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The Impact of Board Characteristics on Corporate Performance: A Case of Unilever PLC

Tingjuan Wang

University of Leeds, Leeds, UK.

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***Corresponding author:** Tingjuan Wang, University of Leeds, Leeds, UK.

Abstract

Objective: This research is conducted to examine the association between board characteristics and firm's performance for Unilever PLC. **Methodology:** This is a quantitative descriptive and analytical research in which annual reports of Unilever PLC was retrieved for the last 10 years from 2013-2022. The data on board characteristic and firm performance including (board size, number of independent directors, number of non-executive directors, gender diversity, CEO Duality, Return on Assets (ROA) and Return on Equity (ROE) are collected. The data is entered into SPSS and descriptive, correlational and regression analysis was performed to assess the relationship. **Findings:** Empirical findings revealed no significant association between any of the board characteristics and firm performance for Unilever PLC. The firm never had a CEO duality and there is a clear separation of roles. Moreover, the firm maintained at least one independent director in the last 10 years. The Return on Assets and Return on Equity was found to be a mean of 87.70% and 43.55% respectively. The overall performance of Unilever PLC remained optimal in the last 10 years. However, the board characteristics were not significantly associated to the performance (ROA and ROE). **Limitations:** There is a major limitation in this research and that is of the limited amount of data. We only assessed the data of last 10 years and that could have underestimated the association between board characteristics on corporate performance of Unilever PLC. **Originality:** The paper is a right step to add to the literature on corporate performance in the UK. Further research is needed with larger sample size and including more than one corporates to determine the impact of board characteristics on corporate performance.

Keywords

Board characteristics, Unilever PLC, Corporate performance, UK, Return on Assets, Return on Equity

1. Introduction

Corporate governance has become a growing public concern due to corporate fraud, misconduct, negligence and massive loss of shareholder wealth (Hsu & Wu, 2014). This is because corporate governance has a significant impact on the economy. After all, it helps the corporate's performance by minimising the risk of investment to ensure the return to investors (Shleifer & Vishny, 1997). At the same time, the board of directors is an essential part of it and plays a fundamental role in strengthening corporate governance. This is because it influences the quality of directors' deliberations and decisions, the ability of directors to control top management and the ability of directors to provide strategic direction and performance (Pearce & Zahra, 1992).

As a multinational corporation, the Unilever PLC board acts as a fiduciary, making decisions on behalf of shareholders, driving the corporate forward, and defining unified management. The board of directors has drawn attention as part of the corporate governance mechanism in recent years. Since the board acts in a supervisory role, its characteristics also profoundly affect the ability to supervise. This paper uses Unilever PLC as a case study; Unilever PLC is engaged in manufacturing and selling consumer goods and is the third-largest consumer company globally.

With the increasing complexity of today's business operations, the importance of studying the characteristics of the board of directors to provide governance ideas for corporate performance has piqued my interest. Particularly in the wake of Enron, many criticised boards for acting in their own best interests rather than the corporate's interests. This study will focus on the positive role of board characteristics to clarify this view. This study examines the impact of board characteristics on corporate performance, including analysing board size and gender diversity and incorporating return on equity to achieve this goal. The study results will contribute to corporate governance and thus provide a new way of thinking about improving corporate performance.

2. Literature Review

2.1 Effect of Board Size on Firm’s Performance

The board of directors is a crucial component of the governance structure of large corporate (Fama & Jensen, 1983). This shows the positive role played by the board of directors on corporate performance (Coles, McWilliams & Sen, 2001). Lange and Sahu, in their study of Nifty-listed Indian companies, found that firm size (measuring size) has a negligible effect on board size (2018). However, there are still studies that suggest that larger boards can improve the efficiency of the decision-making process due to transparent decision-making mechanisms (Bhimani, 2019); as large board members with diverse and diverse professional backgrounds can use expertise and skills to help companies improve their performance (Pearce & Zahra, 1992). Conversely, Jensen argues against the idea that a larger board size reduces the ability of the board to resist CEO control (1993). This is because larger groups require more effort to reach a consensus and make more minor extreme decisions than smaller groups (Sah & Stiglitz, 1986). Also, some studies have shown that investors react negatively to large-scale investments (Horváth & Spirollari, 2012). Furthermore, in agency theory, larger boards increase the difficulty of coordination and communication and higher agency costs (Cheng, 2008).

