CORPORATE GOVERNANCE AND PERFORMANCE OF QUOTED FIRMS IN NIGERIA

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ABSTRACT

This study set out to examine the relationship between corporate governance mechanisms and performance of consumer goods companies quoted on the floor of the Nigerian Stock Exchange (NSE). This is because most studies focused on financial services sector, and limited empirical works among the variables, particularly with regards to quoted consumer goods companies in Nigeria. Hence, the study investigated the relationship between dependent variable as proxied by return on assets and the independent variables as proxied by board size and board composition of quoted consumer goods companies in Nigeria from 2007 – 2016. The population comprises of all quoted manufacturing goods sector quoted on the NSE, out of which seventeen (17) quoted consumer goods companies represent the sample of the study. The study used census sampling technique. The ex-post facto research design was adopted by the study. The study used secondary data obtained from the audited accounts of the sampled firms. Analysis of data was carried out using pooled ordinary lease square, as well as fixed effects and random effects estimators. The findings revealed that both board size and board composition have positive relationship with return on assets. The study recommends that companies should increase the size of their boards not beyond fifteen in line with partial derivatives taken and solved for the optimal values. Also, companies may increase outside directors on its board. This has the capacity to increase economic value and enhance transparency.

Keywords: return on assets, board size, board composition, corporate governance and consumer goods.

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1. Introduction

The subject matter of corporate governance has increasingly attracted attention of researchers, investors, policymakers and practitioners alike because of corporate financial failures. For example, the Enro Saga of 2001 and the global financial crisis of 2007 were fallouts of ineffective corporate governance practices. According to Sanda, Mukailu and Garba (2005), ''Corporate governance is concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders''. Corporate governance is a system of internal controls and procedures by which individual companies are governed and managed [Chartered Financial Analyst (CFA) Institute 2017].

These control and procedures are important because of goal incongruence between business owners and managers arising from separation of ownership from control. Typically, firms have many stakeholders - shareholders, government, creditors, suppliers, customers, employees, and if these controls are not put in place, management could indulge in practices that may be detrimental to the overall interest of the shareholders.

Researchers have been concerned with means to address this challenge and a lot of researches conducted with a view to preferring ways resolving it. In Nigeria, for example, the study of Sanda, Mukailu and Garba (2005) looked at the entire firms listed on the floor of the Nigerian Stock Exchange (NSE) as at year 2000. Studies like Joe and Kechi (2011), and Emeka and Alem (2016) focused on the insurance and the banking sectors respectively. In fact, the recent study of Ibe, Ugwuanyi and Okanya (2017) equally looked at the entire listed firms on the NSE. To the best of the researcher's knowledge, no study has been conducted in this area using the listed consumer goods companies in Nigeria. Based on sectoral indices released by the NSE, consumer goods sector represent the sector with the highest sectoral market capitalization as at December 31, 2016. Therefore, the need to investigate the relationship between corporate governance mechanisms and financial performance of listed consumer goods companies in Nigeria cannot be over stressed.

Ibe, Ugwuanyi and Okanya (2017), Emeka and Alem (2016), Garba and Abubakar (2014), Joe and Kechi (2011), and Tanko and Oladele (2010) used panel regression analysis but did not confirm the robustness of the results by conducting post diagnostic tests to test assumptions of classical linear regression.

This study therefore, investigates the relationship between board characteristics, as a governance mechanism, and financial performance of quoted consumer goods companies in Nigeria. Board size and board composition are used as proxies for independent variables and Return on Assets (ROA), as the variable (dependent) for corporate performance.

The following research questions have been developed for this study. These are: (1) what is the relationship between board size and return on assets in Nigeria? (2) what is the relationship between board composition and return on assets in Nigeria?

The objective of the study is to examine the relationship between corporate governance and financial performance of firms in Nigeria. The specific objectives of the study are as follows, to: (1) assess the effect of board size on return on assets of quoted consumer goods companies in Nigeria. (2) assess the effect of board composition on return on assets of quoted consumer goods companies in Nigeria.

As such, the study hypothesized in null form as follows:

H01: Board size has no positive relationship on return on assets of quoted consumer goods companies in Nigeria.

H02: Board composition has no positive relationship on return on equity of quoted consumer goods companies in Nigeria.

The findings of this study will be of importance to regulators and/or policy makers, Board of Directors, as well as the investors. The findings will be of huge importance to regulators like the SEC. The findings may form the basis for new policy formulation and direction.

The remaining parts of the paper are systematized in the following order: Section 2: review of literature and the underpinning theories; section 3: defines and specifies the methodology and model respectively; section 4: analysis and discussion of results; and section 5: makes conclusion and recommendations.

