BOARD DIVERSITY AS MODERATOR ON FIRM CHARACTERISTICS AND FINANCIAL PERFORMANCE OF LISTED CONGLOMERATE COMPANIES IN NIGERIA

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ABSTRACT: Financial performance of companies has attracted a lot of attention globally from financial experts and management of firms as a result of 2008 global financial crisis and the failure of major companies. Prior studies on the effect of firm characteristics on financial performance have reported mixed and contradictory results suggesting the existence of certain factors that have not been factored in modeling the relationship. It is against this backdrop that this study examined the effects of firm characteristics on financial performance of listed conglomerate firms in Nigeria in the presence of board diversity. The population of the study consists of six (6) listed conglomerate firms in Nigeria as at 31st December 2017. The six (6) firms were selected to form the sample of the study for the period of eleven years (2007-2017). The census sampling technique was adopted for the study. Secondary data was extracted from the annual report and accounts of the sampled companies. A multiple regression analysis was used to test the null hypotheses of the study. The Hausman test indicated random effect model as the appropriate model for the study. The results of study show that leverage has negative and significant effect on return on asset, while firm size and operating expense revealed an insignificant positive effect on return on asset. The sales growth shows a negative and insignificant effect on the return on asset. For model two, it also documented that foreign director positively and significantly moderates the relationship between leverage and sales growth to financial performance of the listed conglomerate firms in Nigeria. It is recommended among others that the management of conglomerate firms in Nigeria should make it mandatory to have an average of 32% of their board members as foreign directors. Also reduce their debt structure to avoid high cost of operation.

INTRODUCTION

Financial performance plays an important role in the structure and development of firm. It measures the profitability, success and enhances the reputation of a firm. According to Ali and Stanley (2016) financial performance of corporate entities is a subject that has attracted a lot of attention, comments and interests from financial experts, researchers and the general public. Firm characteristics are referred to as those incentive variables that affect the firm’s decision both internally and externally (Shehu, 2012).

Researchers have raise concern about the poor investment performance and productivity of Nigeria manufacturing companies. Firms in the manufacturing sector have seen their bottom line crumble as a result of the macroeconomic challenges prevailing in the country such as high cost of debt (leverage) which has led to high operational cost of manufacturing firms in Nigeria (Nigeria industrial report, 2016). This reflects a number of challenges faced by manufacturing firms such as higher costs of imported inputs, high exchange rate, and higher energy costs among others. In view of the economic challenges faced by manufacturing companies, the characteristics of firms are affected negatively such as increase in cost of debt (leverage) due to high interest rate and foreign exchange rate, and this will increase the operating cost and thereby pose threat to reduction in sales growth over time and thus reduce the liquidity position of the manufacturing companies. This will therefore affect the growth or size of the companies in Nigeria.

The mixed result and divergent opinion on previous studies on the effect of firm characteristics on financial performance in Nigeria necessitate the use of moderating variable. Furthermore, few studies on moderating role have been conducted in developing countries and Nigeria in particular. No study has yet examined the moderating roles of board diversity measure by (foreign director) on the financial performance of conglomerates companies listed in Nigeria stock exchange. This suggests that there are factors that affect the relationship of the independent variables on the dependent variable, which have not been accounted for in the previous studies. One of such factors is board diversity which is proxy by foreign director, which has the potential of being objective and unbiased in business decision making.

The justification of the use of board diversity is because study firms are multinational companies and foreigner are part of the shareholders to the companies, also the foreign director has the potential of alleviating the conflict of interest between managers and shareholders due to international experience and experts. This study therefore fills these pertinent gaps in literature by studying the moderating effect of board diversity on the relationship between the firm characteristics and financial performance of listed conglomerate firms in Nigeria. It is against this backdrop that this study seeks to provide answer to these two questions: 1). Firm characteristics affect financial performance of listed conglomerates companies in Nigeria? 2) Does board diversity moderate the relationship between firm characteristics and financial performance of listed conglomerate firms in Nigeria?