H1: Board size is negatively related to corporate performance

2.2 Effect of Gender Diversity in Board on Firm’s Performance

The issue of board gender diversity has become increasingly important in recent decades (Adams & Ferreira, 2008). Diverse boards are cited as a driver of change (Triana, Miller, & Trzebiatowski, 2014). Female directors can influence strategic decisions (Miller & del Carmen Triana, 2009) since women have people-centred leadership skills (empathy, communication) that are better suited for business (Offermann & Foley, 2020). It is argued that the diversity of company directors can match the diversity of their potential customers and employees due to the intrinsic value drive of women and that more diversity helps to understand consumer preferences better and thus improve performance (Campbell & Minguez Vera, 2009). However, there is some evidence that this is not the case (Pucheta-Martínez, Bel-Oms, & Olcina-Sempere, 2016), so when diversity increases, board conflicts may arise and undermine board efficiency (Darmadi, 2010), and thus corporate performance is worse (Ahern & Dittmar, 2012). Therefore, workplace diversity is a double-edged sword (Milliken & Martins, 1996). In conclusion, the available empirical evidence remains ambiguous and yields conflicting results on the relationship between board diversity and corporate performance.

H2: Gender diversity on the board of directors is positively related to corporate performance.

2.3 Effect of CEO Duality on Firm’s Performance

In the last few years, there has been ambiguity regarding the role duality of the CEO as a chair of the board. The agency theory postulates the importance of role separation to develop an efficient system of checks and balances within an organization. One research has also suggested that role separation is vital for better performance as compared to role duality (Ramdani & Witteloostuijn, 2010). In another research, it was reported that role separation results in lower CEO turnover and enhances the performance of a firm (Li, 2018). Likewise, a researcher revealed that role separation results in the positive performance of the firm (Sanda, Mikailu, & Garba, 2010). Similarly, role duality results in the worst performance of firms as compared to firms with role separation (Haniffa & Hudaib, 2006). This literature evidence favours the separation of roles to enhance the firm’s performance.

H3: CEO Duality is negatively correlated with the firm’s performance.

2.4 Effect of Number of Independent Directors on Firm’s Performance

The literature is clear that the roles of both executive and non-executive directors on the board of directors are vital and they both should be treated equally. However, the role of an independent non-executive director is critical as it ensures the interests of all the shareholders. The role of independent directors is to monitor the decisions of the board of directors to ensure the performance of the firm is maintained as well as all the executives are held accountable (Kakabadse, Yang, & Sanders, 2010). It depicts that independent directors are responsive to the interests of investors and ensure all the decisions are made to improve the investors’ confidence. The independent directors remain free from any influence of the CEO or the chair and work in the best interest of the shareholders. The majority of previously published literature revealed a positive correlation between the number of independent directors and the performance of a firm (Colakoglu, Eryilmaz, & Martínez-Ferrero, 2021; Darko, Aribi, & Uzonwanne, 2016). The Agency theory also favours the role of independent directors in enhancing the performance of a firm. It was also reported that a high proportion of independent directors enhances the return on assets (ROA) and the profit margins (Azeez, 2015). Thus, it is hypothesized that an increase in the number of independent directors enhances the firm’s performance.

H4: A higher proportion of independent directors increases the performance of a firm.

2.5 Theoretical Framework

Agency theory discusses that the separation of ownership and management can lead to problems in the corporate due to the separation of ownership and control and emphasises reducing this problem (Panda & Leepsa, 2017). Since agency theory assumes that agents may not act in the best interest of shareholders, this leads to conflicts between shareholders and managers (Jensen & Meckling, 1976). Meanwhile, from the perspective of agency theory, Fooladi argues that the importance of corporate governance lies in reducing the agency conflict between control and ownership of the corporate (2012). In other words, the role of the board of directors as an overseer of corporate governance, the board can keep a close eye on the manager's behaviour and help align the interests of owners and managers and improve corporate performance. Furthermore, there is evidence that solid board oversight improves corporate performance (Jackling & Johl, 2009), while for effective management, some researchers suggest important board parameters, including board gender diversity, size, etc. (Jackling & Bhattacharya, 2015).

