian service firms taking a sample of 75 Canadian service firms listed on Toronto Stock Exchange (TSX) for a period of 3 years (from 2008-2010). They found that the CEO duality and corporate liquidity positively impact the profitability of Canadian service firms. In addition, firm size and firm growth positively impact the profitability of Canadian service firms.

Studies that find a negative relationship between board size and firm performance include Mak & Yuanto (2002), as cited in Nosakhare, Ayoib & Noriah (2016), which examine the relationship between board size and firm performance. The empirical evidence from their study revealed that a negative relationship between board size and firm performance. This means that increase in board size would lead to a significant decrease in organizational performance. Also, Aggarwal, *et al.* (2007), examine the relationship board size and firm performance. They found out that no significant relationship exists between board size and firm valuation.

Similarly, Eyenubo (2013), investigates the impact of Bigger Board Size on Financial Performance of Firms in Nigeria by adopting the use of secondary data from the Nigerian Stock Exchange Fact book drawn from various industries during the period 2001 – 2010 via the regression statistical technique. His findings revealed that Bigger Board Size affects the Financial Performance of a firm in a negative manner. Based on his findings he suggested that firms are enjoined to place a remarkable degree of emphasis on the area of corporate governance and to some extent, embark on eliminating CEO duality. But, Moscu (2013), conducted a study on the impact of board size on firm performance in Romanian listed company on the floor of the stock exchange. The study revealed that board size has a positive and insignificant on firm performance proxy by ROA and ROE. This means that an insignificant relationship exists between board size and firm performance in Romania listed firms. Based on the review literature, we therefore formulate hypothesis that board size has a significant impact on organizational performance.

3.6 Educational/Experience Diversity and Firm Financial Performance

The heterogeneity within boards regarding educational and functional diversity becomes more relevant as the complexity of the economic framework increases (Mahadeo *et al.,* 2012). Professional experience and expertise are primarily expected in the departments of human resources, investment, finance, accounting or marketing. In comparison to gender

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diversity, only a few empirical studies analyze the influence of educational and functional diversity on corporate performance.

For instance, Cannella *et al.* (2008) distinguish between intrapersonal functional diversity (within-member breadth of functional experience) and dominant functional diversity (heterogeneity in the functional areas in which each top management team (TMT) member has served the longest). This study finds that intrapersonal functional diversity has a positive impact on firm performance. Environmental uncertainty and TMT co-location are tested to have a strong and positive moderating effect on intrapersonal diversity and its impact on firm performance. The authors also find a positive and significant effect of team member co-location on dominant functional diversity and its effect on firm performance.

More so, Simons et al. (1999) as cited in Marc, Patrick & Carolin van (2014), show that educational diversity has a positive but not significant effect on both, change in profitability and sales growth, whereas functional background diversity has a negative impact. Additionally, they find that open discussion among top management members has a moderating effect on (acts as a moderator between) diversity and performance. A culture of open discussion combined with both, educational as well as functional background heterogeneity has a positive impact on firm performance. Similarly, Camelo *et al.* (2010), find a positive relationship between educational diversity in top management and innovation performance. Contrarily, they find a negative effect of functional diversity on innovation performance.

4. THEORETICAL FRAMEWORK

There are a number of theories that support the economic case for corporate diversity. In the simplest form, the foundation of the economic case for corporate diversity lies in the belief that board composition affects the way a board carries out its responsibilities, and that healthy board composition increases the effectiveness of board actions. The board's increased effectiveness, in turn, enhances firm performance and productivity, and thus, shareholder value (Van der Walt & Ingley 2003). From this view, it can be extrapolated that because gender, size and experience diversity are a subset of board composition, they may be linked to firm financial performance. While no one theory adequately explains the nature of the linkage between board diversity and firm financial performance, we highlight several salient theories below, drawn from disciplines spanning economics, social psychology, and organization theory (Carter, *et al.* 2010). After detailed consideration of the theories, a theory underpinning the study will be adopted.

4.1 Resource Dependence Theory

Resource Dependence Theory provides the foundation to some of the most compelling theoretical arguments in the economic case for corporate board diversity. The theory focuses primarily on the benefit boards provide to corporations through linkages to external organizations. Pfeffer and Salancik (1978), point to four key functions such external linkages provide: (1) provision of resources such as information and expertise; (2) communication channels between the corporation and constituents in networks important to the firm; (3) additional support from outside groups or organizations, be they monetary or reputational commitments; and (4) added legitimacy for the firm within environments in which the corporation does not immediately reside. Therefore, theory dictates that by selecting directors with diverse backgrounds and different characteristics, a firm is able to benefit from better access to different resources, and therefore, should have stronger firm performance (Hillman et al. 2000).

