Leadership Structure and Corporate Performance in Nigeria

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Abstract

Leadership in terms of structure and style has generated relatively little attention from economic discourse compared with the influence of financial ratios in the determination of firms' performance especially in the developing economies. Therefore, the study considered the effects of leadership structure on the performance of listed firms in Nigeria, using a panel data analysis of 50 selected listed firms based on firm accessibility, turnover rate, profit margin and year of existence criteria among others. The data were observed from 2008 to 2017 with the findings showing the Leadership structure positively correlated with the market based value of firms in Nigeria. It was also revealed that separating personality and position of Board Chairman from the Chief Executive Officer's (CEO) position is value enhancing; while the CEO and the Board Chairman are expected to monitor the activities of firms for effective performance in Nigeria.

Keywords: Corporate Entity, Performance, Leadership Structure, Panel Model, Nigeria.
JEL Classification: L22, L25

INTRODUCTION

In any organization, leadership structure is considered as one of the key factors that determine the healthy state of the system and its ability to survive shocks. The health of any organization depends on the underlying soundness of the Chief Executive Officer (CEO) or the chairman and the connections between them. According to Morck, Shleifer and Vishny (1988), among the main factors that support the stability of any country's financial system includes good governance; effective marketing discipline; strong and prudential regulation and supervision; accurate and reliable accounting and financial reporting systems; a sound disclosure regimes and an appropriate savings deposit protection system. In this case leadership structure has been looked at and defined variedly by different scholars and practitioners. However, they all defined the concept similarly thus providing a consensus definition. Meanwhile, the separation of the role of the CEO and the chairman is essential in alleviating issues of corporate governance practices (Brickley, Coles and Jarrell, 1997; Dalton 1998; Dedman and Lin, 2002). The business of a firm is managed under the direction and supervision of a board of directors that delegates to the CEO and other management staff for the day-to-day management of the affairs of the firm (Yasser, Entebang and Mansor, 2011). This means that the combined leadership will have more managerial discretion because its leader is also the leader of the board of directors. Therefore, the board will have less incentive to monitor the activities of the corporate managerial team, which will increase information asymmetry between the agent and its principles

The agency theory evolved from economic literature, in line with leadership structure developed two separate streams, the positivist agent and the principal agent. Both streams involve the contracting problem of self-interest as a motivator of both the principal and the agent, and they share common assumptions regarding people, organisations and information. However, they differ in terms of mathematical rigour, dependent variables and style (Jensen, 1993).The agency relationship is described by Jensen and Meckling (1976) as a contract under which one or more persons (the principals) engage another person (the agent) to perform a service on their behalf, which involves delegating the decision-making authority to the agent.

According to this theory, shareholders who are the owners of the corporation, appoint managers or directors and delegate to them the authority to run the business for the corporation's shareholders (Clarke, 2004). The agency relationship between the two parties is defined as the contract between the owners (principals) and the managers or directors (agents) (Jensen and Meckling, 1976). On the basis of the agency theory, shareholders expect the managers or directors to act and make decisions in the owners' interests. However, managers or directors may not necessarily always make decisions in the best interests of the shareholders (Clarke, 2004).

Thus, two problems involving the agency theory occur in the agency relationship. The first problem is that, because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that, because of differing attitudes towards risk, the principal and the agent may favour different courses of action (Eisenhard, 1989). In solving this problem, several studies have examined the relationship between CEO duality and firms' performance, but the various findings still lack consistency. For instance, Jackling and Johl (2009) investigated the relationship between internal governance structures and the financial performance of Indian companies, and finds that the combined position of CEO and chairman has negative effect on firm performance. This finding is also supported by Ujunwa (2012), who reveals that the duality role of the CEO

