

## **Board Effectiveness and Employee Engagement: Nigeria Stakeholder Perceptions**

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### **Abstract**

The objective of this study is to determine whether employee participation yields effective board performance. To stimulate debates in the stakeholder theoretical perspective in an attempt to offer more inclusive approach to strengthen the existing governance structure in Nigeria. This research intends to investigate the suitability of employees participating in board's decision-making hierarchy because of their contractual importance as wealth creators of the firm. A conceptual model is proposed and tested on public listed companies in Nigeria based on survey perception of sampled 154 respondents. The study employs in-depth confirmatory factor analysis in a structural equation modeling approach. Building upon constructs such as union relations, productivity, and skilled-labor turnover, the study found the indicator variables measure employee participation, which focused more on the board's control, operational decisions, and strategy in monitoring, service, and networking roles. Hence, we conclude that employees as important contractual company stakeholders affect board performance. Builds on the limited research agenda for boards and corporate governance that focus on coordinating, exploring and distribution of stakes using adventurous research designs and statistical tools, especially in Nigerian emerging economy. This paper exposes the firm's potentials as provider of sustainable and longer-term benefits not only limited to equity-holders, but also to employees as wealth creators, which will improve mutual trust, harmony and confidence for more stable and productive outputs that could give visibility to income inequality. The paper provides valid measures that link corporate governance debates to broader stakeholder perspective.

**Keywords:** Corporate Governance, Employees, Supervisory Board, Board Performance, labor turnover, productivity, labor activism.

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## **Introduction**

Advocates of the Anglo-American governance arrangement identify the need to provide the shareholders with adequate protection. As a result, when principals attempt to ensure that agents act in their invested interests, agency cost is incurred (Jensen & Meckling, 1976). Hence, the Anglo-Saxon research outputs focus mainly on the shareholders and incentives to the agent to ensure effective control mechanisms. However, advocates of stakeholder theory argue that, a wider objective function of the firm is more equitable and more socially efficient than one confined to shareholder wealth (Freeman, 1984; Jones, 1995; Kay & Silberston, 1995; Donaldson & Preston, 1995; Collier, 2008; Sikka, 2008; and Fassin, 2009). They argue that the well-being of other groups such as employees, suppliers, customers, lenders, local community, who have a long-term association with the firm and therefore a stake in its long-term success, needs to be recognized. These stakeholders are able to build trust relations, which support profitable investments and mutually beneficial exchanges (Kay and Silberston, 1995). They cite Japan and Germany as successful industrial societies in which extensive stakeholder involvement with the firm is pervasive, and corporate goals are defined more widely than shareholders' profits. Others advocate for stakeholder participation in the firm's decision-making or governance through representation (Harrison & Freeman, 2004).

As a first line of agency framework criticism, Blair and Stout (1999) analyze US corporate law and argue that although it may be most efficient to have directors elected by shareholders; their fundamental responsibility is with the firm itself. Hence, the principal-agent representation of the corporation is at odds with the legal description of the firm as a separate entity. Similarly, the shareholders cannot be formally taken as principals (sole owners). On the contrary, the board of directors itself is better conceived of as representing the top of the corporate hierarchy, and the board's fundamental role is to mediate all conflicts in situations where stakeholders' interests do not necessarily coincide (Konstant, 1999). A broader view of director responsibilities includes strategic tasks as well. Therefore, a more inclusive approach concerning what boards should focus on, and how such tasks can be effectively operated calls for a broader conceptualization of board roles as an important element of corporate governance. Sikka (2008) uses stakeholder theory to focus entirely on the role and importance of workers within overall system of corporate governance. Hence, the literature is unanimous on the three major stakeholder groups: financiers, employees and customers (Fassin, 2009).

The argument behind stakeholder theory is that economic pressures to satisfy only shareholders is short-term and organizations need to ensure their survival and success in the long-term by satisfying other stakeholders as well. Stakeholders include all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits, and there is no *prima facie* priority of one set of interests and benefits over another (Donaldson & Preston, 1995). Generally, stakeholders in an organization include employees, customers, suppliers, financiers, government and the community.

In Nigeria, consequently, realizing the need to align with international best practices, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission inaugurated a 17-member committee to identify weaknesses in the corporate practice and suggest how to strengthen it. After eliciting stakeholder inputs, the code had been approved in 2003. However, due to colonial influences, the contents are direct photocopy of the UK's. There is the need to provide for peculiar developing structures and differing cultural issues. For example, the questionable management integrity in the 2009/2010 financial crisis in Nigerian banks witnessed the indictment and sack of top executives by the Central Bank, akinto other rising spate of corporate scandals in Nigeria. This is because the code of corporate governance in Nigeria gives excessive power to the executive directors. As a result of the executives' mishap, thousands of employees lost their jobs, thus the need to re-examine the status of the code by taking into considerations larger stakeholders in the nation's public firms. Will there be any significant effect in terms of board performance if employees are represented on board? Correcting this anomaly can be disincentive for management misdemeanor, greater protection for outside shareholders, and provide sustainable workforce.

Traditional accounting research on board around the world and Nigeria in particular centre on the Anglo-Saxon model. Again, reflecting the traditional dominance of agency theory. This study intends to extend the literature by broadening the theoretical framework to an all-inclusive stakeholder theoretical perspective based on the perception of relevant stakeholders in Nigeria. This offers more inclusive approach by examining the relevance or otherwise of having employees participate on board, in an attempt to examine the extent key contractual stakeholders relate to board role performance. This will enhance trust relations and confidence between firm wealth creators and the board, which can serve as disincentive for management misdemeanor without reducing shareholder rights.

### **Hypothesis Development: Contractual Stakeholders and Board Performance**

There has been growing agitation by academic researchers, practitioners and nations' corporate laws to enhance the well-being and mutual trust relations of employees by adequately recognizing them in the corporate governance structure of firms and countries. For example, (Freeman, Wicks & Parmar, 2004) reject the conventional ideology of shareholder value maximization and instead argue for the stakeholder value creation.