Type of diversity therefore seems to be indicative of the types of resources a board can bring to the table. For example, directors with strong political connections can be instrumental in helping firms navigate through new regulatory environments, whereas directors with deep financial experience can connect firms with key investors. Similarly, women and experience board members can contribute unique benefits and resources, as they tend to have different backgrounds and human capital, which allows them to address different environmental dependencies (Carter et al. 2010). It is tested in many cases and concluded that women bring a host of different soft-skill resources to their jobs, in the form of leadership competencies (Folkman & Zenger 2012).

Experience and gender diversity on boards therefore will likely provide managers with unique information and skill sets, allowing for better decision making at the corporate level. Additionally, Stephenson (2004), found that diverse boards are better able to attract and retain talented female and minority managers and employees – a finding of particular significance, as over half of the pool of human capital available to a firm is composed of women and minorities.

4.2 Human Capital Theory

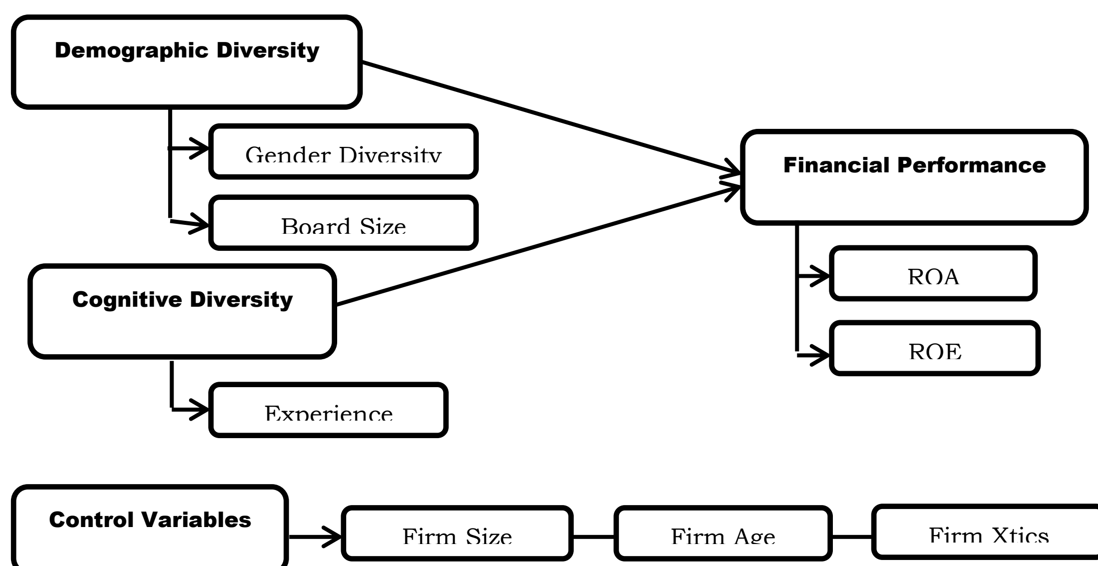
Human Capital Theory examines the impact a person's education, skills, and experience can have on the organization that they are influencing. Because Terjesen et al. (2009), asserts that differences in gender result in directors having unique human capital.

In Zweigenhaft & Domhoff's (2011), study of women and minority CEOs and directors in the Fortune 500, they concluded that "members of underrepresented groups who made it to the top were consistently better educated" than Caucasian men in similar positions. In particular, minority corporate leaders were more likely than their White male counterparts to have degrees from prestigious academic institutions, suggesting that their educational credentials are more likely to familiarize them with cutting edge practices in the field, including innovation, product development, and sound corporate governance practices. Additionally, minority leaders often bring a different set of perspectives and leadership skills to the table because of their lifelong status as outsiders within (Smith 2005). They are more likely to have experienced barriers and discrimination prior to their ascent, and as a result, they are more likely than Caucasian leaders to place additional weight on strong governance and to promote practices which favor transparency, accountability, fairness, and social responsibility (Cook & Glass 2015).