and the board Chairman is negatively linked with the firms' financial performance in Nigeria. In addition the findings from these studies (see Rahman and Haniffa 2005; Abduliah 2004; Elsayed 2007; Coskun and Syilir 2012; Khaled 2014) were also in line with prior studies on the relationship between firm performance and a separate leadership structure. Rechner and Dalton (1991) also conducted a study on a sample of 500 companies and finds that the duality role of CEO and board chairman in the sampled firms has strong effect on firm's financial performance, because it speeds up the decision-making process and removes unnecessary bureaucracy hence, leading to stronger financial performance. Haniffa and Hudaib (2006)while studying the relationship between the corporate governance structure and performance of 347 listed companies in Kuala Lumpur Malaysia between 1996 and 2000,and finds that a separate leadership structure is not significantly related to firms' value measured by Tobin's Q (see Chen, Lin and Yi's ,2008). Considering the review of few related studies, there is a dearth of research on the current status of board leadership structure and the effect of this structure on the performance of corporate firms in Nigeria; hence, the need for the study.

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METHODOLOGY
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The relationship between leadership structure and corporate performance was examined using the principal-Agency Theory of Jensen and Meckling (1976), and Stakeholders theory and efficiency wage monitoring theory of Shapiro and Stiglitz (1984) .The aim of these theories is to concentrate on shareholders' rights and the separation of ownership from control so that companies can maximise the wealth of its shareholders. The two theories focus not only on shareholders, but it has been expanded to take into account the interests of many different stakeholder groups (Clarke, 2004; Letza, Sun and Kirkbride, 2004). This is consistent with the Organization of Economic Cooperation and Development(OECD) principles (2004), To further buttress the theoretical bases of the study as cited in Zikmund (2010), we assume that stakeholders' utility equation is presented thus;

$$U (w,e) = w - \Psi (e^*) \tag{1}$$

Where; Ψ = opportunity wage of stakeholder, w = Wage offered to stakeholder, e = effort put in production, e^*= Required effort level, $\Psi (e^*)$ = Cost of effort to the stakeholder.

The major import of this framework is that firm performance is a function of effective Leadership structure through monitoring. The lower the fractional holdings of a manager in a firm the higher his tendency to shirk, this in turn has negative affect on his productivity and the overall firm performance. Therefore, in this study the entire 180 listed firms' in Nigeria were considered while a panel of fifty (50) sampled listed firms observed from 2008 to 2017; based on firm accessibility, turnover rate, profit margin and year of existence were used for the analysis. The econometric modelling for multiple regressions is presented thus;

$$y_i = \alpha_k + \beta_k X_{ki} + e_i \tag{2}$$

Where; y_i is the dependent variable representing each of the measures of performance, α_k is the constant parameter, X_{ki} is the vector of leadership structure measured with gradient β_k and e_i is the error term in equation $_i$. The study used three measures of firm performance in relation to leadership structure such as Return on Asset (ROA) Returns on Equity (ROE) and Tobin Q (Dedman Lin, 2002; Brickley, Coles and Jarrell, 1997; Donaldson and Davis, 1991).

The methods of analysis used in this study also include descriptive, correlation, and regression. The correlation coefficient takes values between 0 and 1, where zero (0) mean no correlation and 1 mean perfect correlation. The descriptive measurement of leadership structure also takes dummy variables between 0 and 1, where 0 mean combined leadership and 1 for separate leadership as the case may be. Meanwhile variance inflation factor (VIF) test was necessary to quantify the severity of multicollinearity problem for the regression analysis where the correlation coefficients among the independent variables are above 0.80 (Gujarati, 2003). A panel estimation technique of fixed and random effects was also adopted using the Hausman specification test. The Hausman test examines the null hypothesis that the estimated coefficients by random effect estimator are similar to those estimated by a fixed effect estimator that is consistent.

