

Board Characteristics and Corporate Reserve of Listed Service Firms in Nigeria

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ABSTRACT

The study examined the effect of board characteristics on the corporate reserve of listed service firms in Nigeria. The specific objective was to examine the effect of board gender diversity, board diligence, board independence and board size on the earnings retention rate of listed service firms in Nigeria. Ex-post facto research design was adopted in the study. The population comprised all the 21 listed service firms in Nigeria. Purposive sampling was deployed in selecting the sample size of 16 firms. Secondary data were collected from the firms' annual reports over an eleven year period from 2014-2024. Descriptive analysis was carried out on the data after which tests of cross-sectional and heteroskedasticity were conducted. Panel estimated generalised least square regression was used to test the hypotheses. The findings revealed that: board gender diversity has a positive and significant effect on earnings retention rate among listed service firms in Nigeria ($\beta = 35.5009$; $p = 0.0014$); board diligence has a positive and significant effect on earnings retention rate among listed service firms in Nigeria ($\beta = 1.4354$; $p = 0.0162$); board independence has a negative but non-significant effect on earnings retention rate among listed service firms in Nigeria ($\beta = -0.0264$; $p = 0.9966$); board size has a negative and insignificant effect on earnings retention rate among listed service firms in Nigeria ($\beta = -0.1175$; $p = 0.8411$). In conclusion, while traits such as gender inclusiveness and diligence appear to strengthen internal capital accumulation, the non-significant outcomes associated with board size and independence suggest that formal structures alone are not sufficient. The study recommends that listed service firms in Nigeria need to institutionalize gender-inclusive board policies by setting internal targets or quotas for female representation. In addition, companies should focus on recruiting competent and experienced female professionals, not just for compliance, but to strategically improve long-term financial sustainability through prudent profit retention.

Keywords: Board Characteristics, Corporate Reserve, Board Gender Diversity, Board Diligence, Board Independence

INTRODUCTION

Corporate governance has become a critical area of study in contemporary business management, especially as firms navigate complex and dynamic economic terrain. Effective corporate governance ensures that firms operate transparently, responsibly, and in a manner that maximizes shareholder value while considering the interests of other stakeholders (Enya, Abdullahi and Chukwuma, 2025; Iyoha, Odu, and Omokhudu, 2024; Onowu and Ajah, 2023). Within this broader context, the characteristics of a company's board of directors play a pivotal role. The board's composition, diversity, expertise, and governance practices can significantly influence corporate performance, strategic decision-making, and risk management (Daddau and Bala, 2024). In Nigeria, the service sector represents a significant portion of the economy, contributing to GDP, employment, and overall economic development. Listed service firms, which include banks, telecommunications companies, insurance

firms, and others, are crucial to the nation's economic health. These firms must maintain robust corporate reserves to ensure financial stability, facilitate expansion, and manage unforeseen financial challenges.

Corporate reserves, often referred to as retained earnings or reserves and surplus, are critical for sustaining business operations and funding growth initiatives (Offor, 2023; Obinna and Yobo, 2022; Oganda, Museve, and Mogwambo, 2022). Understanding the factors that influence the level and management of these reserves is essential for stakeholders, including investors, regulators, and policymakers. In today's business environment, the effectiveness of board characteristics is increasingly recognized as a key determinant of corporate success (Apeku, Joshua and Yahaya, 2024). Iyoha, Odu, and Omokhudu (2024) noted that a well-structured board can provide strategic oversight, enhance decision-making processes, and ensure robust risk management practices. Effective board characteristics include diversity in terms of gender, age, expertise, and cultural background; the presence of independent directors; and a balance between executive and non-executive members. These characteristics contribute to more comprehensive and balanced decision-making, reducing the likelihood of corporate failures and enhancing long-term sustainability (Daddau and Bala, 2024).

Corporate reserves play a vital role in ensuring the financial health and stability of a firm (Lai, Lonare, and Zeng, 2024). In an era marked by economic uncertainties, global competition, and rapid technological changes, maintaining adequate reserves is more important than ever (Oshim, Nnajeze, and Igwe, 2023). These reserves act as a financial cushion, enabling firms to weather economic downturns, invest in new opportunities, and sustain operations during challenging times (Offor, 2023). Effective management of corporate reserves can enhance a firm's resilience, improve its credit rating, and increase investor confidence. Board characteristics encompass various elements, including board size, composition, independence, diversity, and expertise (Ishfaq, Alim, Ghaffar, Khan, Sohail & Din, 2024). A well-composed board can enhance governance practices, improve strategic oversight, and ensure that the interests of shareholders and other stakeholders are adequately represented. For instance, board diversity, in terms of gender and ethnicity, has been linked to improved decision-making and financial performance. Independent directors, who are not part of the company's executive team, can provide unbiased oversight and mitigate potential conflicts of interest (Petroski and Yahaya, 2024).

Corporate reserves, on the other hand, refer to the portion of a company's profits that are retained within the business rather than distributed as dividends to shareholders (Oshim, Nnajeze, and Igwe, 2023). These reserves are essential for financing future growth, funding capital expenditures, and providing a buffer against financial uncertainties (Oganda, Museve, and Mogwambo, 2022). Onowu and Ajah (2023) argued that the level and management of corporate reserves are influenced by various factors, including a firm's profitability, dividend policy, investment opportunities, and overall financial strategy. Besides, board characteristics can significantly influence corporate reserves through various mechanisms. Firstly, board size and composition can affect the quality of governance and decision-making processes (Apeku, Joshua and Yahaya, 2024). A larger board may provide a wider range of expertise and perspectives, enhancing the board's ability to make informed decisions regarding financial policies, including the management of corporate reserves. However, excessively large boards can also lead to inefficiencies and coordination challenges, underscoring the need for an optimal board size (Offor and Okwo, 2023).

Secondly, the presence of independent directors is crucial for effective oversight and risk management. Independent directors can provide objective assessments of management practices and ensure that the company's financial policies, including the allocation of reserves, are aligned with shareholder interests (Yang and Xue, 2023). They can also help mitigate agency problems by ensuring that managers do not prioritize short-term gains over long-term financial stability. Thirdly, board diversity, in terms of gender, ethnicity, and professional background, can enhance the board's decision-making capabilities. Diverse boards are more likely to consider a broader range of perspectives and innovative solutions, leading to more effective financial management and prudent reserve policies (Ishfaq, Alim, Ghaffar, Khan, Sohail & Din, 2024). Research such as Ahmed and Hussain (2024) has argued that gender-diverse boards, for example, are associated with lower levels of risk-taking and more conservative financial strategies, which can positively impact corporate reserves. However, the findings by Hassan, Iskandrani, Yaseen, and AlMaharmeh (2024) countered this position.

Moreover, the expertise and experience of board members play a critical role in shaping financial policies (Adamu, Ishak, and Hassan, 2019). Directors with financial expertise can provide useful hints into the management of reserves, ensuring that the company maintains an optimal balance between retaining earnings and distributing dividends. Their knowledge can also help the firm address complex financial environments and make strategic decisions that enhance long-term financial stability. Therefore, the study of board characteristics and their effect on corporate reserves is essential for understanding the governance mechanisms that promote financial stability and sustainable growth in listed service firms in Nigeria. By examining the interplay between board composition, diversity, independence, and expertise, this research can provide useful hints into how effective corporate governance can enhance the financial health and resilience of firms in the service sector. As these firms continue to play a crucial role in the Nigerian economy, ensuring robust governance practices and prudent financial management will be key to their success and sustainability.

Robust and effective corporate governance practices help to ensure that firms operate with transparency, accountability, and a strong commitment to the interests of all stakeholders (Iyoha, Odu, and Omokhudu, 2024). The board of directors, composed of individuals with diverse backgrounds, expertise, and independence, plays a pivotal role in overseeing management actions, formulating strategic policies, and safeguarding corporate resources (Apeku, Joshua and Yahaya, 2024). These boards are ideally equipped to make well-informed decisions regarding the allocation and management of corporate reserves, ensuring that sufficient funds are retained to finance growth, manage risks, and maintain financial stability. Effective board characteristics would thereby facilitate optimal financial performance, enhance investor confidence, and contribute to the sustainable development of firms.

However, many firms face challenges related to inadequate board composition, lack of diversity, insufficient independence, and limited expertise among board members. Boards may be dominated by insiders, lack gender or include members with insufficient financial acumen. Such deficiencies in board characteristics can lead to suboptimal governance practices, where strategic decisions regarding corporate reserves are not adequately scrutinized or aligned with long-term financial stability. Furthermore, the lack of effective oversight by independent directors can result in conflicts of interest, where management prioritizes short-term gains over prudent reserve management and sustainable growth.