In to achieve the objective of the study, the following hypotheses are formulated in a null form.
Ho1: Firm characteristics have no significant effect on financial performance of listed conglomerates firms in Nigeria.
Ho2: Board diversity has no significant moderating effect on the relationship between firm characteristics and financial performance of listed conglomerates firms in Nigeria.
LITERATURE REVIEW

Leverage
Leverage refers to the proportion of debt to equity in the capital structure of a firm (Maleya & Willy, 2013). It strives to measure what portion of the total assets is financed by debt funds. Leverage ratios are used to measure business and financial risks of a firm (Okwoli, 2006). Therefore, leverage can be viewed as the financing structure of firms and this financing method can either be debt financing or equity financing and or combination of both debt and equity. This study therefore used both short term debt and long term debt as a total debt and equity as the total shareholders fund.

Sales Growth Rate
Sales growth can be defined as sales changes on annual financial report. Sales growths above the standards in a company is generally based on fast growth expected and industry where the company is operated (Husna & Desiyanti, 2016). Sales growth is considered positive for a company’s survival and profitability. This study therefore focus on sales growth, this means that sales growth is the rate of turnover of firms over time. The sales growth is the rate of increase in sales of a firm over time, either on daily, monthly or annual basis.

Operating Expense
Operation cost is the capability of an enterprise to deliver products or services to its customers in the most cost-influenced manner possible while still ensuring the high quality of its products and service (Parker, 2007). Operating expenses are the costs associated with a company’s main operating activities which are reported on its income statement. Thus, the operating expenses can defined as the expenses or costs incurred by a company’s during the process of production or rendering of services to customer which are contain on its profit and loss account in order to ascertain it net profit attributed to firm.

Board Diversity
Board diversity represents an important corporate governance structure in order to realize efficient and effective management and monitoring within companies. Thereby, the consideration of diversity when selecting the board of directors is essential to companies. Therefore, this studies proxy board diversity by foreign director due to the current globalization of business activities. Foreign director is the ratio of number of foreign director to total number of board of directors in the governance structure of companies.

Financial performance
Financial performance is company’s ability to generate new resources, from day-to-day operation over a given period of time and it is gauged by net income and cash from operation (Poudel, 2012). It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Review of Empirical Literature
Kumar, Aswatha, and Vijo, (2016) examined the relationship between leverage and profitability in Bharti Airtel. The study used secondary data during the period from 2005-06 to 2014-15. The correlation of coefficient of Degree of Operating Leverage was negative with
ROCE. But Degree of Financial Leverage and Degree of Combined Leverage were positively correlated with ROCE. The DOL and DFL were statistically significant but DCL was statistically not significant. Mule and Hons, (2015) investigated the relationship between financial leverage and the financial performance of listed firm in Kenya over a period 2007 – 2011. The study finds reasonably strong evidence that financial leverage significantly, and negatively, affects the performance of listed firms in Kenya. Financial leverage negative and insignificantly affect ROE.

Ali, Mohammed and Amer (2015), examine the corporate governance, firm Attributes and financial performance of (10) Saudi Listed Banks during the period 2007 to 2012. The study found that there is no relationship between the leverage and financial performance (ROA). Furthermore, Hussain, Rao, Akram, and Fayyaz, (2015) examined the effect of financial leverage on efficiency of 154 textile firms in Pakistan over the period 2006-2011 over the period 2006-2011. The regression results indicate that leverage has negative association with the efficiency of firms. Financial leverage is negatively associated with return of assets and equity, which shows that firms borrow less, while market-to-book ratio shows positive profitable association with firms.

Laisi (2018) assesses the effect of premium growth on the performance of twelve (12) quoted insurance firms in Nigeria for the period of 2011-2015. The findings of random effect reveal that premium growth has positive and insignificant effect on firm performance of listed insurance companies in Nigeria. Furthermore, Samuel, Amos and George (2016) investigated the effect of sale growth on financial performance of listed agricultural companies at Nairobi Securities Exchange in Kenya from 2003 to 2013. The result of the pooled OLS regression model shows that sales growth has a positive and significant effect on financial performance as measured by ROA and ROE and negative and insignificant effect on EPS.