Stakeholder model proposes a wider objective function of the firm as more equitable and more socially efficient than one confined to shareholder wealth. The goal of corporate governance is to maximize the wealth creation of the corporation as a whole. Therefore, the well-being of other groups such as employees, suppliers, customers and managers, who have a long-term association with the firm and therefore a stake in its long-term success, is recognized (Freeman, 1984). Similarly, Rashidah and Mohammed (2010) opine that the crucial issue in stakeholder theory is that different stakeholders

have different needs; owners want higher returns while employees want higher wages and better benefits. Pursuing both, firms can solve the problems arising from the multiple objectives that are associated with the traditional stakeholder theory by giving management a clear way to think about and make the tradeoffs among corporate stakeholders (Rashidah & Mohammed, 2010).

In addition, Sikka (2008) examines the presence of corporate governance mechanisms to achieve equitable distribution of wealth for UK workers. Since workers help to generate wealth by investment of their blood, sweat, brain and skills; the position of workers as significant stakeholders within the corporate governance structure is one that can no longer be ignored. Overall, Sikka (2008) reports that under the weight of corporate power, successive UK governments have shown little interest in developing any links between corporate governance and equitable distribution of income and wealth. Such issues do not form part of the Companies Acts, or a variety of corporate governance initiatives encouraged by the state (Smith Report, 2003). Therefore, the Nigeria's adaptation of the UK corporate governance model due to the common-law relations could be unsuitable judging from the cumulative effects of the UK corporate governance structure, especially on inequalities and wealth distribution caused by sidelining workers.

In the literature, there is very little information about the typical practice in and the actual behavior of employee representatives on supervisory boards. However, Sadowski, Junkes and Lindenthal (2005) report the case of Salzgitter AG, the employee representatives in the supervisory board aimed at dismissing the CEO. Remarkably in this case, one of the shareholder representatives strongly claimed that he would vote together with the employees. In the circumstance, the CEO finally resigned. Sometimes, both the employee and shareholder representatives agree not only in the boardroom but also in public, as it happened in the hostile takeover of Krupp-Thyssen merger. With this arrangement in place, dissatisfied employees may choose to voice their grievances, rather than choose to leave the company, which can reduce employee turnover. The voice option could also increase job satisfaction and, thus, productivity. Be that as it may, in the Nigerian corporate environment where the current legal framework does not operate in this perspective, individual firms may wish to engage the skilled-labor or union for possible adjustments in line with the provisions of the stakeholder governance systems by adapting the conventional norm system in Japan.

In this regard, there have been changes in the composition and activities of the workforce. Under these changing conditions, there is concern by employers and employees, and policy makers in safeguarding and promoting their interests reflected in different approaches to employee participation. Hence, Summers and Hyman (2005) assert that any exploration of employee participation has to encompass terms as wide-ranging as industrial democracy, cooperatives, employee share scheme, employee involvement, employee empowerment, team-working and partnership. Work-related participation aims for a more equitable distribution of power throughout the organization, and secures employee commitment to organizational objectives

through sophisticated communication procedures and individualized reward (Summers and Hyman, 2005). In addition to the forms of work-related participation, the authors affirm that employee participation in conventionally owned and organized firms can be task-related at the workstation, or at board or corporate level (strategic), and participation at either of these levels can be communicative, consultative or negotiate.

However, despite the debates about the precise meaning of employee participation, MacLeod and Clarke (2009) report that there are three things about employee engagement - it is measurable; it can be correlated with performance; and it varies from poor to great. In addition, based on the literature discussed on the recent trend of a broader approach to wider recognition of other relevant stakeholders in the governance systems of corporations, Isele (2004) opines that humans are the most important factor of production and the ultimate origin of the market value of all goods produced. He maintains that unlike other resources, humans in organizations are intellectuals in nature and are capable of thinking, analyzing, inventing, innovating and developing important information for wealth creation. He further describes workers as psychological (emotional) beings, whose productivity may rise or fall depending on whether they are motivated or demoralized by the work environment. Similarly, Dore (2005) affirms that with the transformation in employment relations and the concomitant increase in the proportion of staff whose specific human capital is of obvious value to the employer in US, the co-determination system in Germany, the capillary control of younger managers and formal employee representation in Japan, the importance of employee participation on board as advisor cannot be overemphasized.

In this regard, proponents in the literature show that participation of employees in decision-making process has resulted in successful value creation in many organizations (Summers & Hyman, 2005). Even though the extent to which employees should participate in organizational decision-making is still a matter of debate, some say that workers' union should participate with management as equal partners (Jackson, 2005). However, some believe in restricted or restrained participation, that is, participation of employees to a limited extent. In addition, though there are a number of ways through which employees can participate in decision-making process of any organization, representation of employees at the board level described as industrial democracy (Summers & Hyman, 2005) plays an important role in protecting the interests of employees. The representative can put all the problems and issues of the employees in front of management and guide the board members to invest in employee benefit schemes.

In the literature, government policy (Germany, Japan) promotes employee participation as a means of improving company performance. In their analysis, Summers and Hyman (2005) find that the effects of participation schemes vary with the environment into which they are introduced. The researchers conclude that a combination of participation and welfare measures such as equal opportunities appear to enhance organizational performance and the quality of working life. Hence, the authors affirm that policy support should focus on union recognition (for enhanced productivity) and

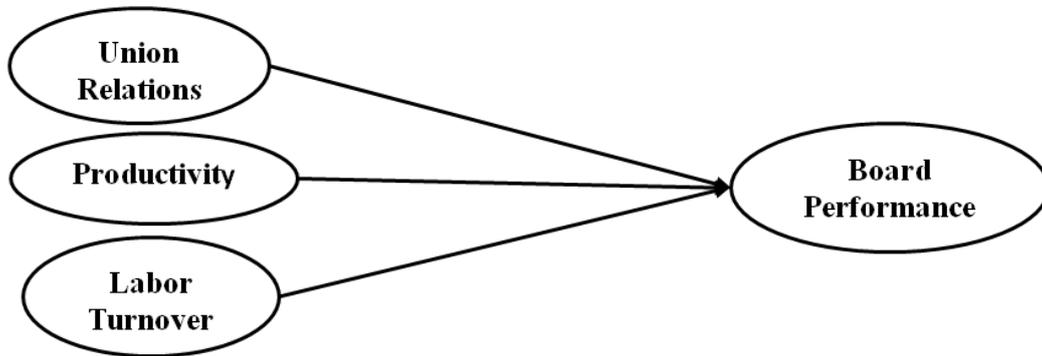
activity within a human rights framework, since this can positively influence employees' behavior towards organizational goals.