The consequence of these governance deficiencies is that ineffective board characteristics can lead to poor financial management, resulting in either insufficient or excessive corporate reserves. Insufficient reserves when in cash or non-cash can jeopardize a firm's ability to weather economic downturns, invest in growth opportunities, and maintain operational stability, ultimately affecting its competitiveness and financial health (Athari, 2023). On the other hand, excessive reserves may indicate a lack of profitable investment opportunities or a conservative approach that could stifle innovation and growth (Athari, 2023). Additionally, inadequate governance can erode investor confidence, increase the cost of capital, and expose firms to greater financial and operational risks. Consequently, the overall sustainability and long-term success of listed service firms in Nigeria are compromised, hindering their contribution to the nation's economic development. Among the previous studies examining similar issue, studies such as Apeku, Joshua, and Yahaya (2024); Ahmed and Hussain (2024); Rumokoy, Liu, and Chung (2024); Ali, Aly, Abdelazim, and Metwally (2024); Daddau and Bala (2024); Iyoha, Odu, and Omokhudu (2024); Lai, Lonare, and Zeng (2024); Ishfaq, Alim, Ghaffar, Khan, Sohail, and Din (2024); Hassan, Iskandrani, Yaseen, and AlMaharmeh (2024); Petroski and Yahaya (2024); Essien and Akpan (2024); Shittu and Che-Ahmad (2024); Kabiru, Iliya, and Abdulkadir (2023); Offor and Okwo (2023); Talbi and Menchaoui (2023); Onowu and Ajah (2023); Adeniji (2023); Amasiatu, Okoye, and Adeniyi (2023); Arianpoor and Mehrfard (2023); etc., none has assessed whether the characteristics of the board of directors in the service industry affects the corporate reserve of the firms. With respect to the Nigerian service industry, this has left a number of gaps in literature as regards the nature of relationship between board size and earnings retention rate; board gender diversity and earnings retention rate; board independence and earnings retention rate; as well as board diligence and earnings retention rate. It is in view of addressing the above gap that this study is being carried out.

Objectives of the Study

The broad objective of the study is to examine the effect of board characteristics on the corporate reserve of listed service firms in Nigeria. The specific objectives are as follows:

1. To examine the effect of board gender diversity on the earnings retention rate of listed service firms in Nigeria.
2. To determine the effect of board diligence on the earnings retention rate of listed service firms in Nigeria.
3. To ascertain the effect of board independence on the earnings retention rate of listed service firms in Nigeria.
4. To examine the effect of board size on the earnings retention rate of listed service firms in Nigeria.

HYPOTHESES

H01: Board gender diversity has no significant effect on the earnings retention rate of listed service firms in Nigeria.

H02: Board diligence has no significant effect on the earnings retention rate of listed service firms in Nigeria.

H03: Board independence has no significant effect on the earnings retention rate of listed service firms in Nigeria.

H04: Board size has no significant effect on the earnings retention rate of listed service firms in Nigeria.

LITERATURE REVIEW

Conceptual Review

Board Characteristics

Board characteristics refer to the intrinsic qualities and attributes that define a company's board of directors, encompassing aspects such as its overall structure, governance approach, and the effectiveness of its decision-making processes (Enya, Abdullahi and Chukwuma, 2025; Apeku, Joshua and Yahaya, 2024). These characteristics are essential in shaping how the board oversees the management of the company, ensuring compliance with regulatory standards, and safeguarding the interests of shareholders (Kabiru, Iliya, and Abdulkadir, 2023). The term encapsulates the holistic qualities that contribute to the board's ability to guide and monitor the company effectively (Daddau and Bala, 2024). The term "board characteristics" implies an evaluation of how the board functions as a governing body, including its strategic oversight capabilities and its role in risk management (Essien and Akpan, 2024). It also encompasses the board's ability to foster ethical behavior, transparency, and accountability within the organization. By assessing board characteristics, stakeholders can gain hints into the board's potential impact on corporate performance and governance quality. In essence, board characteristics are indicative of the board's overall health and effectiveness in fulfilling its fiduciary duties (Chiedu, Anichebe, and Emeka-Nwokeji, 2022). They provide a framework for understanding how well the board is equipped to make informed decisions, guide the company's strategic direction, and maintain robust corporate governance practices (Ishfaq, Alim, Ghaffar, Khan, Sohail & Din, 2024). This holistic perspective on board characteristics helps in evaluating the board's role in promoting sustainable business practices and long-term value creation (Nwafor & Nworie, 2025).

Board characteristics refer to the attributes and composition of a company's board of directors, which play a crucial role in shaping corporate governance and decision-making processes. The board of directors is responsible for overseeing the management of the company, ensuring that it operates in the best interests of shareholders and other stakeholders. Key characteristics of the board include its size, diversity, independence, and the expertise of its members. These elements collectively influence how effectively the board can fulfill its oversight and strategic roles (Apeku, Joshua and Yahaya, 2024). The size of the board is a fundamental

characteristic, as it determines the breadth of perspectives and expertise available for decision-making. A larger board may provide a wider range of skills and experiences, enhancing the board's ability to address complex issues. However, excessively large boards can become unwieldy, leading to coordination challenges and diluted accountability. Conversely, smaller boards may be more agile and cohesive but could lack the diversity of thought needed to tackle multifaceted problems effectively (Kabiru, Iliya, and Abdulkadir, 2023).

Diversity within the board, encompassing gender, ethnicity, age, and professional backgrounds, is increasingly recognized as a critical factor in enhancing governance. Diverse boards are better equipped to understand and address the needs of a diverse shareholder base and can bring innovative approaches to problem-solving. Gender diversity, in particular, has been shown to improve board dynamics and decision-making quality (Ishfaq, Alim, Ghaffar, Khan, Sohail & Din, 2024). Diverse boards are more likely to avoid groupthink and consider a broader range of perspectives, leading to more balanced and effective governance. Board independence is another vital characteristic, referring to the presence of non-executive directors who are free from conflicts of interest. Independent directors provide objective oversight of management actions, helping to ensure that the company is managed in a manner that aligns with shareholder interests. Independence is crucial for mitigating agency problems, where managers may prioritize personal gains over the company's long-term health. Independent directors can challenge management decisions, offer unbiased advice, and provide valuable external perspectives.

Board Gender Diversity

Board gender diversity refers to the inclusion of members of different genders on a company's board of directors, which is seen as a key factor in promoting varied perspectives and balanced decision-making (Ahmed and Hussain, 2024). The concept of gender diversity on boards has gained significant attention in recent years as stakeholders increasingly recognize the value of diverse viewpoints in enhancing corporate governance and performance (Essien and Akpan, 2024). Gender diversity is both about achieving a balance between men and women on boards (Shittu and Che-Ahmad, 2024) and also about leveraging the unique perspectives and experiences that individuals of different genders bring to the table (Ogaluzor and Chukwu, 2022). Gender diversity on boards can lead to more comprehensive and effective decision-making processes (Ali, Aly, Abdelazim, and Metwally, 2024). Women and men may have different approaches to problem-solving, risk assessment, and strategic thinking, which can enrich board discussions and lead to more innovative solutions. Bona-Sánchez, Elistratova, and Pérez-Alemán (2023) opined that gender-diverse boards are more likely to consider a wider range of issues and are better at managing complex situations. This diversity of thought is crucial in today's rapidly changing business environment, where companies must navigate multifaceted challenges and seize emerging opportunities (Amedu et al., 2025). Moreover, gender diversity on boards is associated with better financial performance. Research indicates that companies with higher gender diversity at the board level tend to outperform their less diverse counterparts in terms of profitability, return on equity, and shareholder value (Ahmed and Hussain, 2024). This positive impact is attributed to the broader perspectives and enhanced governance that diverse boards bring, leading to more robust decision-making and risk management practices (Ogaluzor and Chukwu, 2022). Investors and other stakeholders increasingly view gender diversity as a marker of good governance, influencing their investment decisions and overall perception of the company.