2.6 Gaps in Literature

There is a growing body of research on the relationship between board characteristics and corporate performance, while the data are influenced by different countries and periods, with widely varying results (Joecks, Pull, & Vetter, 2012). So much of the available evidence on the relationship is mixed. In addition to this, the literature review lacks case studies on the board characteristics of MNCs. To fill this research gap and fully recognise this, the authors will study the relationship between board characteristics such as board size, gender diversity, and corporate performance, specifically in Unilever PLC and in the framework of agency theory.

3. Methodology

This is descriptive and correlational analytical research to assess the impact of board characteristics on the firm’s performance. This research is based on a quantitative study design and employs an extensive literature review to identify the current gaps in the literature.

3.1 Study Population and Sample

In this research, Unilever PLC was chosen as the company of interest. Unilever PLC is one of the largest consumer goods companies in the world, and the corporate has more than 400 brands, which include cleaning products, food, etc. In 2020, the corporate's net profit was ￡42,756.53 Million; as of March 2020, the corporate’s total assets have exceeded ￡63.30 Billion. Also, Unilever PLC has a very mature board of directors because of its ability to control top management and the directors' ability to provide strategic direction and performance (Pearce & Zahra, 1992); its board of directors is in the public eye. The annual reports of this company were retrieved and the variables for board characteristics and the firm's performance were collected. The data were collected from 2013 to 2022. In this way, we analyzed the performance of Unilever PLC for the last 10 years and assessed the impact of board characteristics on it.

3.2 Independent Variables

The independent variables that were investigated in this research included the board's characteristics of Unilever PLC (CEO duality, independent directors, board size, non-executive directors, and gender diversity). Previous research studies have also used these variables to investigate their impact on the firm's performance (Bathula, 2008; De Villiers et al., 2011).

3.3 Dependent Variables

The variable of interest that is being assessed in this study included the firm's performance (Return on Assets and Return on Equity). These two variables are vital to providing information about the performance of a firm. A firm is judged by its profit margins and equity and therefore these two variables are studied. ROA and ROE inform the investors about the efficiency of a firm's handling of the money of shareholders. Moreover, these variables also explain the profitability of a corporation. Therefore these two variables are included in this research to determine the impact of the board's characteristics.

3.4 Discussion and Analysis

The objective of this empirical study was to evaluate the impact of board characteristics of Unilever PLC such as (board size, total number of non-executive directors, CEO duality, gender diversity and total number of independent directors) on the performance of PLC (Return on Assets and Return on Equity). The findings revealed no significant impact of board characteristics on the performance of Unilever PLC. Table 1 represents the descriptive statistics of the composition of the board of Unilever. The findings revealed that the board size of Unilever PLC remained between 11 to 14 members with a mean value of 13. The board size in the current research was found to be higher than that reported in 10 OECD countries (De Andres & Vallelado, 2008). Moreover, this mean value is also significantly higher than that of the board size of US companies (Linck, Netter, & Yang, 2008) and in the UK the reported mean board size was reported to be 8.07 (Vafeas & Theodorou, 1998). According to the agency theory, the greater the board size, the higher the cost and improper monitoring (Panda & Leepsa, 2017). However, the current evidence to declare the negative impact of larger board size on firm performance is inconclusive.

Furthermore, CEO duality was found to be 0 as Unilever had never appointed a dual CEO role in its board of directors. Furthermore, in the last 10 years from 2013 to 2022, there remained 1 independent director in Unilever PLC. There is only 1 independent director in Unilever PLC for the last 10 years and the findings suggest that Unilever remain firm in keeping one independent director all the time. While considering gender diversity, Unilever PLC is committed to ensuring gender equality in its board of directors therefore it maintained a minimum of 4 and a maximum of 7 female directors in the last ten years with a mean of 5.2. It shows that Unilever PLC maintained at least 40% of female directors on its board of directors. Moreover, there remained a minimum of 8 and a maximum of 10 non-executive directors with a mean of 9.2. The mean of Return on Assets (ROA) for Unilever PLC in the last 10 years was found to be 87.70% and the Return on Equity (ROE) was found to be 43.35%. Furthermore, the mean net debt of Unilever PLC was reported to be 17.66 billion euros. The firm size as the natural logarithm of total assets is to be reported as a mean of 25.70 as shown in Table 1 below.