In sum, employee power in relations to board and corporate performance cannot be underestimated. Considering the synthesis of human resource as the operational wealth creators for corporations, the world is moving towards a knowledge based economy, and many of the underlying assumptions of agency theory can be considered empirically wrong when relating to knowledge based activities and resources. In this respect, human capital investors are critical, and employees will often be in the same position as financial capital providers (Zingales, 2000). This means that multiple principals rather than one principal-agent relationship should be regulated, and the agency theory assumption of complete contracting ex-ante for all stakeholders, except for shareholders, should be relaxed (Huse Hoskisson, Zattoni, and Viganò et al., 2011). In the syntheses of the arguments, employee participation has been acknowledged as a key driver in sustaining firms and is becoming a key metric for monitoring board and overall corporate performance. From the evidence available on the impact of successful employee participation in both theory and practice, though the correlation between employee participation and company performance is often repeated in the literature, but specific employee participation and board performance are hard to find in the literature. Therefore, on this perspective, it is reasonable to hypothesize that:

*Employee participation on board as manifested by union relations, productivity, and labor turnover is significantly related to board role performance.*

### **Methodology**

This study employs the use of structural equation modeling (SEM). Figure 1 presents a Confirmatory Factor Analysis (CFA) model where an endogenous (board performance) variable measured by 8 items is introduced as the cause of the three exogenous variables (union relations, productivity and labor turnover), measured by 9 observed indicators (measurement items). It is important to note that the model attempts to explain the latent constructs of employee engagement structure in the relationships among respondents sharing similar characteristics, with the arrows pointing outward, in ways captured by dependence relationships. The objective is to identify the structure among a defined set of variables, or observations that offer not only simplicity, but also a means of description (Hair et al, 2010).



**Figure 1. Theoretical Model**

### Sample

The units of analysis in this survey research are individuals in selected organizations. The empirical study was carried out using public listed companies, regulators (SEC and CBN), academicians, and external auditors in Nigeria as the sample frame. Listed companies are chosen because they are regulated, easier to obtain data and also more accurate, since they are certified. To determine the sample size, the population frame was first determined based on the total staff strengths of firms, where the selected individual respondents work, which was obtained from their respective websites. In the study sample, about 77,519 employees work in the banking sector; and the regulator Central Bank of Nigeria has a staff strength of about 5,012 (male - 3,996; female - 1,016) as at 31<sup>st</sup> December, 2009 (Central Bank of Nigeria Annual Report, 2009), and about 24,000 work in the petroleum marketing industry based on 2009 Nigerian oil and gas directory estimates. Employees of the Securities and Exchange Commission (SEC) numbered about 500, making a total of 5,512. Similarly, the working population of Usmanu Danfodiyo University, Sokoto, which was obtained from its website, stood at 646. Both KPMG Nigeria and PwC Nigeria have over 700-trained professional staff each. However, the researcher could not ascertain the actual population of members of the Institute of Directors (IoD), therefore an estimate of 1,800 is provided.

However, due to difficulty of getting access to the board and high-level managers, a sample of 154 was achieved. As a first step, an informal chat with few middle and high level managers and an overview of the study background in the literature confirm that questionnaire approach was appropriate and logical (Rea & Parker, 2005). All the data for the employee participation variables were obtained from responses of 5-points Likert Scale questionnaire. Great care was taken in designing the questionnaire.

### Instrumentation and Measurements

In developing questionnaire instrument for the research, the first step was series of discussions with experts about their knowledge on the effect of employees' participation on board. The experts possess relevant research experience in corporate governance. Thus, based on research findings in the literature (for example, Sadowski et al, 2005; Fassin, 2009; Dore, 2005; Otsuka, 2006), the survey questionnaire items

for the construct were adapted and in some instances developed. In addition, the UK Innovation questionnaire and the Gallup Q12 largely influenced the adoption of some questionnaire items. Though we have not seen any previous efforts that attempted to test similar constructs, based on the proactive effort, the content validity was deemed adequate. The Gallup Q12 is a survey designed to measure employee engagement. The instrument was the result of hundreds of focus groups and interviews. Researchers found that there were 12 key expectations, that when satisfied, form the foundation of strong feelings of engagement. So far 87,000 work units and 1.5 million employees have participated in the Q12 instrument. Comparisons of engagement scores reveal that those with high Q12 scores exhibit lower turnover, higher sales growth, better productivity, better customer loyalty and other manifestations of superior performance. The Gallup organization also uses the Q12 as a semi-annual employee engagement Index – a random sampling of employee across the country. The engagement index slots people into one of three categories.

As a pre-test process, the research instrument was submitted to four senior academics with extensive combined experience in survey research. They were able to provide critical assessment of the content (face) validity of each item, as suggested by Rea & Parker (2005). These expert suggestions during the questionnaire design and revision process helped ensure a close match between the pre-test and final version of the instrument. Piloting of the survey instrument is accomplished by administering the questionnaire to a small sample (30) of respondents in Nigeria whose responses and general reactions are sought and examined. The responses of the participants in the questionnaire pre-test indicate they are knowledgeable about issues of relevance of the research. Among them are nine high-level managers, one company secretary, and one CEO.

The questionnaire contained a total of 15 sets of statements including 4 demographic questions. Each of these sets of questions required a single response (tick as appropriate in the answer options 1-5) for each of a range of items. Each statement was rated by respondents on a range of measures scaled from 1 “strongly disagree” to 5 “strongly agree”. Greater scores mean higher level of constructs. Items specific to a given construct were separated from each other in the questionnaire to minimize consistency bias and reduce any sense of repetitiveness. Additionally, each measure included at least one reverse-coded item. The questionnaire cover motivated participation by suggesting the usefulness of the questionnaire as an evaluation tool for reflection on participants’ own corporate experience, indicating the amount of time required to complete the survey, and assuring participants of anonymity and confidentiality. The field operation of these variables is discussed below.

## **Results**

In the main study, the three manifest variables measuring employee participation (union relations, productivity and high skilled labor turnover) are internally consistent with 0.808, 0.832 and 0.774. In this paper, the data analysis was conducted in two stages. First, as stated above, the scale reliability coefficient has been calculated for

each of the scales used in employee engagement and board performance. Cronbach's reliability coefficients ranged from 0.777 to 0.832. Since these are above the 0.70 accepted threshold suggested by Hair et al (2010), the items have been kept under each scale. In addition, exploratory factor analysis (EFA) using principal component method with varimax rotation were conducted on both board performance and employee engagement variables to examine their dimensionalities not based on any theoretical underpinning. Five items were removed because of low communality figures (< 0.5). The remaining measured items are confirmed using CFA based on proposed theoretical framework, and the relationships between employee engagement variables and board performance were empirically tested using structural equation modelling.