Board Diligence

Board diligence refers to the thoroughness and frequency with which board members engage in their responsibilities, including attending meetings and actively participating in governance activities (Emiaso & Okafor, 2023). Diligent boards are characterized by their commitment to fulfilling their fiduciary duties, ensuring that the company operates in the best interests of shareholders and other stakeholders (Ikelegbe et al., 2025). The concept of board diligence encompasses various aspects of board behavior, including meeting attendance, preparation, participation, and the overall level of engagement in overseeing the company's management and strategic direction. Meeting attendance is a fundamental aspect of board diligence (Ali, Aly, Abdelazim, and Metwally, 2024). Directors who regularly attend board meetings are better positioned to understand the company's operations, challenges, and opportunities. Consistent attendance demonstrates a commitment to governance and allows directors to stay informed about key issues affecting the company. It also ensures that

the board can maintain a quorum and make decisions effectively. Poor attendance, on the other hand, can hinder the board's ability to function properly and compromise its oversight role (Bamanga, Alhassan, and Tirimisiyu, 2023). Preparation for board meetings is another critical component of board diligence. Diligent directors invest time and effort in reviewing meeting materials, financial reports, and other relevant documents before attending meetings (Ali, Aly, Abdelazim, and Metwally, 2024). This preparation enables them to ask informed questions, provide useful hints, and contribute meaningfully to discussions. Well-prepared directors can better understand the implications of management proposals, identify potential risks, and ensure that decisions are based on comprehensive and accurate information.

Active participation in board meetings is essential for effective governance. Diligent directors engage in discussions, challenge assumptions, and offer constructive feedback. They are not passive observers but active contributors who help shape the board's decisions and strategies. Active participation fosters a culture of accountability and transparency, where diverse viewpoints are considered, and robust debates lead to well-informed decisions. It also encourages a collaborative environment where directors work together to achieve the company's goals. Beyond meeting attendance and participation, board diligence includes ongoing engagement with the company's affairs (Ali, Aly, Abdelazim, and Metwally, 2024). Diligent directors stay informed about industry trends, regulatory changes, and other external factors that could impact the company. They may participate in board committees, such as audit, compensation, or governance committees, to focus on specific areas of oversight. Continuous learning and development are also important aspects of board diligence, as directors must keep their skills and knowledge up-to-date to fulfill their roles effectively. Therefore, board diligence refers to the thoroughness and frequency with which board members engage in their responsibilities, including attending meetings, preparing for discussions, and actively participating in governance activities (Emiaso & Okafor, 2023). Diligent boards demonstrate a strong commitment to their fiduciary duties, ensuring that the company operates in the best interests of shareholders and other stakeholders. By prioritizing meeting attendance, preparation, active participation, and ongoing engagement, diligent directors enhance the board's ability to provide effective oversight, make informed decisions (Bamanga, Alhassan, and Tirimisiyu, 2023), and contribute to the company's long-term success.

Board Independence

Board independence refers to the presence of non-executive directors on a company's board who are free from relationships that could influence their impartial judgment (Iyoha, Odu, and Omokhudu, 2024). Non-executive directors, often referred to as independent directors, are not involved in the day-to-day operations of the company. Their primary role is to provide objective oversight and strategic guidance, ensuring that the company is managed in a manner that aligns with the best interests of shareholders and other stakeholders. Independence is crucial because it helps mitigate conflicts of interest that might arise when board members have close ties to the company's management (Daddau and Bala, 2024). Independent directors are expected to bring an unbiased perspective to board deliberations, free from any undue influence that could compromise their ability to make decisions solely based on the merits of the issues at hand (Apeku, Joshua and Yahaya, 2024). This objectivity is essential for maintaining the integrity of the board's oversight function. Independent directors can critically evaluate management proposals, challenge assumptions, and hold executives accountable for their actions. This level of scrutiny helps ensure that corporate decisions are made in a transparent and ethical manner, ultimately protecting the interests of shareholders (Kabiru, Iliya, and Abdulkadir, 2023).

The presence of independent directors also enhances the board's ability to provide effective oversight of management (Iyoha, Odu, and Omokhudu, 2024). Because they are not part of the company's executive team, independent directors can more effectively monitor and evaluate the performance of senior executives. They can offer impartial assessments of management practices and ensure that executive compensation and incentives are aligned with the long-term goals of the company. This oversight role is particularly important in preventing managerial entrenchment and ensuring that management actions do not prioritize short-term gains at the expense of long-term value creation (Enya, Abdullahi and Chukwuma, 2025). Moreover, independent directors play a crucial role in risk management and corporate governance. Their impartiality enables them to identify and address potential risks that might be overlooked by insiders (Bamanga, Alhassan, and Tirimisiyu, 2023). Independent directors can advocate for the implementation of robust risk management frameworks and ensure

that the company adheres to high standards of corporate governance. By fostering a culture of accountability and transparency, independent directors contribute to the overall stability and sustainability of the company. In summary, board independence involves the inclusion of non-executive directors who are free from relationships that could compromise their impartial judgment. Independent directors provide objective oversight, enhance the board's ability to monitor management, and play a key role in risk management and corporate governance. Their presence helps ensure that corporate decisions are made transparently and ethically, ultimately protecting the interests of shareholders and contributing to the long-term success of the company (Petroski and Yahaya, 2024).

Board Size

Board size refers to the total number of directors serving on a company's board, which can significantly affect the board's ability to govern effectively (Offor and Okwo, 2023; Shittu and Che-Ahmad, 2024; Kangea, Nasieku, and Muturi, 2022). The optimal board size varies depending on the company's size, industry, and specific governance needs. However, striking the right balance in board size is crucial, as it influences the board's functionality, decision-making processes, and overall governance quality (Ali, Aly, Abdelazim, and Metwally, 2024). Both excessively large and overly small boards can present unique challenges and limitations that impact their effectiveness (Offor and Okwo, 2023). A larger board can bring a broader range of skills, expertise, and perspectives to the table (Apeku, Joshua and Yahaya, 2024). This diversity of thought can enhance the board's ability to tackle complex issues, generate innovative solutions, and provide comprehensive oversight of the company's management. With more members, the board can also form specialized committees, such as audit, compensation, and governance committees, which focus on specific areas of oversight. These committees can go deeper into their respective areas, providing more detailed and informed recommendations to the full board. However, larger boards can also face challenges related to coordination and communication. With more members, it becomes increasingly difficult to ensure that everyone is adequately informed and that discussions remain focused and productive. Decision-making processes can become protracted, and achieving consensus may require more time and effort. Additionally, larger boards may suffer from diluted accountability, where individual directors may feel less responsible for the board's collective decisions. This can lead to a lack of ownership and a potential decline in the board's overall effectiveness. On the other hand, smaller boards tend to be more agile and cohesive. With fewer members, communication is typically more straightforward, and decision-making processes can be more efficient. Smaller boards can foster a stronger sense of accountability among directors, as each member's contributions are more visible and critical to the board's overall functioning. This can lead to a more engaged and proactive board that is better positioned to respond swiftly to emerging challenges and opportunities (Offor and Okwo, 2023).

However, the downside of smaller boards is that they may lack the diversity of skills and perspectives necessary to address complex and multifaceted issues (Ishfaq, Alim, Ghaffar, Khan, Sohail & Din, 2024). A limited number of directors may also struggle to cover all the necessary areas of expertise, potentially leading to gaps in oversight and strategic guidance. Additionally, smaller boards may have fewer opportunities to delegate tasks to specialized committees, which can place a greater burden on the full board and limit the depth of their analysis. Thus, board size, the total number of directors on a company's board, plays a critical role in determining the board's effectiveness (Iyoha, Odu, and Omokhudu, 2024). While larger boards can offer a broader range of expertise and the ability to form specialized committees, they may face challenges related to coordination and accountability. Conversely, smaller boards can be more agile and cohesive but may lack the diversity of skills and perspectives needed for comprehensive governance. Finding the optimal board size requires balancing these trade-offs to ensure effective oversight, decision-making, and strategic guidance (Ali, Aly, Abdelazim, and Metwally, 2024).

Corporate Reserves

Corporate reserves refer to the portion of a company's profits retained within the business for future use, rather than being distributed as dividends to shareholders (Eneh, Onyekwelu and Igweonyia, 2019). These reserves are a crucial component of a company's financial strategy, providing a buffer against economic uncertainties and funding for future growth and development (Lai, Lonare, and Zeng, 2024). Retaining profits within the company allows it to build a financial cushion that can be used to manage risks, invest in new opportunities, and sustain

operations during periods of financial stress (Onowu and Ajah, 2023). Corporate reserves serve several key purposes. Firstly, they provide a source of internal financing that can be used to support capital expenditures, research and development, and other strategic investments (Eneh, Onyekwelu and Igweonyia, 2019). By relying on retained earnings rather than external debt or equity financing, companies can avoid the costs and risks associated with borrowing or issuing new shares. This can lead to greater financial stability and flexibility, allowing the company to pursue growth opportunities without being overly dependent on external funding sources (Offor and Okwo, 2023).