In Table 2, correlation matrixes of all the variables evaluated in this research are presented. There was only 1 independent director throughout the 10 years of Unilever PLC and therefore it was measured as a constant. Moreover, there was no CEO duality in Unilever PLC and the variable was excluded from the correlation matrix. The findings revealed that board size is positively correlated with gender diversity, non-executive directors, and ROA and negatively correlated with firm debt. Furthermore, the number of non-executive directors is positively correlated with the ROA and negatively correlated with firm debt and firm age. When the ROA is assessed, it was found to be negatively correlated with the firm debt, firm size and firm age. However, no correlation was found between ROE and any variable.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Independent directors	10	1	1	1.00	.000
Board Size	10	11	14	13.00	1.054
CEO Duality	10	0	0	.00	.000
Gender Diversity	10	4	7	5.20	.789
Non-executive directors	10	8	10	9.20	.632
Return on Assets (%)	10	69	109	87.70	12.36
Return on Equity (%)	10	32.67	79.79	43.55	13.28
Firm Debt	10	8.40	25.51	17.6670	6.35831
Firm Size	10	24.54	27.12	25.6050	1.20819
Firm Age	10	4.43	4.53	4.4780	.03425

Table 2. Correlation Matrix of all the Variables (Unilever PLC 2013-2022)

	Board Size	Gender Diversity	Non-executive directors	Return on Assets	Return on Equity	Firm Debt	Firm Size	Firm Age
Board Size	1							
Gender Diversity	.668*	1						
Non-executive directors	.667*	.134	1					
Return on Assets	.647*	.428	.709*	1				
Return on Equity	-.212	-.335	-.192	-.300	1			
Firm Debt	-.745*	-.505	-.701*	-.943**	.462	1		
Firm Size	-.624	-.475	-.622	-.856**	-.029	.786**	1	
Firm Age	-.554	-.354	-.698*	-.957**	.280	.918**	.889**	1

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

Table 3 provides the details of regression analysis to show if there is any association between the firm's performance (ROA and ROE) and the board characteristics (Independent directors, board size, CEO duality, gender diversity and non-executive directors). The findings revealed that there is no significant association between the number of independent directors and the performance of Unilever (ROA and ROE). Furthermore, there was no CEO duality in Unilever and thus it remained constant at 0. It was hypothesized that the board size is positively related to the performance of Unilever. However, no significant association was found thus this hypothesis is also rejected in the case of Unilever PLC. Moreover, the number of female members on the board of directors was argued to be significantly associated with performance. However, no significant association was found between gender diversity and the performance of Unilever PLC (ROA and ROE). The findings of our study revealed a non-significant association between the variables which might be due to the limited amount of data.

Table 3. OLS Regression Analysis

	ROA			ROE		
	B	**T**	**Sig.**	**B**	**T**	**Sig.**
Independent directors	9.031	0.676	.548	2.47	0.090	.934
Board Size	-.003	-0.062	.954	0.103	0.896	.436
CEO Duality	0	0	0	0	0	0
Gender Diversity	.003	0.079	.942	-.124	-1.5	.230
Non-executive directors	.010	0.165	.879	-.094	-.743	.511
Firm Debt	-.009	-0.610	.585	.028	.934	.419
Firm Size	-.009	-0.191	.861	-.138	-1.360	.267
Firm Age	-1.747	-0.523	.637	0.264	-.038	.972
R Square		94.4%			79.3%	
Adjusted R Square		83.3%			37.8%	
F Sign		8.468			1.911	

4. Conclusion

The Board of directors is the backbone of any organization and they formulate policies and objectives. It has been argued that corporate failures and financial scandals originate from ineffective boards. The findings of this research have enlightened the governance of Unilever PLC and its financial performance. However, the limitation of the quantitative data sample size resulted in an insignificant association between the board's characteristics and Unilever PLC's performance. The findings of this study rejected all the hypotheses regarding the impact of a board's characteristics on the performance of a firm. There was no significant association between the board's characteristics and Return on assets and Return on Equity for Unilever PLC. The most significant restriction is that just the board of directors of Unilever PLC is covered, and performance is evaluated based on only three factors. Second, the stereotyped research approach used in this work does not allow for the investigation of all components because it is not based on a more significant sample. Future research could use a larger sample size and include board members' talents and perhaps board compensation to strengthen the study.

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