 In the entire regression analyses, panel corrected standard errors (robust standard error) were used, which are developed to tackle the existence of heteroscedasticity (Gujarati, 2003). The general empirical model of the study is specified as;

$$\beta (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \varepsilon_{it} \tag{3}$$

where, the subscript i represents the entity of each quoted firm at time (t), while subscript t represents the year(t = 2008-2017). The explicit models for Pooled, Fixed and Random effects are presented below;

The Pooled Panel Regression Models

The starting model is the pooled panel model where it is assumed that any heterogeneity across firms has been averaged out. The pooled panel regression analysis was adopted based on secondary data, because panel study allows the measuring of the pattern of change and obtaining factual information requiring collection of data on a regular basis (Greene, 2004).Thus the pooled estimations are as follows:

$$ROA_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \varepsilon_{it} \qquad (4)$$
$$ROE_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \varepsilon_{it} \qquad (5)$$
$$TBNQ_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \varepsilon_{it} \qquad (6)$$

Where, β_0 = intercept β_{1-3} = coefficient, ε = error term, i= entity of firms, t = the year

Random Effect Regression Model

The random effect model assumes that the individual heterogeneity is uncorrelated with (or, more strongly, statistically independent of) all the observed variables (Gujarati, 2003). Going by this assumption the following models are specified;

$$ROA_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + V_{it} \qquad (7)$$
$$ROE_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + V_{it} \qquad (8)$$
$$TBNQ_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + V_{it} \qquad (9)$$

Where, $V_{it} = \alpha_i + \varepsilon_{it}$ is often called the composite error.

Fixed Effect Regression Model

The fixed effect model assumes that individual heterogeneity is captured by the intercept term. This means every individual is assigned to its intercept α_i while the slope coefficients are the same, and the heterogeneity is associated with the regressors on the right hand side (Gujarati, 2003). In the model also we introduced a firm dummy so as to determine whether or not peculiarity exists in the results of firms in same industry.

$$ROA_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \sum_{i=1}^{49} \alpha_i idum + \varepsilon_{it} \qquad (10)$$
$$ROE_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \sum_{i=1}^{49} \alpha_i idum + \varepsilon_{it} \qquad (11)$$
$$TBNQ_{it} = \beta_0 + \beta_1 (LDS)_{it} + \beta_2 (FSIZE)_{it} + \beta_3 (LEVG)_{it} + \sum_{i=1}^{49} \alpha_i idum + \varepsilon_{it} \qquad (12)$$

Where, $\alpha_i idum$ is a dummy variable?

Results and Discussion

The descriptive statistics of firms with their corresponding Leadership structure variables presented in Table 1 showed that most of the listed firms in Nigeria separated the position and personality of Board Chairman from CEO with indication of dummy of 1 in most of firms with the exception of few sectors like the industrial, information, oil and gas that were not fully separating the activities of CEO from the Board Chairman but tending towards separating the two offices with dummy 0.98, 0.96 and 0.83 respectively.

Table 1: Descriptive Analysis of Sectoral Leadership Structure

SECTOR	No of firms selected	LDS	LEVG	FSIZE
CONSUMER GOODS	9	1	0.66(0.18)	7.65(0.46)
CONGLOMERATES	5	1	0.62(0.16)	7.27(0.44)
SERVICES	6	1	0.53(0.24)	6.54(0.47)
NATURAL RESOURCE	3	1	0.62(0.26)	6.09(0.29)
INDUSTRIAL GOODS	5	0.98(0.15)	0.48(0.26)	6.35(0.4)
INFORMATION & CO	3	0.96(0.19)	0.57(0.3)	6.66(0.3)
OIL & GAS	6	0.83(0.38)	0.76(0.1)	7.84(0.5)
HEALTHCARE	5	1	0.62(0.31)	6.69(0.28)
AGRICULTURE	4	1	0.48(0.21)	6.88(0.49)
CONSTRUCTION/REA	4	1	0.69(0.24)	6.93(1.3)

Mean, with Standard Deviation in Parenthesis
Source: Computed from Field Survey (2017)

The summary statistics of firm performance variables presented in Table 2, revealed that consumer goods, agriculture and natural resources in that order produced the highest mean value for Returns on Assets (ROA) (mean = 8.05, 6.77 and 4.95), while Information and health care has the lowest mean value for ROA (mean = -1.05 and -1.88) respectively. The sector with highest mean value indicates that they are highly developed in operational management capacities which guarantee optimum management of their firm assets. Although the result is expected since the sectors are similar in characteristics and they do produce high consumer related goods with high turnover rate due to their daily use.