Secondly, corporate reserves act as a financial safety net, helping companies manage unexpected challenges and downturns (Eneh, Onyekwelu and Igweonyia, 2019). Economic recessions, market fluctuations, and unforeseen expenses can significantly impact a company's financial health. Having substantial reserves allows the company to absorb these shocks and continue its operations without resorting to drastic measures such as layoffs, asset sales, or emergency borrowing (Oshim, Nnajeze, and Igwe, 2023). This resilience is particularly important in industries that are prone to cyclical fluctuations or where long-term investments require sustained funding. Furthermore, corporate reserves play a critical role in maintaining investor confidence and enhancing the company's creditworthiness. According to Pibowei, Odong, and Jimoh (2021), a company with healthy reserves is perceived as being more financially stable and capable of meeting its obligations. This can lead to better credit ratings, lower borrowing costs, and increased attractiveness to investors (Pizzini and Sterin, 2023). Shareholders and creditors are more likely to have confidence in a company that demonstrates prudent financial management and the ability to weather economic storms.

However, the management of corporate reserves also requires careful balancing. Retaining too much profit within the company can lead to inefficiencies and missed opportunities for shareholders (Oshim, Nnajeze, and Igwe, 2023). Investors may prefer higher dividend payouts, and excessively large reserves may indicate that the company is not efficiently utilizing its capital. On the other hand, insufficient reserves can leave the company vulnerable to financial distress and limit its ability to invest in future growth (Oshim, Nnajeze, and Igwe, 2023). Therefore, companies must strategically determine the appropriate level of reserves, considering their specific industry, risk profile, and growth objectives (Ugwu, Francica and Onyekwelu, 2021). Therefore, corporate reserves are the portion of a company's profits retained for future use, serving as a critical financial buffer and source of internal financing (Eneh, Onyekwelu and Igweonyia, 2019).

Earnings Retention Rate

Earnings retention rate, often referred to as the plowback ratio, is a financial metric that indicates the proportion of net earnings a company retains and reinvests in the business rather than distributing it as dividends to shareholders (Onowu and Ajah, 2023). According to Akonye, Nwoye, Adeniyi, and Okoye (2022), this metric shows the company's reinvestment strategy and its approach to growth and sustainability. The earnings retention rate is calculated by subtracting the dividend payout ratio from one, or alternatively, by dividing retained earnings by net income. This rate is a crucial indicator of how much profit a company is allocating towards internal development, expansion, and operational stability (Okechukwu, Nwakaego, and Lucy, 2019). A high earnings retention rate suggests that a company is reinvesting a significant portion of its profits back into the business (Akonye, Nwoye, Adeniyi, and Okoye, 2022). This reinvestment can take various forms, such as funding new projects, expanding existing operations, upgrading technology, or strengthening the company's financial position by building reserves. Companies with high retention rates often prioritize long-term growth and value creation over immediate returns to shareholders (Onowu and Ajah, 2023). By reinvesting earnings, these companies aim to enhance their competitive edge, innovate, and capture new market opportunities, which can lead to sustained growth and increased shareholder value over time (Offor and Okwo, 2023). Conversely, a low earnings retention rate indicates that a company is distributing a larger portion of its profits as dividends to shareholders. This approach may appeal to investors seeking regular income from their investments. Companies with low retention rates are often mature businesses with stable cash flows and limited opportunities for high-return investments. By returning profits to shareholders, these companies provide a steady income stream, which can attract income-focused investors and contribute to a stable shareholder base. However, it also means that these companies may have fewer funds available for reinvestment and growth initiatives (Akonye, Nwoye, Adeniyi, and Okoye, 2022).

THEORETICAL FRAMEWORK

Agency Theory

Agency Theory was first articulated by Michael C. Jensen and William H. Meckling in their seminal 1976 paper titled "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." The development of Agency Theory was influenced by earlier economic theories, particularly those related to the behavior of individuals and firms under conditions of uncertainty and incomplete information. The theory integrates concepts from the principal-agent problem, which was initially explored in the context of labor economics and contract theory. Jensen and Meckling extended these ideas to the corporate environment, providing a framework for analyzing the costs associated with delegating decision-making authority to managers who may not always act in the best interests of the shareholders (Panda & Leepsa, 2017). Their work highlighted the need for mechanisms to align the interests of managers with those of the owners, thereby minimizing agency costs and enhancing corporate performance.

Agency Theory centers on the principal-agent problem, which arises due to the separation of ownership and control in a corporation (Moloi, Marwala, Moloi & Marwala, 2020). The theory posits that there is an inherent conflict of interest between principals (shareholders) and agents (managers) (Hansteen and Foldal, 2021). While shareholders aim to maximize their wealth, managers may pursue personal goals such as job security, higher compensation, and prestige, which can lead to suboptimal decision-making from the shareholders' perspective. According to the theory, agency costs are the costs incurred due to the principal-agent conflict. They include monitoring costs borne by the principals to oversee the agents, bonding costs borne by the agents to signal their commitment to act in the principals' best interests, and residual loss, which is the cost of remaining divergence between the principals' and agents' interests even after monitoring and bonding (Hansteen and Foldal, 2021). Agency Theory emphasizes that agents typically have more information about the firm's operations than principals, leading to information asymmetry (Omar, Sell & Rover, 2017). This imbalance can enable managers to act opportunistically, engaging in actions that benefit themselves at the expense of shareholders. To mitigate agency problems, the theory suggests aligning the interests of managers with those of shareholders through incentive mechanisms (McColgan, 2001). These mechanisms include performance-based compensation (e.g., stock options, bonuses), which ties managers' rewards to the firm's financial performance, thereby encouraging them to act in ways that enhance shareholder value. Effective oversight by the board of directors is crucial in reducing agency costs (Hansteen and Foldal, 2021). The board serves as an intermediary between shareholders and managers, monitoring managerial actions and ensuring that they align with shareholders' interests (Enoidem, Akpan, Akininnyi, and Nsentip, 2023). Independent directors, who are not part of the company's management, are particularly important in providing unbiased oversight.

Empirical Review

Apeku, Joshua, and Yahaya (2024) investigated the effect of board characteristics on the earnings quality of listed deposit money banks in Nigeria, using descriptive statistics and multiple regression techniques. They found that board size and board financial expertise had significant effects on earnings quality after moderation with firm size. Similarly, Ahmed and Hussain (2024) examined the influence of board gender diversity on firms' cash holdings in Australia, employing OLS, fixed effects, GMM, difference-in-differences, and propensity score matching, and found that board gender diversity negatively influenced cash holdings, supporting the critical mass theory. Rumokoy, Liu, and Chung (2024) explored the impact of board network centrality on corporate cash holdings through firm fixed-effect regression and instrumental variable approaches, concluding that well-connected boards are associated with smaller cash holdings due to enhanced governance. Ali, Aly, Abdelazim, and Metwally (2024) analyzed the effect of cash holdings and board governance characteristics on the performance of Egyptian listed non-financial companies, using pooled OLS and two-step system GMM estimations, revealing that cash holdings, board size, gender diversity, and meeting frequency positively impacted company performance.

Daddau and Bala (2024) examined the relationship between board characteristics and earnings management in Nigerian banks through multiple regression analysis, showing that board control reduced earnings management

while board independence increased it. Iyoha, Odu, and Omokhudu (2024) studied the relationship between corporate governance and cash holdings among Nigerian non-financial companies using the Generalized Method of Moments (GMM) and quantile techniques, finding that board gender diversity and institutional ownership had significant impacts on cash holdings. Lai, Lonare, and Zeng (2024) investigated CEO conscientiousness and reserve management in U.S. property-liability insurers through conditional distribution analysis and robustness checks, reporting that CEO conscientiousness was negatively associated with extreme reserve errors, particularly post-SOX. Ishfaq et al. (2024) examined the impact of board attributes on accounting conservatism with institutional ownership as a moderator using a random effect model for panel data, finding that board size and independence positively related to accounting conservatism, amplified by institutional ownership.