Emine, (2015) investigated the effects of firm-specific factors on the Profitability of 24 Non-life insurance companies in Turkey from the period 2006–2013 were brought together to obtain 192 observed panel data set. The main results of the study demonstrate that the profitability is statistically significant and positively related to the premium growth rate. The profitability is measured by technical profitability ratio and sales profitability ratio.

Odunga, (2016) examine the specific performance indicators, market share and operating efficiency for commercial banks in Kenya. The result reveals that, bank’s operational efficiency is well explained by bank specific performance indicators. Never the less, market share is a matter in determination of bank’s operational efficiency. Saeed and Khurram,(2015) examine the factors influencing the financial performance of 24 non-life insurance companies in Pakistan from the period 2005-2013. The findings of fixed effect model reveal that expense ratio proved insignificant on the performance of the insurance companies.

Oluwagbemiga, Olughenga & Zaccheaus (2014) conducted a study on cost management practices and firms’ performance of 40 listed manufacturing firms in Nigerian Stock Exchange for the period of 2003 to 2012 using a panel data. Data was analyzed using t-statistics. The result revealed a positive significant relationship between operating cost and firms’ performance. Eulerich, Velte & Uum (2014) examines the relationship between diversity within management boards and corporate performance of 149 publicly listed German
organizations for the financial years 2009, 2010 and 2011. The study uses multiple regression analysis and the result of the study revealed that national diversity has negative effects on corporate performance. Velayudhan & Musa, (2018) examined the effect of board diversity on financial performance of listed deposit money banks in Nigeria in the presence of managerial shareholding for 7 year period, which is 2010 to 2016. Secondary data were collected from the annual reports of 8 out of the 15 banks listed on the Nigerian stock exchange as at December, 2016. It was found that nationality diversity have significant positive effect on financial performance.

Theoretical Framework

Signalling Theory
The study will be informed by the signaling theory which informs the interactions between the variables of the research. According to Zhao et al. (2004), signalling theory states that a good firm can distinguish itself from a bad firm by sending a credible signal about its quality to capital markets. The signal will be credible only if the bad firm is unable to mimic the good firm by sending the same signal.

The theory is concerned with understanding why certain signals are reliable and other are not in terms of decision making in a competitive environment. The theory looks at the quality and reliability of accounting information send by a firm to its users of accounting information for investment decision making by the potential investors. Spence (1973) explained that a well performing firm distinguishes itself from the non-performing one by sending a credible signal about its performance to capital markets as well as potential investors. Signals sent by firm are the results of its operating activities which will inform investors about the firm’s future prospects. The theory assumed that managers and shareholders of a company differ in terms of getting access to some vital information about firm operation. Some information can be accessed by the managers while the shareholders do not have access to such information. The study therefore adopts Signaling theory to underpin this research work since the theory is linked with positive association between firm characteristics and financial performance. Firm characteristics are represented by leverage, liquidity, sales growth, operating expenses efficiency, firm size and firm age, because a healthy sales growth of a firm is showing its ability to meet with its current liquidity position and make up with its short term financial need without stoppage production activities, thereby sustaining a good leverage position between its debt and equity investor and which can bring about firm expansion thereby leading to an improvement in firm financial performance and a older companies indicate good healthily operation which is therefore showing a good signal to the shareholder and potential investors that the company can continue to operate in line with the going concern concept of accounting as well as satisfying the interest of its stakeholders.

RESEARCH METHODOLOGY

Ex-post facto research design is adopted for the study. The population of this study consist of all the six (6) listed Conglomerate firms in Nigeria as at 31st December 2017 over the period of 2007 to 2017 and the data was collected through secondary sources only, that is, the published annual reports of the listed conglomerate firms in Nigeria as submitted to the Nigeria stock exchange. The study uses a census sampling technique. The data was run using the
STATA 13 statistical software. Multiple regression analysis is applied to examine the board diversity as a moderate role on the relationship between firm characteristics and financial performance of listed conglomerates companies in Nigeria