**Table 1. Reliability of Measurement Items**

<b><i>Employee Advisory (Exogenous variable): Cronbach's Alpha</i></b>	
<b><i>Union Relations (3 items)</i></b>	<b><i>0.848</i></b>
Full information disclosure enhances labor harmony Engaging employee leaders on incentive decisions reduces disparity outcry Labor activism serves as disincentive to management misdemeanor.	
<b><i>Productivity (4 items)</i></b>	<b><i>0.884</i></b>
Employee advisory sit on board raises confidence, thus higher productivity Share option incentive scheme for employee improves productivity Employee advisory sit improves productivity, thus higher firm value Employee role in low and middle-level management improves productivity.	
<b><i>High-skilled Labor Turnover (4 items)</i></b>	<b><i>0.841</i></b>
Engaging high-skilled labor workers in board meetings reduces turnover Employment preservation is an important board concern Incentives to high-skilled labor workers reduce turnover Employee involvement on key firm decisions reduces high-skilled exit.	
<b><i>Board Performance (Endogenous Variable):</i></b>	
<b><i>Monitoring (3 items)</i></b>	<b><i>0.777</i></b>
The board engage in succession planning for CEO The board evaluates the performance of top executives The board controls plans and budget.	
<b><i>Service (4 items)</i></b>	<b><i>0.842</i></b>
The board contributes to the implementation of strategic decisions The board takes long-term strategic decisions Board's suggestions frequently improve strategic decisions Board benchmark strategic plan with industry data.	
<b><i>Networking (2 items)</i></b>	<b><i>0.780</i></b>
The board contributes to acceptance of the firm in the environment The board provides contacts with relevant stakeholders.	

### Exploratory Factor Analysis (EFA)

In contrast to CFA, EFA does not require a priori hypothesis about how indicators are related to underlying factors or even the number of factors, hence the term “exploratory” (Kline, 2005). In other words, there is little direct influence on the correspondence between the indicators and the constructs. In this regard, Kline (2005) affirmed that EFA is not generally considered a member of SEM family, though it is a statistical technique used for evaluating a measurement model. In this study, as a first step, EFA has been performed to evaluate the questionnaire items that measure each of the latent constructs through an iterative process.

The exploratory factor analyses were carried out using the principal component analysis and the varimax rotational methods in order to extract the dominant factors and indicators within each factor that share common variance. The direct oblimin rotational method is not selected for this study because of its assumptions that the factors are correlated with one another. It is the correlation of factors that the study intends to confirm for the measurement model (CFA) after exploring for the study measures.

In this respect, three factors with an eigenvalue greater than five explained 66.37% of the variance for the construct employee participation using the principal factor analysis. Two items were removed from the scale. The varimax-rotated factor pattern implies that all the three factors concerned – union; productivity; and turnover with the 11-item scale ( $\alpha = 0.900$ ; KMO = 0.847; and  $< .001 @ 5\%$  Sig) measuring the construct present acceptable figures to build the latent construct employee participation for further statistical analysis. The result of the EFA for employee participation is shown in Table 2.

**Table 2. EFA: Employee Participation**

Measurement items	Factor Loadings	% of Variance
Full information disclosure enhances labor harmony	0.830	66.37%
Board engage employee leaders on incentives decisions	0.788	
Labor activism is disincentive to management misdemeanor	0.724	
Employee sit on board stimulates higher productivity	0.823	
Employee share option incentive scheme improves productivity	0.874	
Employee role in high management does not improve firm value	0.863	
Employee sit on board provide synergy on production strategy	0.771	
Board engage high-skilled workers in board meetings	0.710	
Board informal interactions with skilled workers reduce turnover	0.712	
Incentives to high-skilled workers reduces labor turnover	0.712	
Employee involvement on key decisions does not reduce exit	0.786	
Kaiser-Meyer-Olkin Measures of Sampling Adequacy	.847	
Bartlett's test of sphericity: Appr. Chi-Square	1012.487	
df	55	
Sig.	.000	
Cronbach's Alpha ( $\alpha$ )	.900	
Eigenvalue	5.5	

**Table 3. Board Role Performance**

Measurement Items	Factor Loading	% of Variance
Board controls plans and budget	0.788	66%
Board evaluates performance of top executives	0.850	
Board engage in succession planning for CEO	0.696	
Board takes long time strategic decisions	0.680	
Board's suggestions frequently improve strategic decisions	0.860	
Board contributes to the implementation of strategic decisions	0.686	
Benchmark strategic plan with industry data	0.789	
Board contributes to the acceptance of the firm in the environment	0.600	
Board provides contacts with relevant stakeholders	0.762	
Kaiser-Meyer-Olkin Measure of Sampling	.893	
Bartlett's Test of Sphericity: Approx. Chi-Square	680.081	
df	36	
Sig.	.000	
Cronbach's Alpha ( $\alpha$ )	.893	

Similarly, three factors with an eigenvalue greater than five explained 66% of the variance for the endogenous construct board role performance using the principal factor analysis. Two items were removed from the scale. The varimax-rotated factor pattern implies that all the three factors concerned – union; productivity; and turnover with the 11-item scale ( $\alpha = 0.900$ ; KMO = 0.847; and  $< .001$  @ 5% Sig) measuring the construct present acceptable figures to build the latent construct employee participation for further statistical analysis. The result of the EFA for employee participation is shown in Table 2.

The proposed model in this paper comprises two latent constructs, one exogenous variable – employee engagement and the other endogenous variable – board performance. Since they cannot be measured directly, they are represented by indicators. In other words, indicators are associated with each latent construct and are specified by the researcher from an established theoretical framework (Hair et al., 2010).

In structural equation modeling (SEM), the measurement model is evaluated first to confirm the measurement adequacy of the items for the construct. The second stage involves the evaluation of the structural model, which shows a regression-like relationship between the constructs. This two-stage approach will overcome the problem of localizing the source of poor model fit associated with other single-step approach (Kline, 2005). However, before proceeding to SEM data analysis, it is necessary to test the validity of the two constructs. Having ascertained both the internal consistency of the items (see table 3), and the EFA test, next section will discuss construct validity.