These assertions, however, are met with conflicting claims on the impact of diverse boards. Accordingly, there has been scattered evidence that suggests women are just as well equipped as men in some human capital aspects, such as educational attainment, but that they are less likely than men to have experience in other aspects such as business expertise (Cook & Glass 2015). Additionally, women and African-American board of directors appear to assume different roles on the board relative to African male directors, though the net effect on financial performance could be either positive or negative (Hillman et al. 2002; Peterson et al. 2007).

5. CONCEPTUAL FRAMEWORK

The theoretical framework showing the relationship between demographic, cognitive diversity and impact on financial performance of firm is proposed in Figure 1. Here, independent variables are demographic and cognitive diversity. Demographic diversity includes (gender, Board size) and cognitive diversity includes (experience). The dependent variable of this study is firm performance which can be measured through Profit Before Tax (PBT). The control variables of this study are firm size, firm age and management efficiency. This study will show the actual relationship between diversity and firm performance.



Source: Design by the researcher

Figure 1: Relationship between Demographic, Cognitive Diversity and Firm Performance

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6. METHODOLOGY

6.1 Research Design

This study employed the ex-post facto research design because documentary data of the study population is used which was extracted from the annual reports and accounts of the sampled manufacturing companies for the period 2014-2018. The research design is justified base on the nature of the data that will be collected and the analysis to be carried out on it. The population of this study comprises of all the manufacturing firms which are classified into 3 subsectors namely; the Consumer Goods, Industrial Goods and Conglomerates listed in the Nigerian Stock exchange as at 31st December, 2018. The two-point filter that is used to arrive at the working population is that firstly a company must have been listed on or before January, 2014 and remain listed till December, 2018. Secondly, the company must have complete records of all the data needed for measuring the variables of the study within the period. However, ten (10) companies were taken as a sample for the study readily available from the Nigerian Stock Exchange, to ensure statistically valid generalization in the sampled firms will include mostly active and popular quoted companies in the stock exchange market. The study employs correlation and multiple regression techniques in analysing the data generated for the study in addition to some diagnostic tests carried out.

For the purpose of this study the following linear regression equation will be used as adopted with modification from the research by (Orabi, 2014; Malik, Saeed, Ahmed & Javed, 2012):

$PBT_{it} = \alpha + {}_{1}BSIZE_{it} + {}_{2}GNDDV_{it} + {}_{3}EDUDV_{it} + e_{it}$

Where:

BSIZE = Board Size

GNDDV = Gender Diversity

EDUDV = Educational Diversity

α = the constant

β = the coefficient

e = Random error term

i = Company

t = Time

Additionally, we integrated control variables in our multiple regression model in order to control for firm-specific variables and avoid any firm size bias, we controlled for firm's age, management efficiency and firm size which was expressed by the log of total asset. The analyses in this study were conducted using STATA 13 econometric software.

Descriptive Statistics

The descriptive statistics shows the description of the mean, standard deviation and normality test. The below is the descriptive statistics for the period of 2014 to 2018.

Multicollinearity

Multicollinearity test is carried out to check whether there is a correlation among the explanatory variables which will mislead the result of the study. The result of the multicollinearity test is presented in table 4.1 below.

Table 6.1

	MDs	FDs	DQ	TD	LTTO
MDs	1.0000				
FDs	0.0000	1.0000			
DQ	0.6852	0.1082	1.0000		
TD	0.8783	0.4401	0.7418	1.0000	
LTTO	0.0296	0.3938	-0.0874	0.1223	1.0000

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Source: Author's computation using STATA 13 on the data obtained from annual reports and Accounts of sampled companies (2014-2018).

The correlation among the IVs ranges from highest of 0.8783 to minimum of -0.0296 which are all below the maximum threshold of 0.9 (Tabachnic & Fidell, 2007). Therefore, there is absence of multicollinearity in the model.

Heteroscedasticity

The study conducted Breusch Pagan/Cook Weisberg heteroscedasticity test to determine whether the regression errors depends on the independent variables. The result (0.1280) is insignificant indicating that the errors are independent of the IVs of the model. This signifies absence of heteroscedasticity and existence of homoscedasticity in the model, which is the ideal condition of the test. In the homoscedastic model, it is assumed that the variance of the error term is constant for all values of independent variable.

Normality Test

The study conducted normality test in order to see the spread of the data and its association with the normal distribution. The result of the normality test is presented below in table 4.2.

Table 6.2

Variable	OBs	Pr(Skewness)	Pr(Kurtosis)	Adj chi2 (2)	Prob>chi2
E	50	0.4769	0.6619	0.72	0.6978

Source: Author's computation using STATA 13 on the data obtained from annual reports and Accounts of sampled companies (2014-2018).