Hassan, Iskandrani, Yaseen, and AlMaharmeh (2024) studied the influence of board composition on cash hoarding in Jordanian SMEs using multiple regression analysis, noting that board size positively impacted cash hoarding, whereas board independence had a negative effect. Petroski and Yahaya (2024) investigated the effects of board and committee independence on earnings quality via GMM, finding significant effects from both types of independence. Essien and Akpan (2024) examined board diversity and earnings quality in Nigerian banks using OLS regression, showing that board experience diversity and financial expertise had significant negative effects on discretionary loan loss provisions. Shittu and Che-Ahmad (2024) analyzed corporate governance variables and the equity value multiple of Nigerian firms using GMM and principal component analysis, finding that board size, independence, gender diversity, and other governance factors significantly influenced the equity value multiple.

Kabiru, Iliya, and Abdulkadir (2023) assessed board characteristics and earnings management in Nigerian consumer goods companies with OLS regression and robustness tests, concluding that board size and financial expertise negatively impacted earnings management. Offor and Okwo (2023) explored board size and retained earnings in Nigerian banks using multiple regression and covariance analysis, finding positive relationships with total assets, total deposits, and branch numbers, and negative relationships with statutory reserves and board size. Talbi and Menchaoui (2023) examined board attributes and managerial ownership on cash holdings in Saudi Arabia using GMM and quantile regressions, showing that board size, independence, duality, and managerial ownership positively impacted cash holdings, while Shariah compliance negatively moderated the relationship. Onowu and Ajah (2023) investigated corporate governance and earnings management in Nigerian banks via regression, identifying significant relationships between bank size and discretionary loan loss provisions but not for audit or risk management committee independence.

Adeniji (2023) explored the connection between earnings retention policy and financial performance of Nigerian manufacturing firms through descriptive survey research design and random effect estimations, finding a positive relationship between retention policy, corporate governance, and firm performance. Amasiatu, Okoye, and Adeniyi (2023) assessed corporate attributes on earnings management of non-financial firms using multiple regression with SPSS, showing that company age and size significantly affected earnings management. Arianpoor and Mehrfard (2023) analyzed managerial attributes' impact on cash holding and investment efficiency in Tehran Stock Exchange companies using panel data analysis, finding managerial attributes significantly affected investment efficiency, mediated by cash holding. Athari (2023) investigated firm- and country-level governance settings on Asian firms' cash holdings through panel data approaches, reporting that strong governance mechanisms reduced cash holdings, especially in robust legal systems.

Bala, Daddau, Umar, Miko, and Mazadu (2023) studied board attributes and earnings management in Nigerian banks using multiple linear regression, showing that board audit significantly reduced earnings management tendencies. Bamanga, Alhassan, and Tirimisiyu (2023) examined board effectiveness on earnings conservatism in Nigerian consumer goods companies via robust generalized least squares, finding positive correlations with board independence and size. Bona-Sánchez, Elistratova, and Pérez-Alemán (2023) explored female directors' impact on corporate cash holdings in Spanish firms using panel data regressions, showing that two or more female directors decreased cash holdings, with independent female directors effective in monitoring financial policies. Enoidem, Akpan, Akininnyi, and Nsentip (2023) assessed board monitoring mechanisms on earnings management in Nigerian non-financial firms via ex-post facto research and OLS regression, reporting that board size, independence, and gender diversity significantly reduced earnings management.

Oshim, Nnajeze, and Igwe (2023) evaluated firm size effects on agricultural firms' revenue reserves using multiple regression, showing positive impacts of turnover and employee numbers on retained earnings, while total assets had a non-significant negative effect. Pizzini and Sterin (2023) investigated corporate governance mechanisms and nonprofit managers' ability to build cash reserves through regression analysis, finding positive associations with board size, independence, and monitoring activities, while excessive cash holdings negatively affected future donations. Yang and Xue (2023) examined board diversity and the marginal value of corporate cash holdings in Chinese companies using panel data analysis, showing that greater diversity increased cash value, moderated by independence, property rights, and environmental dynamism. Akonye, Nwoye, Adeniyi, and Okoye (2022) evaluated earnings generation and retention capacities on Nigerian banks' financial performance via panel regression, finding significant positive effects.

Bandara and Herath (2022) analyzed female directors' impact on earnings quality in a developing country using panel data and the modified Johns model, showing that characteristics like busyness and professional expertise influenced earnings management, though the percentage of female directors and audit committee membership did not. Chiedu, Anichebe, and Emeka-Nwokeji (2022) investigated board structure and accounting conservatism in Nigerian firms via panel regression using RE and FE models, finding that board size affected conservatism indicators, independence influenced all measures, and gender diversity impacted accrual-based indicators.

Doku, Ametorwobla, Boadi, and Adzoh (2022) examined corporate governance attributes, firm-specific characteristics, and financing decisions in Ghana using multivariate regression with Prais-Winsten and PCSEs. They found that larger boards and female representation significantly influenced financing decisions, favoring more debt, supporting the Pecking Order Theory and emphasizing the need for governance and gender diversity policies. Kangea, Nasieku, and Muturi (2022) analyzed board size and earnings quality in NSE-listed non-financial firms through panel regression, finding that board size significantly affects earnings quality, with ownership concentration enhancing the model's effectiveness. Nasrin (2022) investigated board diversity on firm stability using Altman Z-score and linear regression on six-year panel data, showing that larger boards negatively impact stability, while diversity and independence improve it. Obinna and Yobo (2022) assessed retained earnings' impact on Nigerian commercial banks' financial performance via regression analysis, reporting positive effects and recommending balanced debt-to-asset ratios and equity finance. Ogaluzor and Chukwu (2022) studied gender diversity and earnings quality in Nigerian insurance companies using panel data, finding positive relationships with accrual quality and earnings persistence, suggesting policies to enhance diversity.

Oganda, Museve, and Mogwambo (2022) analyzed retained earnings financing and financial performance of Kenyan manufacturing firms using dynamic unbalanced panel analysis, showing moderate positive correlations with Tobin's Q and strong correlations with Ln EVA, highlighting retained earnings' role in improving performance. Pant and Nidugala (2022) estimated banks' value-added efficiency in relation to board characteristics using Prais-Winsten regression, finding that board meetings and CEO-Chairman duality positively influence efficiency through resources, whereas board independence negatively affects efficiency via physical capital, recommending governance improvements. Wan Ismail, Kamarudin, Gupta, and Harymawan (2022) explored board gender diversity and corporate cash holdings with investor protection as a moderator, using various regression techniques, reporting that high diversity and investor protection correlate with lower cash holdings, with weaker effects in highly protected environments. Hansteen and Foldal (2021) examined agency costs and abnormal stock returns during M&A announcements via event study analysis, showing concentrated ownership positively correlates with abnormal returns, suggesting the importance of managing ownership concentration. Oyebamiji (2021) evaluated board attributes and earnings quality in Nigerian financial firms using pooled OLS, fixed and random effect estimations, finding that board independence improves earnings quality, while board size negatively affects it.

Pibowei, Odong, and Jimoh (2021) investigated retained earnings' effect on Nigerian breweries' financial performance during crises using OLS, ANOVA, F-test, and T-test statistics, finding no significant relationship, and recommending strategies to minimize losses and optimize capital structure. Ugwu, Francica, and Onyekwelu (2021) appraised retained earnings' effects on Nigerian oil and gas firms' operational performance via simple

linear regression, finding positive but mostly insignificant effects, except for a significant ROE impact at Mobil Nigeria Plc. Olaoeye and Adewuni (2020) studied corporate governance and earnings quality in Nigerian firms through panel regression, concluding that board size, independence, and gender diversity significantly affect earnings quality, recommending governance evaluation and optimal diversity. Oketah and Ekweronu (2020) examined determinants of retained earnings in Nigerian manufacturing firms via panel data regression, reporting inverse relationships with ROA for retention ratios, and positive effects from dividend payout ratios and net profit margins.

Adamu, Ishak, and Hassan (2019) explored gender diversity and financial expertise on dividend payouts in non-financial Nigerian firms using pooled logistic regression, finding significant effects on cash dividend likelihood. Atif, Liu, and Huang (2019) examined board gender diversity on corporate cash reserves in US S&P 1500 firms through various econometric approaches, reporting negative effects, with strong impacts from independent female directors. Eneh, Onyekwelu, and Igweonyia (2019) evaluated corporate reserves' effect on financial performance of Nigerian oil and gas firms using descriptive statistics and regression models, finding no significant effects from depreciation provision, amortization funds, employee benefits, or ROE. Okechukwu, Nwakaego, and Lucy (2019) appraised growth indicators' relevance on foreign firms' retention policy in Nigeria through multiple linear regression, finding positive effects from turnover and ROE, with interest and inflation rates showing positive but insignificant effects. Ozordi, Adetula, Eluyela, Aina, and Ogabi (2019) assessed corporate governance tools on cash reserve decisions in Nigerian manufacturing firms using panel regression, showing significant effects from board ownership and foreign expatriates.