### Construct Validity

A measure may be internally consistent (reliable) but not accurate enough to measure a particular construct (valid). Construct validity is the extent to which a set of measured items actually reflects the theoretical latent construct those items are designed to measure. A fundamental assessment of construct validity involves the measurement relationships between items and constructs (i.e., the path estimates linking construct to indicator variables). In CFA application, larger standardized loading estimates confirm that the indicators are strongly related to their associated constructs and are one indication of construct validity. Rules of thumb suggest that standardized loading estimates should be at least .5 and ideally .7 or higher. Low loadings suggest that a measured variable is a candidate for deletion from the model (Hair et al., 2010). Result in Table 7 indicates acceptable construct validity because the figure 0.989 for construct reliability is > that of variance extracted, 0.891.

**Table 4. Construct Reliability and Variance Extracted**

Variable & Items code	Std. loading	(Std. loading) <sup>2</sup>	( $\Sigma$ Std. loading) <sup>2</sup>	$\Sigma$ (Std. loading) <sup>2</sup>	Std. Error	$\Sigma$ Std. Error	Constr Relibilty	Variance Extracted
Employee:							A/A+B	C/C+B
UN 1	0.619	0.383			0.084			
UN 2	0.625	0.390			0.074			
UN 3	0.701	0.491			0.054			
PR 1	0.675	0.456			0.004			
PR 2	0.657	0.432			0.032			
PR 3	0.707	0.500			0.038			
PR 4	0.659	0.434			0.041			
TN 1	0.656	0.430			0.058			
TN 2	0.730	0.533			0.053			
TN 3	0.675	0.457			0.063			
TN 4	0.664	0.441	54.287 A	4.946 C	0.071	0.608 B	0.989	0.891
	$\Sigma$ 7.368							

### The Employee Measurement Model (CFA)

In a CFA model, the Squared Multiple Correlation (SMC) values represent the extent to which a measured variable's variance is explained by a latent construct. The rules provided for the factor standardized loading estimates tend to produce the same diagnostics because SMC are a function of the loading estimates regardless of whether the researcher is estimating in a congeneric measurement model, CFA or path model with latent constructs (Holmes-Smith et al., 2006). In addition, a major component of construct validity is convergent validity – items that are indicators of a specific construct should converge or share a high proportion of variance in common. Factor loadings, variance extracted (or SMC), average variance extracted (AVE) and construct reliability are some of the available ways to estimate the relative amount of

convergent validity. In general, researches report at least one of the three models-based estimates of reliability: construct reliability, SMC or VE (Bollen, 1989).

In this paper, both construct reliability and variance extracted are shown (see Table 7). However, SMC loadings have been used to measure the construct validity (see figure 3). As mentioned earlier, the SMC for a measured variable is the square of the indicator's standardized loadings. In other words, from the default outputs in the SEM figures below, it is estimated that the predictors of TN1 (indicator) explain 59% of its variance (i.e., the error variance of TN1 is approximately 41% of the variance of TN1 itself). Thus, the SMC of a good observed variable should be .5 and above (Hair et al. 2010). Nevertheless, 0.3 indicates an acceptable item variable (Holmes-Smith et al., 2006) especially when the indicators for a construct are not more than 3 provided other constructs have higher indicators. A standardized factor loading of 0.7 for an observed variable is roughly the equivalent of 0.5 SMC. From the CFA analysis of the employee measurement model, none of the items present offending estimates. The remaining items after modification are shown in figure 4, which provide better default statistical output.