Table 2. Sectoral analysis of firm performance

SECTOR	No of firms selected	ROA	ROE	TBNQ
CONSUMER GOODS	9	8.05(6.53)	26.6(22.91)	2.7(1.76)
CONGLOMERATES	5	1.51(5.86)	-1.98(23.2)	1.05(0.36)
SERVICES	6	3.49(7)	3.75(20.47)	1.15(0.76)
NATURAL RESOURCE	3	4.95(6.34)	14.29(15.65)	2.04(1.23)
INDUSTRIAL GOODS	5	3.39(7.38)	4.27(19.12)	1.19(0.96)
INFORMATION & CO	3	-1.05(11.08)	-1.33(32.39)	0.99(0.26)
OIL & GAS	6	3.66(6.28)	16.98(31.81)	1.61(1.02)
HEALTHCARE	5	-1.88(10.86)	-0.14(28.98)	0.89(0.36)
AGRICULTURE	4	6.77(10.6)	11.33(25.59)	1.2(0.58)
CONSTRUCTION/REA	4	3.84(3.46)	16.04(21.26)	0.97(0.2)

Mean, with Standard Dev.in Parenthesis
Source: Computed from Field Survey, (2017)

Table 3 summarizes the basic statistical features for the performance indicators, Leadership structure and the control variables. The performance indicators are Returns on Asset (ROA), Returns on Equity (ROE) and Tobin's Q (TBNQ) with leadership structure (LDS) variable and control variables such as leverage (LEVG) and firms' size (FSIZE).Based on performance indicators; returns on equity (ROE) appeared to be the most performing indicator at the period of this study out of the three performance indicators. The highest performance of returns on equity (ROE) at this period was 32.56 per cent, and the lowest was -37.06 per cent. Concerning the leadership structure, the result reveals that the average leadership structure (LDS) with a value of 0.98% implies that separation of the role of CEO and the chairman is about 98% compliance level. Taking into consideration of the control variables, LEVG has an average of 0.49 and ranges between -0.47 and 0.61 with a standard deviation of 0.24. Companies' size in terms of logarithm of total asset ranges from 4.92 to 8.98 with a mean value of 7.00 and a standard deviation of 0.77.

Table 3. Descriptive Analysis of Leadership structure and Firm Performance

	Minimum	Maximum	Mean	Std.Dev.	Skewness	Kurtosis
ROA	-37.06	32.56	3.69	8.16	-0.65	6.45
ROE	-103.54	92.79	10.46	26.35	-0.59	5.81
TBNQ	-0.36	9.42	1.49	1.17	2.94	13.98
LDS	0.00	1.00	0.98	0.15	6.16	38.93
LEVG	-0.47	1.57	0.61	0.24	-0.17	4.73
FSIZE	4.92	8.98	7.00	0.77	0.00	2.70

Source: Computed from Field Survey, (2017)

The result of the correlation matrix for Leadership structure model in Table 4 shows that, leadership structure is positively correlated with all the firm performance indicators. The result shows that leadership structure has a positive and strong relationship with the accounting and market based value of performance.
Generally the Table shows a positive but weak relationship between leadership structure and the performance indicators of listed firms in Nigeria. This indicates that good leadership structure is expected to have a positive relationship with firm performance.