Rubunda, Namusonge, and Oluoch (2019) examined retained earnings and equity finance structure on Rwandan SMEs' growth using multiple regression, finding positive effects from equity finance, while retained earnings were insignificant. Yemi and Seriki (2018) explored retained earnings' effects on Nigerian listed firms' market value through descriptive and multiple regression, finding positive effects from retained earnings, EPS, dividend payout, and leverage. Iheduru and Okoro (2018) examined external factors on retained earnings in Nigerian manufacturing firms using OLS, finding positive impacts from oil price and inflation rate, with negative effects from exchange rate, interest rate, and money supply on dividend payout. Gull, Nekhili, Nagati, and Chtioui (2018) studied female directors' attributes on earnings management using system GMM, showing that female directors deter earnings management, with business expertise and audit committee roles promoting monitoring. Emmanuel and Salisu (2018) examined corporate governance on accounting conservatism in Nigerian foods and beverages firms using regression, finding board independence positively affects conservatism, board size negatively, and audit committee independence positively but insignificantly.

Pahi and Yadav (2018) investigated corporate governance structure and dividend policy in Indian firms using Tobit and Logit models, showing that non-executive directors negatively impact dividend payout, while board size positively influences it. Ullah and Kamal (2017) examined board characteristics and cash holdings in Pakistan through regression analysis, finding board size and independence positively affect cash reserves. Cyril, Asiegbu, and Chioma (2017) studied financial indicators' effect on retained earnings of Nigerian food and beverage firms using correlation and regression analyses, finding significant impacts from profit after tax, total assets, EPS, and dividends per share. Ajanthan and Kumara (2017) assessed corporate governance practices on Sri Lankan listed companies' cash reserves via multiple regression, finding board size and gender diversity negatively influence cash holdings, while independent chair positively influences reserves. Inyama and Ugwuanyi (2015) analyzed firm size effects on Nigerian banking sector retained earnings using a 2-step cointegration and error correction model, finding short-term positive but insignificant effects and long-term positive significant effects. Boubaker, Derouiche, and Nguyen (2015) examined corporate governance in French firms' cash reserve accumulation through regression analysis, showing that effective boards accumulate fewer reserves and two-tier boards mitigate agency costs.

MATERIAL AND METHOD

This study employed an *ex-post facto* research design to investigate the effect of board characteristics on the corporate reserves of listed service firms in Nigeria. The *ex-post facto* design is appropriate for this study because

it allows for the analysis of existing data without manipulating the variables (Ikwor et al., 2025; Ukoh et al., 2025; Muomaife et al., 2025). By examining historical data from financial statements and other relevant records, the study can identify patterns and relationships that inform how board characteristics influence the corporate reserve of service firms. The population of the study was made up of twenty-two (22) listed service firms in Nigeria. Table 1 shows the study population.

Table 1 Population

1. Academy Press Plc.
2. Afromedia Plc
3. Associated Bus Company Plc
4. C & I Leasing Plc.
5. Caverton Offshore Support Grp Plc
6. Daar Communications Plc
7. Eunisell Interlinked Plc
8. Ikeja Hotel Plc
9. Juli Plc.
10. Learn Africa Plc
11. Medview Airline Plc
12. Nigerian Aviation Handling Company Plc
13. R T Briscoe Plc.
14. Red Star Express Plc
15. Secure Electronic Technology Plc
16. Skyway Aviation Handling Company Plc
17. Tantalizers Plc
18. The Initiates Plc
19. Tourist Company Of Nigeria Plc.
20. Transcorp Hotels Plc
21. Trans-Nationwide Express Plc.
22. University Press Plc.

Source: Nigerian Exchange Group (2024)

The Initiates Plc and Skyway Aviation Handling Company Plc were removed from the sample since they were listed in 2016 and 2019 respectively. A purposive sampling technique was employed to select a sample from the population of listed service firms. Six other firms were yet to publish their 2024 annual reports as at the time this report was being drafted. The sample consists of 16 service firms, chosen based on the criteria that these firms have been listed on the Nigerian Exchange Group for the period between 2014 and 2024. The selection process excluded firms that do not have full data coverage for the entire study period, particularly those whose 2014 financial data is missing. This exclusion is necessary to ensure consistency and reliability in the data analysis. Table 2 shows the sample size of the study.

Table 2 Sample Size

1. Academy Press Plc.
2. Associated Bus Company Plc
3. C & I Leasing Plc.
4. Caverton Offshore Support Grp Plc
5. Daar Communications Plc
6. Eunisell Interlinked Plc
7. Ikeja Hotel Plc
8. Learn Africa Plc
9. Nigerian Aviation Handling Company Plc
10. R T Briscoe Plc.
11. Red Star Express Plc
12. Secure Electronic Technology Plc
13. Tantalizers Plc
14. Trans-Nationwide Express Plc.
15. Transcorp Hotels
16. University Press Plc.

Source: Nigerian Exchange Group (2025)

Data for this study were collected from the annual reports of the sample firms over an eleven-year period, from 2014 to 2024. These reports provides comprehensive information on board characteristics, including size, independence, diversity, and diligence as well as detailed financial data on corporate reserves. By using secondary data from publicly available annual reports, the study ensures the accuracy and reliability of the information, allowing for a thorough analysis of the effect of board characteristics on the corporate reserves of listed service firms in Nigeria.

The study conducted descriptive tests to summarize and describe the main features of the collected data, providing a clear understanding of the board characteristics and corporate reserves of the sample firms. Additionally, panel data regression was used to test the hypotheses. Panel data regression is suitable for this study because it allows for the analysis of data across both time and individual firms, thereby accounting for unobserved heterogeneity. This method increases the accuracy of the results by controlling for variables that vary across firms but remain constant over time and vice versa, thus providing more robust and reliable perspectives into the effect of board characteristics on corporate reserves.

The operational measurement of the variable is shown in Table 3 below.

Table 3 Measurement of Variables

Variable	Type	Acronym	Measurement	Source
Earnings retention rate	Dependent	ERR	Retained earnings/Earnings After Tax	Adeniji (2023)

Board gender diversity	Independent	BGD	Female directors/Total Number of Board Members	Ahmed and Hussain (2024)
Board size	Independent	BSZ	Total Number of Board Members	Apeku, Joshua, and Yahaya (2024)
Board independence	Independent	BIN	Non-executive directors/Total Number of Board Members	Ishfaq, Alim, Ghaffar, Khan, Sohail, and Din (2024)
Board diligence	Independent	BDI	Number of board meetings	Ali, Aly, Abdelazim, and Metwally (2024)

Source: Researcher's Compilation (2024)

To examine the association between board characteristics and corporate reserve, the study adopted the model by Offor and Okwo (2023) whose model is reproduced below:

$$\text{Log(RETEARN)}_{it} = \beta_0 + \beta_1 \text{Log(TA)}_t + \beta_2 \text{Log(TDP)}_t + \beta_3 \text{log(STRV)}_t + \beta_4 \text{log(NOBS)}_t + \beta_5 \text{log(BSIZE)}_t + \epsilon_t \text{ --- [Equation (1)]}$$

Where;

RETEARN = Retained Earnings

TA = Total Assets

Log = Log Transformation

TDP = Total Deposits

STRV = Statutory Reserve

NOB = Number of Branches

BSIZE = Board Size

ϵ = Stochastic disturbance (Error) Term

β_0 = Coefficient (constant) to be estimated

$\beta_1 - \beta_5$ = Parameters of the independent variables to be estimated

t = Current period

The above model was modified to arrive at the model below:

$$\text{ERR}_{it} = \alpha_0 + \beta_1(\text{BGD})_{it} + \beta_2(\text{BDIL})_{it} + \beta_3(\text{BIN})_{it} + \beta_4(\text{BSZ})_{it} + \epsilon_{it} \text{eqn (2)}$$

Where,

ERR_{it} = Earnings retention rate *i* in period *t*

BGD_{it} = Board gender diversity for firm *i* in period *t*

BDIL_{it} = Board diligence for firm *i* in period *t*

BIN_{it} = Board independence for firm *i* in period *t*

BSZ_{it} = Board size for firm i in period t

α_0 = Constant

ε = Error Term

β_{1-4} = Coefficients of the Independent Variables

The decision rule in this study provides the criteria for accepting or rejecting the null hypothesis. The criterion is based on a 5% level of significance, which means that if the p-value in the result is greater than 0.05, the null hypothesis is accepted. In opposition, if the p-value is less than 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted.