2. Literature Review

2.1 Board Size and Financial Performance

Sanda, Mukailu and Garba (2005) investigated the relationship between corporate governance mechanisms as proxied by insider shareholding, board composition, board size, ownership concentration, CEO duality, expatriate as CEOs and leverage level on the one hand, and price to earnings ratio, return on assets, return on equity and Tobin's Q to represent firm financial performance on the other hand in Nigeria. The study used secondary data from 1996 to 1999. The study employed non-probability sampling technique with 93 sample firms out of 180 companies listed on the NSE at the time through the use of pooled ordinary lease squares regression analysis. The findings revealed a positive relationship between CEO duality, board size, expatriate CEOs on the one hand and firm performance in Nigeria. The study argued that board size of ten has positive effect of firm financial performance. The result also revealed no significant relationship between board composition and firm performance in Nigeria. The result further indicated a significant positive influence between level of leverage and firm performance.

Adewuyi and Olowookere (2008) examined the impact of corporate governance mechanisms such as board size, audit committee independence and ownership concentration on performance of Nigerian listed firms. Performance indicators used by the study included Tobin's score, return on assets, price to earnings ratio, return on equity and labour productivity. The study used panel regression analysis, correlation analysis and tests of means over the period 2002 to 2006. The findings of the study indicated that board size and ownership concentration impact on performance in a non-linear mode. Also, independent audit membership was found to influence price-to-earnings ratio while CEO duality was found to enhance company performance in Nigeria.

Joe and Kechi (2011) investigated the relationship between corporate governance and organizational performance in Nigeria. Five independent variables used in the study are board size, CEO duality, reliability of financial reporting, audit committee and code of corporate governance. The organizational performance was measured by return on asset and profit margin. The study used both quoted and unquoted firms. Random sampling method was adopted. The study used the ordinary lease square regression method in data analysis. The findings showed that board size, CEO duality, audit committee and code of corporate governance have a positive and significant relationship with firm performance as measured by both profit margin and return on asset. However, a negative and insignificant relationship was revealed between reliability of financial reporting and profit margin but a negatively significantly relationship between reliability of financial reporting and return on assets. The study did not confirm the robustness of the results by conducting post diagnostic tests to test assumptions of classical linear regression.

Qasim (2014) examined the link between firm performance and corporate governance on the stock exchange of Abu Dhabi. The study used two determinants of firm performance as proxied by Tobin's Q score and ROA while dividend yield, debt ratio, firm age and firm size were introduced as control variables. The proxies for the independent variables introduced by the study are board size, external auditor type, government's percentage of firm ownership and the institutional percentage of ownership in the firm. He deployed the pooled ordinary lease square to analyse the data collected between 2007 and 2011. The findings showed a significant and positive link between firm performance (Tobin's Q score and ROA) and board size. That is, the higher the number of people on the board, the better the performance of companies in Abu Dhabi.

Emeka and Alem (2016) investigated the effects of corporate governance on financial performance of banks in Nigeria. The study used board composition and board size as proxies for corporate governance whilst return on asset was used as a proxy for financial performance. Secondary data collected between 2013 and 2014 were analysed using ordinary lease squares regression. The findings showed that corporate governance mechanisms have significant and positive effects on financial performance of commercial banks in Nigeria.

Abdulazeez, Ndibe and Mercy (2016) examined the influence of governance variables of audit committee, board size, CEO duality, board composition and firm size on the performance of listed deposit money banks in Nigeria. The performance was proxied by ROA. Data were collected from fifteen (15) listed DMBs from 2006 to 2012 which were analysed using the pooled ordinary lease square (OLS) regression and fixed effects model estimator. The results revealed a positive and significant relationship between size of board and performance of listed DMBs in Nigeria.

Kyereboah-Coleman (2007) investigated the influence of corporate governance on the firms' performance in Africa. The study used both accounting and market determinants of firm performance. The market proxy of firm performance used is Tobin's Q whilst the accounting proxy of firm performance is ROA. Data were collected from four (4) countries in Africa – South Africa, Kenya, Nigeria, and Ghana. The result indicated a positive and significant link between board size and corporate performance.

Johl, Kaur and Cooper (2015) examined the impact of board characteristics and performance of firms listed on the Malaysian Stock Exchange. The board characteristics investigated include board size, board meeting, board independence, and accounting expertise of directors. The study used both financial data and non-financial information from annual reports of the sampled firms. The results revealed that size of board and firm performance are positively and significantly related for firms in Malaysia.