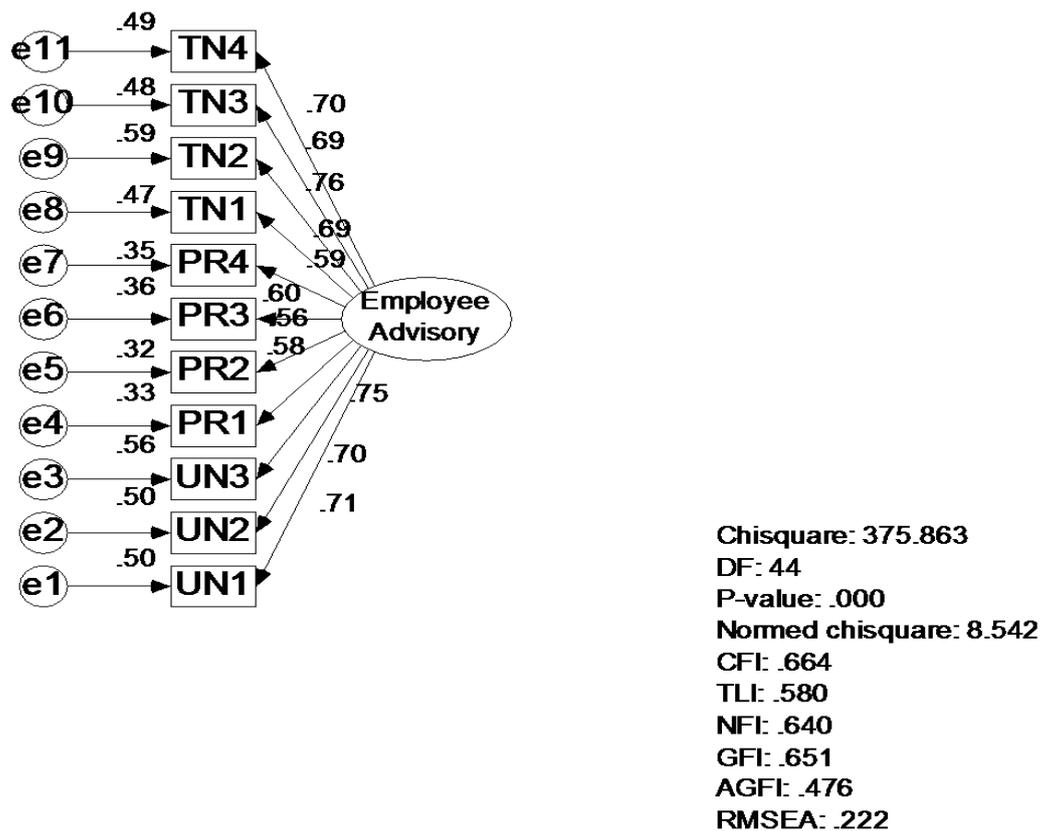


Figure2. Initial Employee Measurement (CFA) Model

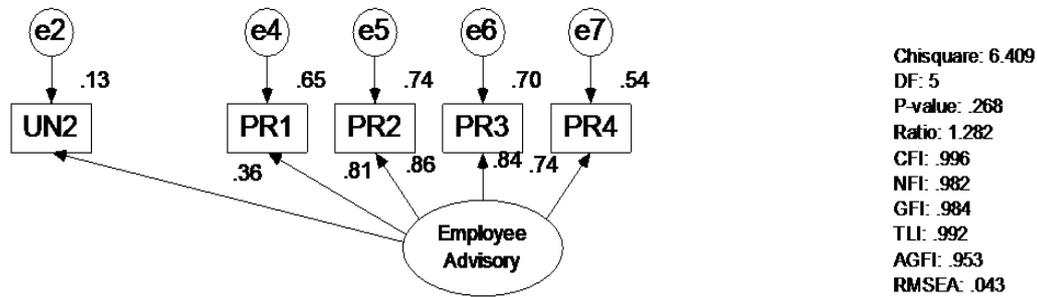


Figure3. Employee Measurement Model (CFA) after Modification

### Measures of Fit

The fit indices of the model in fig. 4 are summarized. The employee measurement model after modification indicates that  $\chi^2$  is 5.096 with 4 degrees of freedom (d.f.) and p-value = .278, which is an improvement compared to the initial hypothesized model (Fig 4) with p-value = 0.000 since the threshold for the p-value to be statistically significant is  $> 0.05$ . However, in practice, the  $\chi^2$  is very sensitive to sample size and frequently results in the rejection of a well-fitting model. Hence, the ratio of  $\chi^2$  over d.f. has been recommended as a better goodness of fit than  $\chi^2$  (Hair et al., 2010). A common level of  $\chi^2$ /d.f. ratio is below 5 (though below 3 is better). The  $\chi^2$ /d.f. is 1.274 (i.e. 5.096/4), indicating very good fit. Furthermore, other indicators of goodness of fit are CFI = .996, TLI = .991, GFI = .986, NFI = .984, AGFI = .948 and RMSEA = .042. Comparing this result with the critical values in the output estimates, it suggests the model fits the empirical data, thus reliable and valid measures of the construct.

Table 5. Model Goodness of Fit Indices

	Criteria	Indicators: CFModel	Indicators: structuralmodel
$\chi^2$	$/p > 0.05$	5.096/0.278	48.494/0.196
$\chi^2$ /df	$< 5$	1.274	1.183
Fit Indices: GFI	$> 0.9$	0.986	0.948
AGFI	$> 0.9$	0.948	0.917
NFI	$> 0.9$	0.984	0.943
TLI	$> 0.9$	0.991	0.987
Alternative Indices: CFI	$> 0.95$	0.996	0.991
RMSEA	$< 0.05$	0.042	0.035
RMR	$< 0.05$	0.020	

The proposed theoretical model in Fig 1 was tested based on the theoretical argument relating the two latent constructs: employee advisory and board role performance. Factors of union relations, productivity, and labor turnover were used as four dimensions measuring employee advisory, while board monitoring role, board service role and board networking role were served as dimensions of board role performance. Employing AMOS version 16 among 20 measurement items as input, the SEM

analysis was conducted to examine the relationship between each of the constructs as hypothesized. The results of the SEM analysis were depicted in figure 4 and 5 below. The fit indices of the model are summarized. The overall model indicates that  $\chi^2$  is 48.494 with 41 degrees of freedom (d.f.) and p-value = .199, which is an improvement compared to the initial hypothesized model indicating  $\chi^2 = 448.431$  with 167 degrees of freedom and p-value = 0.000 since technically the p-value should be > 0.05, i.e., it is statistically insignificant. However, in practice, the  $\chi^2$  is very sensitive to sample size and frequently results in the rejection of a well-fitting model. Hence, the ratio of  $\chi^2$  over d.f. has been recommended as a better goodness of fit than  $\chi^2$  (Hair et al., 2010). A common level of  $\chi^2$ /d.f. ratio is below 5 (though below 3 is better). The  $\chi^2$ /d.f. is 1.183 (i.e. 48.494/41), indicating very good fit. Furthermore, other indicators of goodness of fit in the overall model after modification are CFI = .991, TLI = .987, GFI = .948, NFI = .943, AGFI = .917 and RMSEA = .035. Comparing this result with the critical values in the output estimates, it suggests that the hypothesized model fits the empirical data well.