Multiple linear model is built below;

\[ \text{ROA}_{it} = \beta_0 + \beta_1 \text{LVG}_{it} + \beta_2 \text{SG}_{it} + \beta_3 \text{OPE}_{it} + \beta_4 \text{FD}_{it} + \beta_5 \text{LVG} \times \text{FD}_{it} + \beta_6 \text{SG} \times \text{FD}_{it} + \beta_7 \text{OPE} \times \text{FD}_{it} + \beta_8 \text{FSZ}_{it} + \varepsilon_{it} + \mu_{it} \]

Where, LVG = Leverage, SG = Sales Growth, OPE = Operating Expense, FSZ = Firms Size (control variable), FD = Foreign Director (moderating variable), \( i \) = number firm observation, \( t \) = measure of time, E= error term, U= random effect for subject \( it \), and, \( \beta_0 \) = Intercept of the model “Constant”

### Variables Definition and Measurement

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Asset</td>
<td>The ratio is considered an indicator of how efficient a company is using its assets to generate revenue (Profit Before Interest &amp; Tax Divided by Total Assets)</td>
<td>Yahaya &amp; Lamidi (2015)</td>
</tr>
<tr>
<td>Leverage</td>
<td>Measured as ratio of firms total debt to total equity of firm</td>
<td>(Mohammed &amp; Usmana, 2016).</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>Measured as the total sales of current year minus total sales of previous year divide by the previous year total sales</td>
<td>Zhao &amp; Wijewardana, 2012</td>
</tr>
<tr>
<td>Operational Expense</td>
<td>Measure as Operating expense divided by Total Asset</td>
<td>(Zaman, 2009).</td>
</tr>
<tr>
<td>Firm Size</td>
<td>Firm size is measured by the value of total asset of the firm. (Natural Log of Total Asset)</td>
<td>(Hamza, 2017).</td>
</tr>
<tr>
<td>Foreign Director (Moderating Variables)</td>
<td>Foreign director is measured by Ratio (%) of foreign directors to total number of directors.</td>
<td>(Chandrasekharan &amp; Tijani, 2018)</td>
</tr>
</tbody>
</table>

*Source: compiled by the authors from various literature, 2017*

### RESULT

**Robustness Test**

**Table 4.1 Robustness Test for Model**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Statistics</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hausman Test</td>
<td>3.02</td>
<td>0.9330</td>
</tr>
<tr>
<td>R2</td>
<td>0.4108</td>
<td></td>
</tr>
<tr>
<td>F-Statistic (Wald)</td>
<td>39.75</td>
<td>0.0000</td>
</tr>
<tr>
<td>Hettest</td>
<td>0.29</td>
<td>0.5919</td>
</tr>
<tr>
<td>Mean VIF: Chi2</td>
<td>9.09</td>
<td></td>
</tr>
</tbody>
</table>

*Sources: Output generated using STATA 13*
For instance, the result in table 4.1 shows the absence of Heteroskedasticity in the panel for model indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity Chi2 of 0.29 with p-value of 0.5919. This gives us prove that there is absence of heteroskedasticity in the study for the model, since it is not significant at 5%. The result from the Hausman fixed and random effect test for model Chi2 value of 3.02 with p-value of 0.9336, which is statistically not significant at 5%. This implies that the test considered the random effect for both model as the most appropriate for the study. The table on the other hand, indicated the absence of the perfect multicolinearity among the explanatory variables, as shown by the mean VIF of 1.15 and 0.09 for model. The decision criterion for the Variance Inflation Factor is that a value of 10 and above implies the presence of perfect multicollinearity.

Regression Results and Hypotheses Testing for Model
The main focus of the analysis is to examine the moderating effect of foreign director on the relationship between firm characteristics and financial performance of listed conglomerates companies in Nigeria.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>T-Value</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage</td>
<td>-0.0634193</td>
<td>-3.86</td>
<td>0.000</td>
</tr>
<tr>
<td>Sales growth</td>
<td>-0.0137033</td>
<td>-0.28</td>
<td>0.782</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>0.0259803</td>
<td>0.47</td>
<td>0.641</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.0061097</td>
<td>2.12</td>
<td>0.034</td>
</tr>
<tr>
<td>Foreign Director</td>
<td>-0.0681902</td>
<td>-0.83</td>
<td>0.407</td>
</tr>
<tr>
<td>Lvgfd</td>
<td>0.1197176</td>
<td>3.07</td>
<td>0.002</td>
</tr>
<tr>
<td>SgFd</td>
<td>0.3059696</td>
<td>2.01</td>
<td>0.044</td>
</tr>
<tr>
<td>OpeFd</td>
<td>-0.0876508</td>
<td>-0.82</td>
<td>0.415</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.055586</td>
<td>-0.67</td>
<td>0.501</td>
</tr>
<tr>
<td>R2</td>
<td>0.4108</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