Table 4: Correlation Statistics of Leadership Structure and firm Performance

	ROA	ROE	TBNQ	LDS	LEVG	FSIZE
ROA	1					
ROE	0.704***	1				
TBNQ	0.392***	0.433***	1			
LDS	0.146***	0.204***	0.180***	1		
LEVG	0.301***	0.040	0.186***	0.055	1	
FSIZE	0.077	0.119**	0.153***	0.056	0.216***	1

Source: Computed from Field Survey, (2017)   *** $p<0.01$, ** $p<0.05$, * $p<0.1$*

Analysis of Leadership structure (LDS) and Returns on Asset (ROA)
Table 5 shows a positive and insignificant relationship between a separate leadership structure and firm performance, especially with reference to returns on asset (ROA) after controlling for firms' characteristics leverage (LEVG) and firms' size (FSIZE)The F-statistics of the model as shown in Table 5 indicates the respective significant prediction of the model. However, ROA was noted to have goodness of fit better than the other performance indicator. The Hausman specification test indicates the superiority of fixed effect modelling of the ROA models. However, the R-square value 0.687 indicates that the variables successfully explain about 68.7% of changes in the performance indicator (ROA).
The leverage exerted a negative effect on the performance indicator (ROA). This indicates that the higher the debt ratio, the lower the performance of listed firms on returns to asset (ROA), which means a unit increase in the debt ratio, will reduce the performance of firms by 14.45%. It might be that firms face higher levels of debt due to the increasing cost of operations, which might reflect their ability to fulfil their obligations to pay higher interest rates (Dechow et al., 1996).
Although combining the roles of board chairman and CEO in one person is discouraged by the Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) codes on the basis that it is likely to adversely affect the decision making process, but this finding differs especially in the short run with separate leadership (LDS) showing a significant relationship with ROA. This also indicates that combining the roles of board chairman and CEO in one person exhibit higher returns on asset (ROA), while declining in the long run. This is in line with Brickley, Coles, and Jarrell (1997) that the CEO and the board chairman monitor the activities of firms for effective performance in Nigeria.

Table 5: Regression Result on Leadership structure (LDS) and Returns on Asset (ROA)

Variable	Pooled (OLS)	Random (RE)	Fixed (FE)
C	-5.869 (-1.536)	7.194 (0.971)	50.997*** (9.503)
LDS	9.688*** (8.336)	6.132*** (3.192)	2.91 (1.574)
LEVG	-11.542*** (-8.301)	-13.917*** (-7.383)	-14.495*** (-10.781)
FSIZE	1.144*** (3.632)	0.281 (0.312)	-4.94*** (-6.235)
R-squared	0.420	0.437	0.687
Adjusted R-squared	0.410	0.430	0.644
F-statistic	13.005***	11.763***	15.747***
LM Test [Prob.]	280.516[0.000]		
Hausman Test [Prob.]		11.764[0.068]	
Durbin-Watson	1.8012	1.8545	2.0132

Source: Computed from Field Survey, (2017) . *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Analysis of Leadership structure (LDS) and Returns on Equity (ROE)
Table 6 also presents the analysis of the model explaining the relationship between separate leadership (LDS) and the performance, measured by returns on equity (ROE) with firms' characteristics leverage (LEVG) and firms' size (FSIZE) as control variables. The regression result revealed a positive and significant relationship between a separate leadership structure and firm performance, particularly with ROE unlike the insignificant relationship with ROA. This is an indication that Separate leadership structure has significantly influenced the accounting based value performance of listed firms in Nigeria. In this case the board monitors the CEO more objectively and effectively. The F-statistics shown in Table 6 indicates the respective significant prediction; thereby the ROE model was noted to have goodness of fit. The Hausman specification test also indicates the superiority of fixed effect modelling of the ROE. However, the R-square value 0.622 indicates that the variables successfully explain about 62% of changes in the performance indicator (ROE).The leverage (LEVG) shows a long run negative effect on ROE model. This model, like the returns on asset indicates that the higher the debt ratio, the lower the ROE, which means a unit increase in debt ratio will lower the performance of firms in terms of returns on equity. This implies that highly levered firms exhibit lower returns on equity (ROE), which was corroborated by the findings of Ujunwa, (2012); Coskan and Syiliar (2012).