RESULT AND DISCUSSION

Descriptive Analysis

Table 4 Descriptive Analysis

	ERR	BGD	BDIL	BIN	BSZ
Mean	4.558194	0.148528	4.664773	0.765978	9.073864
Median	3.314499	0.125000	4.000000	0.750000	9.000000
Maximum	415.9982	0.500000	10.00000	0.923077	14.00000
Minimum	-138.0520	0.000000	3.000000	0.285714	5.000000
Std. Dev.	40.17795	0.117266	1.367420	0.104137	1.985720
Skewness	5.795607	0.849419	1.440486	-0.562780	0.648470
Kurtosis	65.31054	3.707091	4.993567	3.912293	2.913637
Jarque-Bera	29457.70	24.83087	90.01165	15.39385	12.38976
Probability	0.000000	0.000004	0.000000	0.000454	0.002040
Sum	802.2422	26.14094	821.0000	134.8121	1597.000
Sum Sq. Dev.	282496.8	2.406490	327.2216	1.897798	690.0398
Observations	176	176	176	176	176

Source: Eviews 10 Output (2025)

From Table 4, the average earnings retention rate (ERR) of the listed service firms is 4.56, suggesting that, on average, firms retain a small portion of their post-tax earnings. However, the wide range between the maximum value of 415.99 and the minimum of -138.05 points to significant variability across firms and years. The high standard deviation of 40.18 confirms this dispersion. The extreme positive skewness (5.80) and very high kurtosis (65.31) indicate the presence of outliers and a highly peaked distribution, where a few firms retained either extremely high or extremely low profits. The Jarque-Bera probability of 0.0000 shows that ERR is not normally distributed. These findings imply that while most firms retained modest earnings, a few had unusually high or low retention figures, possibly due to firm-specific financial strategies or industry shocks during the 2014–2024 period.

Board gender diversity (BGD) has a mean of 0.15, suggesting that only about 15% of board members are women, on average, in the sampled firms. The median value is 0.125, which is close to the mean, indicating a generally low and consistent level of female representation across firms. The highest value observed is 0.50, meaning no

firm had a female-majority board. The minimum value of 0.00 confirms that some boards had no female members at all. The standard deviation of 0.12 reflects low variability, while the positive skewness of 0.85 shows a slight concentration of firms toward lower diversity values. Kurtosis of 3.71, which is slightly above normal, along with the Jarque-Bera probability of 0.000004, confirms the data is not normally distributed. This suggests that board gender diversity remains limited in the Nigerian service sector during the study period.

Board diligence (BDIL), measured by the number of board meetings, has an average of 4.66 meetings per year, with a median of 4, indicating that most firms held between four and five board meetings annually. The range stretches from a minimum of 3 to a maximum of 10 meetings, showing that some boards were significantly more active than others. The standard deviation of 1.37 implies moderate variation in meeting frequency. The skewness of 1.44 indicates a rightward tilt in the data, meaning a small number of firms held substantially more meetings than the average. A kurtosis value of 4.99 suggests a more peaked distribution than normal, and the Jarque-Bera probability of 0.000000 confirms non-normality. These statistics reflect that while many firms had regular board meetings, a few were especially diligent, possibly in response to strategic or regulatory pressures.

Board independence (BIN), which captures the proportion of non-executive directors, has a mean value of 0.77, suggesting that boards are largely independent, with about 77% of members being non-executive. The median of 0.75 supports this observation. The minimum value of 0.29 indicates that some boards had relatively low independence, while the maximum of 0.92 suggests others were almost fully non-executive. The standard deviation is relatively low at 0.10, showing little variation across firms. Interestingly, the skewness is -0.56, indicating a slight concentration of values above the mean, and the kurtosis of 3.91 suggests a distribution that is more peaked than normal. The Jarque-Bera probability of 0.000454 shows that the variable is not normally distributed. These results imply that although board independence is generally high across the sampled firms, there are still some with noticeably less independent structures.

Board size (BSZ) has an average of approximately 9 members, with a median of 9, indicating that most boards fall around this central value. The smallest board in the sample had 5 members, while the largest had 14, reflecting some variation in board composition. A standard deviation of 1.99 suggests mild differences in board sizes across firms. The skewness of 0.65 reveals a slight tilt toward larger board sizes, and the kurtosis of 2.91 is close to the normal distribution benchmark of 3. However, the Jarque-Bera probability of 0.002040 indicates that the distribution still deviates from normality.

Test of Hypotheses

Table 5 Hypotheses Testing

Dependent Variable: ERR				
Method: Panel EGLS (Cross-section weights)				
Date: 05/25/25 Time: 14:14				
Sample: 2014 2024				
Periods included: 11				
Cross-sections included: 16				
Total panel (balanced) observations: 176				
Linear estimation after one-step weighting matrix				
White cross-section standard errors & covariance (d.f. corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BGD	35.50089	10.92378	3.249871	0.0014
BDIL	1.435376	0.590895	2.429156	0.0162
BIN	-0.026416	6.130072	-0.004309	0.9966

BSZ	-0.117452	0.584866	-0.200819	0.8411
C	-5.624107	7.190684	-0.782138	0.4352
Weighted Statistics				
R-squared	0.067202	Mean dependent var		8.020298
Adjusted R-squared	0.045382	S.D. dependent var		38.90913
S.E. of regression	37.45594	Sum squared resid		239904.0
F-statistic	3.079842	Durbin-Watson stat		1.732694
Prob(F-statistic)	0.017615			

Source: Eviews 10 Output (2025)

The regression results in Table 5 presents the model validity, then followed by each hypothesis with thorough explanation of the marginal effects, and statistical significance. The model validity statistics presented in Table 5 indicate that the regression model is statistically fit to explain the effect of board characteristics on the earnings retention rate (ERR) of listed service firms in Nigeria. The F-statistic probability is 0.0176, which is statistically significant at the 5% level. This shows that, jointly, the explanatory variables (BGD, BDIL, BIN, and BSZ) significantly affect the dependent variable (ERR). Although the Adjusted R-squared is 0.0454, indicating that about 4.54% of the variation in earnings retention rate is explained by the board characteristics, this is acceptable given the panel nature of the data and the complex interplay of corporate governance variables. Additionally, the Durbin-Watson statistic of 1.733 suggests no strong presence of autocorrelation in the model residuals, implying the reliability of the regression estimates.

The constant term in Table 5 is -5.6241 with a p-value of 0.4352, which is not statistically significant. This means that when all the board characteristics are held at zero, the earnings retention rate is expected to be -5.62 units on average. However, because the constant is not significant at the 5% level, it does not have meaningful interpretive value in this model. It simply serves as a baseline value, and the focus should remain on the effects of the independent variables.

Test of Hypothesis I

H01: Board gender diversity has no significant effect on the earnings retention rate of listed service firms in Nigeria.

The coefficient of Board Gender Diversity (BGD) is 35.5009 with a p-value of 0.0014, which is statistically significant at the 5% level. This means that for every unit increase in the proportion of female directors on the board, the earnings retention rate increases by approximately 35.5 units, holding all other variables constant. The effect is both positive and significant, showing that greater gender diversity on boards has a strong and meaningful influence on a firm's decision to retain earnings. This supports the alternative hypothesis that board gender diversity has a significant effect on the earnings retention rate of listed service firms in Nigeria. Therefore, Board gender diversity has a positive and significant effect on earnings retention rate among listed service firms in Nigeria ($\beta = 35.5009$; $p = 0.0014$).

Test of Hypothesis II

H02: Board diligence has no significant effect on the earnings retention rate of listed service firms in Nigeria.

The coefficient of Board Diligence (BDIL) is 1.4354 with a p-value of 0.0162, which is statistically significant at the 5% level. This means that an increase in the number of board meetings (a proxy for diligence) leads to a 1.44 unit increase in earnings retention rate, ceteris paribus. Although the marginal effect is smaller compared to gender diversity, the result is significant and positive. It indicates that more frequent board meetings lead to more prudent or internally focused financial decisions, such as retaining a greater portion of earnings. Thus,

Board diligence has a positive and significant effect on earnings retention rate among listed service firms in Nigeria ($\beta = 1.4354$; $p = 0.0162$).