The above table shows that the Skewness and Kurtosis of the data are assumed normal. The skewness is 0.4769 and kurtosis is 0.6619 indicating that the data is normally distributed. The data is not normal if the skewness is above 2 and the kurtosis is above 7 (Tabachnick & Fidell, 2007).

Panel Regression Analysis

For the purpose of this study different panel regression analysis was conducted which include; Pooled ordinary least square, Random effect, Breusch Pagan, and Hausman test in an attempt to report the most suitable and appropriate result for the study. Below are the details of the result of these analyses.

Pooled ordinary least square (ols)

Table 6.3

Lpbt	Coef	Std. Err.	T	P>|t|	[95% Conf. Interval]	
MDs	-.6666339	.1408767	-4.73	0.000	-.9505522	-.3827155
FDs	-.8264967	.1820874	-4.54	0.000	-1.19347	-.4595236
DQ	-.3996849	.1596103	-2.50	0.016	-.7213582	-.0780115
TD	.7225232	.1559382	4.63	0.000	.4082504	1.036796
LTTO	.9567053	.1018695	9.39	0.000	.7514008	1.16201
Constant	-.3722895	.7440227	-0.50	0.619	-1.871769	1.12719

Source: Author's computation using STATA 13 on the data obtained from annual reports and Accounts of sampled companies (2014-2018)

The table 6.3 above shows that all the Independent Variable (IVs) have significance on the Dependent Variable (DV) at 5% significance level.

Random effect

Table 6.4

Lpbt	Coef	Std. Err.	Z	P>|t|	[95% Conf. Interval]	
MDs	-.6612242	.3697453	-1.79	0.074	-1.385912	.0634633
FDs	-.8071515	.4759065	-1.70	0.090	-1.739911	.1256081

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DQ	.4082887	.4186581	-0.98	0.329	-1.228844	.4122662
TD	.7184475	.4094136	1.75	0.079	-.0839884	1.520883
LTTO	.89676	.224721	3.99	0.000	.456315	1.337205
Constant	.0326279	1.690109	0.02	0.985	-3.279925	3.345181

Source: Author's computation using STATA 13 on the data obtained from annual reports and Accounts of sampled companies (2014-2018)

The result of the random effect analysis shows significance for all variables at 10% level except for director's qualification.

Breusch Pagan test

Table 6.5

	Var.	**Sd = sqrt (Var.)**
Lpht	.7068324	.8407333
E	.0856117	.2925948
U	.2801968	.5293362
Test: Var(u) = 0	chibar2(01) = 30.11	
	Prob > chibar2 = 0.1257	

Source: Author's computation using STATA on the data obtained from annual reports and Accounts of sampled companies (2019).

This test indicates whether pooled ols or random effect is more appropriate for the data. If the probability is significant, then random effect is more appropriate and if otherwise, pooled ols is appropriate. The result indicated that the probability is insignificant (0.1257), hence favors pooled ols. Therefore, pooled ols will be reported in this study.

Hausman test

This test is necessary if the Breusch pagan test favors random effect in order to further determine the most appropriate between random effect and fixed effect. In this study, the Breusch Pagan test did not favor random effect, it favors pooled ols, hence no need to conduct Hausman test.

Results and Findings

Test of Hypothesis one

Hypothesis 1 proposed that board gender diversity (females on board) has positive impact on financial performance of listed manufacturing firms in Nigeria and the result from Table 4.3 above on panel regression model using Pooled ordinary least square (ols), reveals a negative and significant relationship between the variables ($\beta = -0.826$, $t = -4.54$, $p = 0.000$), therefore leading to the acceptance of the null hypothesis.

Test of Hypothesis two

The second hypothesis proposed that the presence of directors with qualification above first degree on the board has positive impact on the financial performance of listed manufacturing firms in Nigeria. The result of the study in table 6.3 above on panel regression model using Pooled ordinary least square (ols), shows a negative and significant relationship between the variables ($\beta = -0.399$, $t = -2.50$, $p = 0.016$), therefore leading to the acceptance of the null hypothesis.

Test of Hypothesis three

Additionally, the third hypothesis proposed that the number of directors on board has a positive impact on the financial performance of listed manufacturing firms in Nigeria. The result revealed by the study in Table 6.3 above on panel regression model using Pooled ordinary least square (ols), shows a positive and significant relationship between the variables ($\beta = 0.723$, $t = 4.63$, $p = 0.000$), hence, we acceptt the null hypothesis.