Table 6: Regression Result on Leadership Structure (LDS) and Returns on Equity (ROE)

Variable	Pooled (OLS)	Random (RE)	Fixed (FE)
C	-25.221** (-2.059)	13.648 (0.483)	175.462*** (7.789)
LDS	39.026*** (9.798)	23.918*** (3.675)	8.646* (1.883)
LEVG	0.640 (0.132)	-0.577 (-0.088)	-2.791 (-0.637)
FSIZE	2.682* (1.883)	-2.471 (-0.638)	-21.735*** (-6.635)
R-squared	0.465	0.515	0.622
Adjusted R-squared	0.452	0.502	0.569
F-statistic	5.136***	1.148	11.789***
LM Test [Prob.]	225.463 [0.000]		
Hausman Test [Prob.]		18.904 [0.004]	
Durbin-Watson	1.977	1.991	2.015

Source: Computed from Field Survey, (2017)   *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Analysis of Leadership Structure (LDS) and Tobin's Q (TBNQ)

The regression analysis shown in Table 7 revealed a positive and significant relationship between a separate leadership structure and firm performance with specific reference to Tobin's Q. This significant relationship between separate leadership structure and Tobin's Q indicates that a separate leadership structure has effect on market value among Nigerian firms. The implication is that listed firms in Nigeria, separate the responsibilities of the chairman and the CEO. This may be as a result of recognition given to leadership structure on its own by the market (Heenetigala & Armstrong 2011). However, the findings are inconsistent with Haniffa and Hudaib (2006), who find that a separate leadership structure is significantly related to the accounting-based measures of firm performance (ROA and ROE), but not to the market-based measure of firm performance (Tobin's Q). Tobin's Q (TBNQ) after controlling for firms' characteristics, the leverage (LEVG) and the firms' size (FSIZE).The F-statistics of the model as shown in Table 7 indicates the respective significant prediction, thereby Tobin's Q (TBNQ) model was noted to have goodness of fit and also the Hausman specification test indicates the superiority of fixed effect modelling of Tobin's Q (TBNQ). However, the R-square value 0.708 indicates that the variables successfully explain 70.8% of changes in the performance indicator (TBNQ).

The leverage (LEVG) also shows a positive and significant effect on Tobin's Q model. This model, unlike the returns on asset and returns on equity indicates that the higher the debt ratio, the higher the performance of market based value of firms, which means a unit increase in debt ratio will increase the performance of firms based on its market value by 89%. The implication is that highly levered firms exhibit higher TBNQ.

Table 7: Leadership Structure and Tobin's Q

Variable	Pooled (OLS)	Random (RE)	Fixed (FE)
C	-0.106 (-0.161)	2.456 (1.327)	7.253*** (7.729)
LDS	1.788*** (4.106)	2.222*** (4.707)	**2.502*** (11.913)
LEVG	0.767*** (4.085)	0.909*** (3.713)	**0.897*** (23.755)
FSIZE	0.044 (0.483)	-0.327 (-1.254)	**-0.916*** (-7.113)
R-squared	0.437	0.910	0.968
Adjusted R-squared	0.425	0.988	0.908
F-statistic	11.675***	8.189***	17.406***
LM Test [Prob.]	494.064 [0.000]		
Hausman Test [Prob.]		25.725 [0.000]	
Durbin-watson	1.951	2.456	2.656

Source: Computed from Field Survey, (2017)   *** $p<0.01$, ** $p<0.05$, * $p<0.1$

CONCLUSION

This study primarily investigates the effect of leadership structure on the performance of listed firms in Nigeria; while the identified performance indicators are returns on asset (ROA), returns on equity (ROE) and Tobin's Q (TBNQ) with the leverage (LEVG) and firms' size (FSIZE) representing the control variables respectively. The study established that majority of the sampled firms complied with the principle of separating the role of CEO from the board chairman in their respective organizations. The study also affirmed that highly levered firms exhibited higher performance. This study therefore, concludes that combining the roles of board chairman and CEO in one person will exhibit higher returns on asset (ROA) at the initial stage, while declining in the long run. This implies that separating the personality and the position of board chairman from the CEO is value enhancing; while the CEO and the board chairman are expected to monitor the activities of the firms for effective performance in Nigeria.

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