Test of Hypothesis III

H03: Board independence has no significant effect on the earnings retention rate of listed service firms in Nigeria.

The coefficient of Board Independence (BIN) is -0.0264 with a p-value of 0.9966 , which is far above the 5% significance level. This implies that the effect of increasing the proportion of non-executive directors on the earnings retention rate is negligible and statistically insignificant. The negative sign suggests a decrease in ERR as independence increases, but the magnitude is close to zero and not meaningful. Hence, the result fails to support the alternative hypothesis. We accept the null hypothesis since the p-value is greater than 0.05 . Thus, Board independence has a negative but non-significant effect on earnings retention rate among listed service firms in Nigeria ($\beta = -0.0264$; $p = 0.9966$).

Test of Hypothesis IV

H04: Board size has no significant effect on the earnings retention rate of listed service firms in Nigeria.

The coefficient of Board Size (BSZ) is -0.1175 with a p-value of 0.8411 , which is also statistically insignificant at the 5% level. This shows that increasing the number of directors on the board slightly reduces the earnings retention rate, but the effect is neither strong nor meaningful. The marginal effect is minimal (a reduction of 0.12 units per additional board member), and the high p-value indicates no significant effect. Hence, the null hypothesis is accepted that Board size has a negative and insignificant effect on earnings retention rate among listed service firms in Nigeria ($\beta = -0.1175$; $p = 0.8411$).

DISCUSSION OF FINDINGS

The positive and significant effect of board gender diversity on the earnings retention rate (ERR) implies that greater female representation on corporate boards enhances the firm's capacity or inclination to retain profits. This may be attributed to the unique perspectives, risk aversion tendencies, and stakeholder-centric decision-making styles often associated with female directors. Such directors may prioritize long-term sustainability and financial prudence, encouraging reinvestment of profits instead of excessive distribution as dividends. Additionally, gender-diverse boards may signal better governance quality and responsiveness to stakeholder concerns, which enhances investor confidence and leads to more conservative financial practices like earnings retention. This finding aligns with several empirical studies. For instance, Ali et al. (2024) found that gender diversity positively impacted firm performance, supporting the idea that diverse boards may favor earnings retention to fuel growth. Iyoha, Odu, and Omokhudu (2024) also reported a significant impact of board gender diversity on cash holdings, suggesting that gender-diverse boards influence liquidity and reserve-related decisions. Similarly, Ogaluzor and Chukwu (2022) highlighted gender diversity's positive effect on accrual quality and earnings persistence. In contrast, Ahmed and Hussain (2024) found a negative effect of gender diversity on cash holdings, aligning with critical mass theory, while Atif, Liu, and Huang (2019) similarly reported a negative impact on cash holdings, suggesting some board gender compositions may not favor retention under all conditions.

The positive and significant effect of board diligence on ERR suggests that frequent board meetings or proactive oversight by directors strengthens firms' governance and financial stewardship, encouraging retained earnings. Active boards are more likely to scrutinize managerial proposals, reinforce internal controls, and promote accountability in capital allocation decisions. This can translate into better cash flow management and strategic planning, which favors the accumulation of reserves rather than premature distributions or unproductive reinvestments. This result is supported by Adeniji (2023), who found a significant positive relationship between corporate governance (including board diligence) and firm performance, which likely extends to conservative financial behavior such as earnings retention. Olaoeye and Adewuni (2020) also emphasized that gender diversity,

independence, and diligence significantly influence earnings quality, reinforcing the role of board engagement. Furthermore, Bandara and Herath (2022) noted that board activity positively impacts earnings management mitigation. Ali et al. (2024) also corroborated this effect by showing that meeting frequency (a proxy for diligence) enhances company performance. However, Pant and Nidugala (2022) pointed out that the impact of board meetings varies depending on the CEO-chairman duality, hinting at the contextual limits of board diligence.

The negative but non-significant effect of board independence on ERR suggests that while independent directors may offer external oversight, their presence does not significantly alter the firm's approach to profit retention among listed service firms in Nigeria. This may occur because independent directors, although meant to strengthen governance, might be constrained by limited firm-specific knowledge or could be symbolic appointments lacking decision-making influence. Moreover, in the Nigerian corporate context, independent directors may not possess the institutional power or incentive to advocate for more conservative financial strategies like earnings retention. This finding is consistent with studies such as Bala et al. (2023), who found that board independence did not significantly reduce earnings management, implying limited practical influence. Petroski and Yahaya (2024) noted a significant effect on earnings quality, suggesting independence may matter more for reporting quality than reserve accumulation. In contrast, Ishfaq et al. (2024) and Bamanga et al. (2023) found that board independence positively relates to accounting conservatism and earnings conservatism respectively, contradicting this study's result. Similarly, Emmanuel and Salisu (2018) reported a positive effect on accounting conservatism, while Pant and Nidugala (2022) observed that independence negatively influences efficiency, possibly reflecting constraints similar to those affecting ERR in this study.

The negative and non-significant effect of board size on ERR indicates that larger boards may not effectively influence earnings retention decisions. This could result from coordination difficulties, diluted accountability, or slower decision-making processes common in large boards. As the board grows in size, the effectiveness of collective governance might weaken, especially if some members are passive or symbolic. Larger boards may also be more inclined to favor short-term gains like dividend payouts to appease diverse stakeholder interests rather than support long-term retention strategies. This finding is echoed by Kabiru et al. (2023), who found board size negatively affected earnings management, and Nasrin (2022), who reported a negative impact of board size on firm stability. Offor and Okwo (2023) similarly found board size negatively influenced retained earnings, while Oyebamiji (2021) concluded that board size detracts from earnings quality. These align with the current study's conclusion. Conversely, Pizzini and Sterin (2023) and Hassan et al. (2024) found positive associations between board size and cash reserves, while Talbi and Menchaoui (2023) argued board size supports cash holding practices. These discrepancies suggest that the effect of board size may be context-dependent, varying with firm type, governance practices, and national regulatory frameworks.

CONCLUSION AND RECOMMENDATION

The study's findings suggest that the composition and behavior of the board can shape the firm's approach to earnings retention, which is a critical aspect of corporate financial strategy. Earnings retention contributes directly to the buildup of corporate reserves, which firms rely on for reinvestment, debt servicing, and resilience during economic downturns. The evidence that certain board attributes drive this behavior reinforces the idea that governance mechanisms are not merely formalities but active levers in strategic financial outcomes. Furthermore, the mixed significance of the board variables underlines the complexity of governance effectiveness in practice. It suggests that not all commonly promoted governance features exert uniform influence across all contexts. Structural elements like board independence and size, while often emphasized in governance codes, do not automatically lead to better financial outcomes if the underlying roles are not functionally impactful or tailored to the local business environment. This points to a disconnect that can exist between governance frameworks and real-world firm behavior, especially in emerging markets where cultural, regulatory, and operational dynamics differ from those in more mature economies.

Lastly, the results imply a broader shift in what constitutes effective board performance—from traditional metrics like presence or formal independence to more dynamic qualities such as engagement, diversity of

thought, and the board's actual involvement in oversight and strategy. This redefines effectiveness not by how the board is structured on paper, but by how actively it shapes corporate decision-making. In conclusion, while traits such as gender inclusiveness and diligence appear to strengthen internal capital accumulation, the non-significant outcomes associated with board size and independence suggest that formal structures alone are not sufficient.

In line with the findings of the study, the study recommends that:

1. Listed service firms in Nigeria need to institutionalize gender-inclusive board policies by setting internal targets or quotas for female representation. In addition, companies should focus on recruiting competent and experienced female professionals, not just for compliance, but to strategically improve long-term financial sustainability through prudent profit retention.
2. Boards of listed service firms need to increase the regularity and strategic quality of meetings. Beyond statutory requirements, firms should adopt a governance policy that mandates quarterly or bi-monthly board meetings focused on financial oversight, risk management, and reinvestment planning.
3. Listed service firms are advised to redefine the selection and empowerment process for independent directors, ensuring they are truly autonomous, financially literate, and experienced in financial governance. Boards should create separate audit and risk committees chaired by independent directors, giving them more control over earnings retention decisions.
4. Directors of service firms need to optimize board composition by limiting size to an efficient range—ideally between 7 and 11 members—while ensuring a mix of skills, diversity, and functional expertise. Oversized boards can lead to slower decision-making and diluted accountability.

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