F-Statistic (Wald) 39.75 0.000

Sources: Output generated using STATA 13 @ 5% level of significant

Table 4.6 shows that the independent variables of the model explained around 41.08% of the total variations in the dependent variable, from the coefficient of determination (R² value of 0.4108). Hence, the result of R² signifies that 41% of total variation in the financial performance measured by ROA is caused by leverage, sales growth, operating expenses and firm size, and with the introduction of moderating variable (foreign director). The table also shows that the model is fitted from the F-Statistic of 39.75 which is statistically significant at 1% level of significance (as indicated by the P-value of 0.000).

Hypothesis 1: Leverage has no significant effect on financial performance
Using multiple regression to test the above mentioned hypothesis, it was found that the beta coefficient (β) of -0.0634193 and p=0.000 at 5% level of significant. The null hypothesis was rejected and concluded that company leverage has a significant negative effect on firm financial performance. This implies that when leverage increase by 1% will lead to a decrease in the financial performance of the firm by 6%. The result suggested that the Conglomerate firms should reduce its concentration on borrowing and debt. This finding is aligned with the study
Results of (Robert & Mohamed, 2015) (Shehla, Benish, Atiya, & Haleema, 2012) and, but it contradict (Moses & John, 2014).

**Hypothesis 2: Sales growth has no significant effect on financial performance**

As shown in Table 4.6, the coefficient of sales growth is -0.0137033 and a p-value of 0.782. This signifies that the sales growth rate (SG) is negative and insignificantly influencing the financial performance of listed conglomerates firms in Nigeria. This implies that an increase in sales, the financial performance (ROA) will decrease by 1%. This may be as a result of overwhelming focus of most conglomerates companies on various high production cost and other operational cost activities, their profitability will be affected despite an increase in the gross profit. Furthermore, it can be concluded that conglomerates companies are increasing their sales and growing very rapidly but their growth is insignificant to the conglomerates companies. The study is supported by theory of firm growth. The finding is in line with those reported by Nousheen & Arshad, (2013), but negate the study of Mohamed, (2014), who presented that sales growth has a negative significant effect on ROA. Therefore, the study has enough evidence to accept the null hypothesis; sales growth has no significant impact on return on assets.

**Hypothesis 3: Operating Expense has no significant effect on financial performance**

The table further reveals a beta coefficient of 0.0259803 with p-value of 0.641. This means that 1% increase in operating expenses will result to 2% increases in ROA. This implies that operating expenses has insignificant positive effect on the financial performance of listed conglomerates firms in Nigeria. The result provides a basis for accepting the third hypothesis which states that operating expenses has no significant effect on the financial performance. This supports the findings of Saeed and Khurram, (2015) who found an insignificant relationship between expense ratio and financial performance, but contradicts the findings of Dandago and Zaidi (2014), and the findings of Oluwagbemiga, Olugbenga and Zaccheaus (2014), who found positive significant relationship between operating cost and firms’ ROA. The study is support by signalling theory.

**Hypothesis 4: Foreign director has no significant moderating effect on the relationship between leverage and financial performance**

According to the results of regression result in model two as presented in table 4.6, the coefficient of the interactive variable between foreign director and leverage is positive and significant with a coefficient value of 0.1197176 and the p-value of 0.002. This implies that more of foreign director in the board structure has significant help in optimal used the debt and borrowing effectively and this has increase the financial performance of the study firms by 11%. This means that positive foreign director strengthen the relationship between the leverage and financial performance. Thus, the study reject the hypothesis four, which states that foreign director has no significant moderating effect on the relationship between leverage and financial performance of listed conglomerates companies in Nigeria. The study is supported by the agency theory.