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7. RESULT DISCUSSIONS

The descriptive results showed that board size and gender diversity averaged 11.4 and 2.0 respectively while profitability (PBT) averaged 6.280. Firm size (both total assets & turn over had a mean of 7.403 and 7.305 respectively. Educational diversity (director's qualification) was found to have a mean of 1.3.

Gender diversity and financial performance

From the regression results, gender diversity was found to have a significant negative impact on financial performance, indicating (β = -.6666339, t = -4.73, p = 0.000), this result show that companies should not consider the issue of gender in the process of employment as it does not have any positive impact on the financial performance of the company. The result of this study is contrary with the findings of (Norbum and Birley (1986), Williams (2000), Adams and Ferreira (2004), Farrell and Hersch (2005), and Nishii (2007)).

Educational Diversity and Financial Performance

From the regression results, Educational diversity was also found to have a negative and significant relationship between the variables (β = -0.399, t = -2.50, p = 0.016), at a 0.05 (significance) level of confidence. Thus, this lead to the rejection of the alternative hypothesis and accepting the null hypothesis, hence, the presence of Directors with qualification above first degree on the board has negative impact on the financial performance of listed manufacturing firms in Nigeria. This result is contrary to that of Mark, Patrick and Carolin (2014), which find a significant positive relationship between educational diversity and financial performance.

Board size and Financial Performance

Result from Board size and firm characteristics have significant positive impact on financial performance (β = 0.723, t = 4.63, p = 0.000) at 0.05 (significance) levels of confidence. This suggests, that although no impact was found on the chosen performance measures, board diversity remains a crucial aspect for every company, as it may have a significant impact on various other performance measures, such as ROI, sales growth, net income and further on, together with such factors as the type of industry in which the company operates and the size of the firm. The result of this study is in line with the findings of (Maryam & SeyedehYalda 2013; Vincent, Peter, Martin & Eric 2015; Edem, & Noor 2014; Nosakhare, Ayoib & Noriah 2016; Odiwo, Chukwuma & Kifordu 2015 and Progress, Hlanganipai & Godfrey 2014).

Summary

The study is set out to examine the effect of corporate diversity on the financial performance of manufacturing companies in Nigeria. Review on the intent literature as well as the theoretical framework was conducted in the second part of the study in addition to the explanation of the study variables. The literature on firm's financial performance, corporate diversity and financial performance are reviewed, specifically, relationship between diversity and company's performance and profitability are discussed. Various theories that explain the concept of corporate diversity in relation to business performance is also reviewed and a theory underpinning the study is adopted. It is from the review that the researcher is able to develop the gap existing in the literature, thereby directing the research toward filling the gap. Furthermore, Secondary data from the annual reports of 10 companies were collected and used in the analysis. The study used a multiple regression analysis to examine how corporate diversity influence financial performance measured by PBT. Diagnostic tests were carried out to check for heteroskedasticity, multicollinearity, outliers, serial correlation and test for choosing appropriate model. Lastly the hypotheses proposed by the study at the beginning were tested and the result was adequately discussed in the final chapter.

8. CONCLUSIONS

The study concludes that corporate diversity had influenced the financial performance of listed companies in the Nigerian manufacturing industry in a negative way as indicated in the study. The relationship was found to be negative after it passed the significance tests at the acceptable levels of significance. Financial performance of listed companies in Nigerian manufacturing industry is therefore influenced by the level of diversity.

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The study also concludes that corporate diversity concerning gender does not influence the financial performance of listed companies in the Nigerian manufacturing industry in a positive way. As it was shown, there is evidence of negative relationship between gender diversity and financial performance at all acceptable levels of significance. Thus, the performance of listed companies in Nigerian Manufacturing industry is not affected by the level of gender diversity positively.

9. RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This issue of corporate diversity and financial performance still have a puzzling result. Therefore, expanding the performance measures beyond PBT is speculated to add additional value to the results, as well as an increase in reliability, thus becoming a potential recommendation for further research in an attempt to solve the puzzling relationship between corporate diversity and firm's financial performance in the Nigerian manufacturing companies. In addition, expanding the research to a broader time interval could serve as a potential source of acquiring more accurate and differentiated results on the effect of board's diversity on firm's financial performance. It was seen now that throughout the five-year interval, the situation in Nigeria vastly changes together with the various components of the largest corporations operating in the region.

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