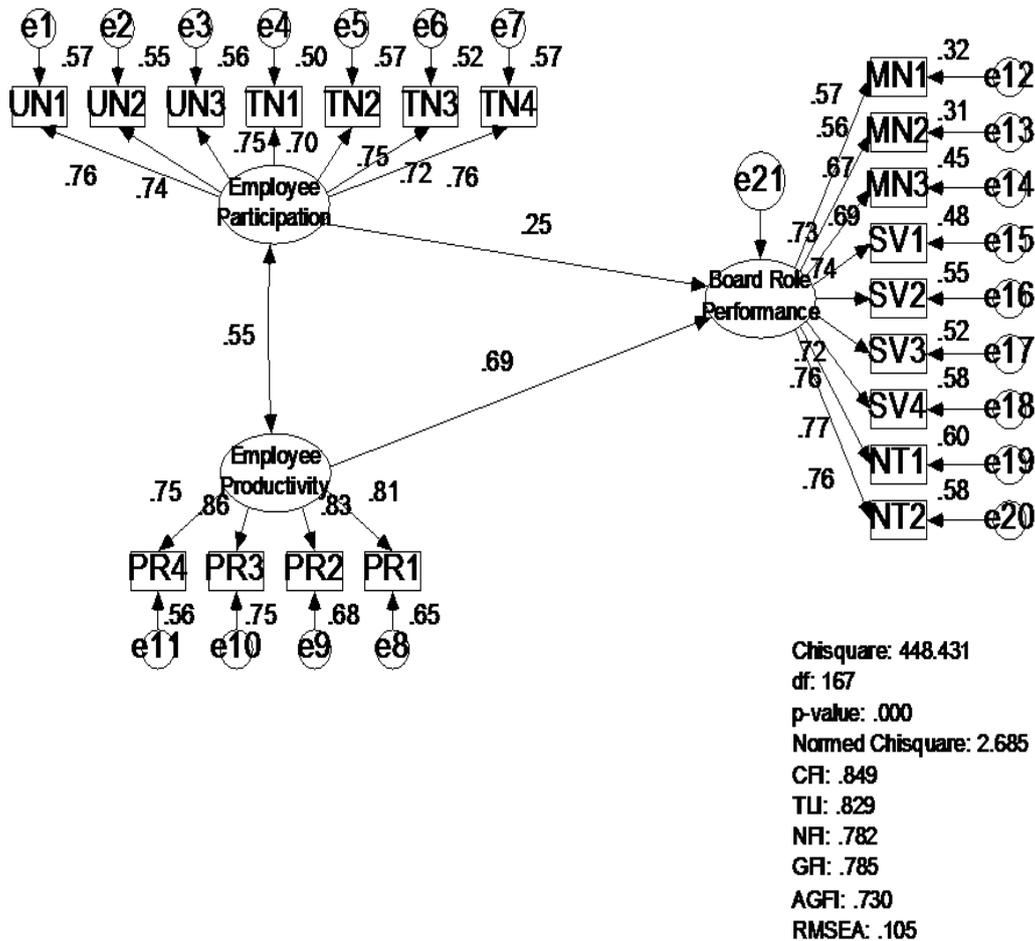
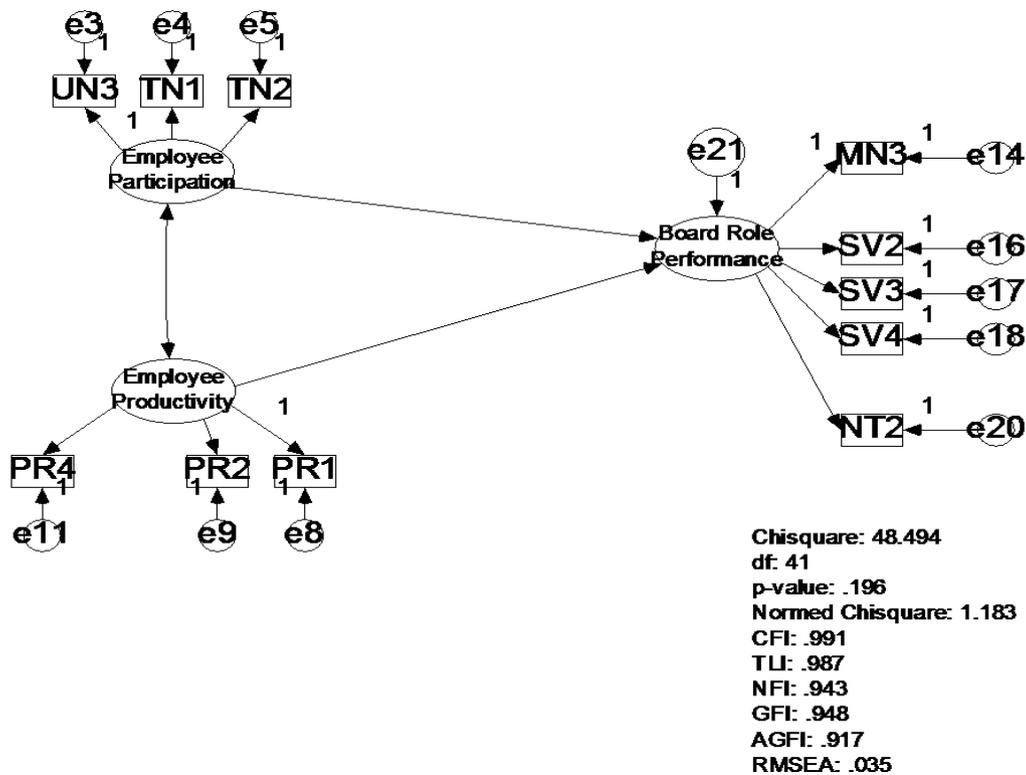


Figure 4. Hypothesized Structural Model before Modification



**Figure 5. Hypothesized Structural Model after Modification**

Our findings seem to suggest that the proposed indicators of the latent construct employee advisory have been confirmed to be the measured items. It can be seen in the overall model (fig. 5) that although 5 out of the initial 11 items have to be deleted to achieve model fit, the remaining items represent the proposed union relations (UN3), labor turnover (TN1 and TN2), and productivity (PR1, PR2, and PR4). This is the same as the endogenous variable – board performance. Within the overall model, the estimates of the structural coefficients provide the basis for testing the proposed hypotheses, thus supporting the proposed hypotheses. In other words, the regression weights for employee advisory in the prediction of board role performance is significantly different from zero at the 0.005 level. In path analysis, AMOS's default method of computing parameter estimates is called maximum likelihood, and it produces estimates with very desirable properties (Arbuckle, 2005). In a standardized model, the standardized regression weights, correlation, squared multiple correlations have been displayed (see fig. 5 above). The standardized regression weights (R) and the correlations are independent of the units in which all variables are measured, and will not be affected by the choice of identification constraints (Arbuckle, 2005). In fig. 5, the standardized regression weight (R) for items MN3; SV2; SV3; SV4 and NT2 are .67; .74; .72; .76 and .78 respectively. This means when board performance goes up by 1 standard deviation, MN3 goes up by .67; standard deviation. Same with UN3 (.75); TN1 (.70); TN2 (.75); PR1 (.81); PR2 (.83); and PR4 (.75).

The fit measures (Table 6) provides information about how well the model fits the data, but the strength of the structural paths in the model is determined by squared multiple correlations (SMC). SMC is the proportion of its variance that is accounted for by its predictors. Interpretation of the SMC is analogous to the  $R^2$  statistic in multiple regression analysis, thus it is a useful statistic that is also independent of all units of measurement (Arbuckle, 2005). In the hypothesized model - Fig. 4 -, the estimate of SMC show that the predictors of board role performance (e21) explain 73% of its variance, i.e.  $R^2 = .73$ . In other words, error variance of board role performance is approximately 27% of the variance of board role performance itself. For ease of identification of the SMC in fig. 4, since .74 is the R of SV2, .55 is the SMC, which is the same as  $(.74)^2$ .

### Discussion and Conclusions

The objective of this research is to determine whether employee participation yields effective board performance. Accordingly, to achieve the objective, it is hypothesized that employee participation on board as manifested by union relations, productivity, and labor turnover is significantly related to board role performance. This has been tested using AMOS 16 path analysis. Consequently, it was found that there is significant association between the two constructs (employee participation and board performance). Hence, the research objective of determining whether employee participation significantly relate to board performance have been achieved, thus supporting the hypothesis.