**Hypothesis 5: Foreign director has no significant moderating effect on the relationship between sales growth and financial performance**

The regression results show that the fifth hypothesis (H5) has a coefficient value 0.3059696 with a p-value of 0.044 which revealed the interaction between foreign director and leverage.
variable is positive related with financial performance. It is interpreted that the higher the level of sales as the results of foreign director, the financial performance increase significantly. This means that a 1% increase in sales growth as result of foreign director interaction, will improve the financial performance by 30%. Therefore, foreign director intervention has greatly helped in increasing the sales of the firm and this in return improves the performance of the company. The firm growth theory supported the hypothesis. The study therefore reject the hypothesis five, which states that foreign director has no significant moderating effect on the relationship between sales growth and financial performance of listed conglomerates companies in Nigeria

**Hypothesis 6: Foreign director has no significant moderating effect on the relationship between operating expense and financial performance**

With respect to the interaction of foreign director and operating expenses, the study revealed a negative coefficient value of -0.0876508 and p-value of 0.415. This indicated that the moderation of foreign directors on operating expenses is negative and insignificant at 5% level of significance. This implies that 1% increase in operating expenses reduce the firm financial performance by 8%. This means that foreign directors cost increase the operating expenses of the study firms thereby decrease their financial performance. The result suggests that foreign director reverses the positive relationship of operating expenses on financial performance. It is on this basis that we accept the sixth hypothesis that foreign director has no significant moderating effect on the relationship between operating expenses and financial performance of listed conglomerate companies in Nigeria. the signalling theory is supported by the hypothesis.

Finally, the moderating variable, foreign director has a coefficient value of -0.0681902 with a p-value of 0.407. This implies that foreign director has a negative and insignificant effect on the financial performance of the study firm. Therefore, the high the number of foreign director in board structure the lower return on asset of the study firms. However, the control variable, firm size as shown in table 4.6 has a coefficient value of -0.0061097 with a p-value of 0.034. This signifies that firm size has positive and significant effect on financial performance of conglomerates firms in Nigeria, that is, the greater the size of a firm, the higher the reported ROA. This implies that for every 1% increase in firm size, the ROA will increase by 0.6%. The findings supported the resource based theory which articulates a positive and significant relationship between firm size and financial performance of a firm. The finding is support the study of Ofuan and Izien, (2016). But contradict the study of Bala, Darryl, and Matthew (2005).

**DISCUSSION OF FINDINGS AND ITS POLICY IMPLICATION**

Findings of this study have several implications for investors and listed conglomerates firms in Nigeria. In the testing of moderation effect, it was found that foreign director moderated the leverage, sales growth and operating expenses relationship against financial performance. The higher the foreign director action resulting in an increase in leverage and sales growth, in turn, will increase the financial performance indicating that the return on asset in the company increase. While the higher the level of foreign director resulting in increased operating expenses, makes the value of financial performance decreases, which indicates the lower level of return on asset by the company.
CONCLUSION AND RECOMMENDATIONS

The study examines the moderating effect of foreign director on the relationship between firm characteristics and financial performance of listed conglomerate firms in Nigeria for the period 2006-2016. In view of the findings of the study, the following conclusions were made:

The results of the study also prove that foreign director was able to moderate the relationship between leverage and sales growth to financial performance, this shows that foreign director affect the leverage and sales growth relationship to financial performance due to their international experience in terms of management of finance and marketing strategies of improving their sales while foreign director was unable to moderate the relationships between operating expense and financial performance. This shows that foreign directors do not affect the operating expense relationship to return on asset due to the high cost of benefit and allowance of foreign directors.

Recommendations

The management of conglomerate firms in Nigeria should encourage foreign directors in their board of corporate governance since it has found that the foreign director as a moderating variable was found to influence on the relationship between leverage and financial performance and also between sales growth and financial performance positively and significantly. Though, it has been found that more foreign director slightly increase the operating expense, therefore the firms should minimize their operational cost.

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