However, this study findings show the extent to which Nigerian firms can have in place employees to be represented as advisors on board so that union relations can be enhanced, productivity can be improved, and skilled labor turnover can be reduced with significant effect on the service and networking roles of board performance. This is not surprising because in the literature, especially in Germany, for example, firms are legally required to pursue the interests of parties beyond just shareholders through the system of *co-determination* in which employees and shareholders in large corporations have an equal number of seats on the supervisory board of the company (Schmidt, 2004; Sadowski et al., 2005; and Allen, Carletti & Marquez, 2009). The efficiency of this approach draws on Japan and Germany as examples of successful industrial societies in which extensive stakeholder involvement with the firm is pervasive, and typically, corporate goals are defined more widely than shareholders' profits. In both countries, the corporation is viewed as an enduring social institution, with personality, character and aspirations of its own, with a proper public interest, i.e. the interests of a wide range of stakeholder groups, and with public responsibilities (Kay & Silberston, 1995). In Germany, both the employee and shareholder representatives can agree on decision issues not only in the boardroom but also in public, as it happened in the hostile takeover of Krupp-Thyssen merger. With this arrangement in place, dissatisfied employees may choose to voice their grievances, rather than choose to leave the company. This results in substantial cost reductions for hiring and training new employees. The voice option could also increase job satisfaction and, thus, productivity (Sadowski et al., 2005).

Furthermore, data examined over a considerable period, between 1990 and 1998, suggest some contradictory results for participation and company performance claims. Addison and Belfield's (2001) comparative analysis of the two datasets found that, while employee involvement increases were positively associated with productivity levels for the 1990 dataset, this was not replicated in the 1998 survey results. On the other hand, the negative effect of unionism on productivity observed by Fernie and Metcalf (1995, cited in Addison and Belfield, 2001) is to some extent reversed in the 1998 dataset where the 'coefficient estimate for the union variable is both positive and statistically significant in the productivity change equation' but most favourable for the 'weakest form of union presence' (Addison and Belfield, 2001). Hence, work-related participation aims for a more equitable distribution of power throughout the organization, and secures employee commitment to organizational objectives through sophisticated communication procedures and individualized reward (Summers and Hyman, 2005). In addition to the forms of work-related participation, the authors affirm that employee participation in conventionally owned and organized firms can be task-related at the workstation, or at board or corporate level (strategic), and participation at either of these levels can be communicative, consultative or negotiable.

The implication for theory in this study is that the strong arguments for stakeholder theory, has been strengthened from the outcome of this study as proposed in the theoretical framework. Surprisingly, this is despite the fact that in Nigeria, there is no legal framework to justify the claims of the proponents of the theory. Even if any legal claim can be made, the strong limitations of the statutes in advanced nations like US, UK, which Nigeria adapt could serve as a barrier to laying any moral claim against the right to ownership enshrined in the agency framework. It is important to understand the mechanisms motivating actions, and stakeholder theory may contribute when we also assume that there is incomplete contracting among separate stakeholders.

Nevertheless, similar survey approach was conducted in Nigeria by Okpara (2009), where 105 employees out of the 198 respondents participated on challenges hindering effective corporate governance in 100 Nigerian listed firms. The author uses only employees as his data source to proxy for others. To answer his research questions, over 95% of respondents reported that board members are not fulfilling their responsibilities to the company and shareholders, consistent with the work of Oyejide and Soyibo (2001). On these interests, in the Nigerian corporate environment where the current legal framework does not operate in this perspective, individual firms may wish to engage the skilled-labor or union for possible adjustments in line with the provisions of the stakeholder governance systems. This is because of the unique advantage the structural stakeholder model has, which is estimating the individual measures between and amongst the latent constructs since the items – union relation, and skilled labor turnover have indicated significant relations with the construct (employee participation).

The argument that employees are major stakeholders in businesses holds because they help firms create wealth by investments of their energy, intelligence, skills, body and

soul. There is scarce empirical evidence in the use of corporate governance mechanisms by scholars to achieve the effects of employees on board performance. A central claim of this paper is that the structural forces shaping corporate governance provide broader ideas with employee representatives on board partaking in strategic decision-making processes, as a more inclusive approach persuaded by stakeholder theorists, which has been found to enhance labor relations, reduce skilled-labor turnover and ultimately improve productivity.

In view of the above, another implication here is that it is doubtful that Nigerian boards in listed firms can be said to be meeting the requirements of the Companies and Allied Matters Act. In other words, the necessary powers given to them to monitor, manage, direct, and supervise the affairs of the firms with focus on equity shareholder protection raise question of the status quo of the code as reflected in the perceptions that the emerging Nigerian market will function better if all-inclusive approach of stakeholder perspective is taking into considerations. Limited by the legal framework, the board is not able to fully influence key outcomes. In addition to dealing with conflicts resulting from differing preferences of stakeholder alliance, highlight board members' contributions in dealing with the complexities and associated uncertainties related to strategic decisions and labor relations to solve firms' problems. This argument falls within acceptable rationality because firm actors have different and limited productive capacities; they need skilled employees for planning and controlling routines to help them analyze complex tasks for effective decision-making. This also implies that participation in the early stages of strategic decision-making will enable board members to protect stakeholders' interests through problem identification and definition.

Finally, this study practically conceived that Nigerian firms that understand and recognize employees as important contractual stakeholder dimensions could lead to better utility of boards to maximize their contributions and to impact such dynamics not only on board performance in particular, but also on firm's performance in general. After spending years of loyalty and hard-work in organizations, workers expect more than a pay-cheque. They seek relevance, security, rewards and support to achieve personal societal goals. If the organization honors only the economic contracts, such as wages, vacations, working conditions, etc. without recognizing skilled employees at the helms of top decisions, it could result to nasty behavioral problems of labor turnover, insubordination, labor union agitation, and tardiness that can lead to low productivity. Though there is no such provision in the current legal framework in Nigeria, but policy makers can learn from the empirical outcome of this paper that the benefits of developing a culture where employee participation and organizational goals via board performance intertwined cannot be overemphasized. But whether the factors investigated relate positively or otherwise to firm sustainability will be an agenda for further research.

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