Ibe, Ugwuanyi and Okanya (2017) examined the effect of corporate governance on financial performance in Nigeria, particularly the insurance sector. Corporate governance mechanisms used by the study included board independence, board size, non-executive directors' remuneration, executive directors' remuneration, institutional ownership, directors' ownership, and foreign ownership whilst return on asset was used as the outcome variable. Firm size was used as a control variable. The study adopted ex-post facto research design for a study period from 2011 to 2015 using a sample size of twenty insurance companies. The study used the fixed effects model for data analysis. From the empirical results, board size, and non-executive directors' remuneration have negative and significant impact on financial performance using return on assets as the proxy. While board independence, and institutional ownership showed significant and positive effect on financial performance. On the contrary, executive directors' remuneration, institutional ownership, directors' ownership, and foreign ownership did not have significant effect on the financial performance of insurance companies in Nigeria.

2.2 Board Composition and Financial Performance

Chiang and Chia (2011) analysed the link between firm performance and board composition in Taiwan. The study used a granger causality analysis to examine the nexus between the variables. The sample consisted of 1194 observations over a one year period. The study found that board composition and firm performance have positive and significant relationship. This implies that more outside independent directors help enhancing corporate governance efficiency, thereby enhancing corporate performance.

Khan and Awan (2012) assessed the how board composition influences firms' performance in Pakistan. The study used independent sample t-test and group statistic to analyse the data collected from 91 listed firms at Karachi Stock Exchange (KSE). ROA, ROE and Tobin's Q score were used as proxies for the dependent variables. The findings indicated that firm performance and board composition have positive association.

Bijalwan and Madan (2013) examined the association between governance mechanisms and firm performance. The study used primarily board composition and ownership structure as proxies for corporate governance whilst return on capital employed, return on equity, profit after tax and ROA as measures of firm performance. Analysis of variance (ANOVA) was used for the analysis and the result indicated a positive association between composition of board and performance of firms listed on the Bombay Stock Exchange (BSE).

Rashid, De Zoysa, Lodh and Rudkin (2010) investigated the impact of board composition on firm economic performance in Bangladesh. The control variables introduced in the study were CEO duality, firm debt, ownership structure, firm age, board size, firm growth, and firm size. The study deployed ordinary lease square regression analysis to test the research hypothesis formulated. The findings indicated no significant link between board composition and firm performance. The implication of this findings is the outside independent directors cannot add any economic value to firms in Bangladesh.

Tanko and Oladele (2010) measured the relationship between corporate governance and the performance of firms in Nigeria. Dependent variables like net profit margin, return on equity, sales growth, stock prices and dividend as measures for firm performance. On the other hand, audit independence, board size, board independence and company progressive practices as proxies for corporate governance. Findings showed a significant relationship between board size and firm performance; non-significant relationship between board composition and firm performance; and negative and significant relationship between CEO duality and firm performance. The study suffers from drawbacks like non-determination of population, sample size and sample period, sources of data was not disclosed, data analysis tools were not stated among other things.

Garba and Abubakar (2014) examined the relationship between corporate governance and firm performance in Nigeria particularly, the insurance sector. Independent variables such as board size, gender diversity, board composition and foreign directorship were investigated, whilst return on assets, return on equity and Tobin's Q were used as measures of firm performance. The sample size is twelve quoted insurance companies in Nigeria using non-probability sampling technique for the sample period of 2004 to 2009. The study adopted the Feasible Generalized Lease Squares (FGLS) and random effects estimators for data analysis. The findings indicated a positive and significant impact between gender diversity, foreign directorship on the one hand and firm performance in Nigeria. A negative but significant impact was revealed between board composition and firm performance. Furthermore, the empirical indicated absence of any significant impact between board size and firm performance both at FGLS and random effects models. The major drawback is the lack of post diagnostic tests to check for robustness.

2.3 Theoretical Framework

The Stewardship Theory explains that business managers are stewards who work with the aim of achieving shareholders' return and profitability. According to Eisenhardt, 1985, theory assumes that achievement is the key motivator for business managers. The theory supports the service of non-executive directors on the board. The Stakeholder's Theory opines that the corporate is a stakeholder's system which operates within a bigger society. Therefore, the aim of the corporate is the service of the general populace who may have direct and/or indirect relationship with the organization. The theory supports the satisfaction of the generality of the people rather than the shareholders only (Freeman, 1984; Donaldson & Preston, 1995; Frooman, 1999; Hill & Jones, 1992; and Phillips, 2004). The Agency Theory views shareholders as the principals whilst management as their agents. The presence of information asymmetry can make the management pursue interest other than that of the principal. Therefore, the process of making these two interests align, can cause conflict of interest (see Jensen and Meckling, 1976). From the foregoing, this study adopts Agency theory as the theoretical basis for explaining corporate governance and performance of firms in Nigeria.

3. Data and Methodology

This study investigates the relationship between governance mechanisms and firm performance of quoted consumer goods companies on the Nigerian Stock Exchange (NSE). The data were collected from annual audited reports and accounts of consumer goods companies, and the NSE fact book. In undertaking this study, the research design adopted was ex-post facto.

The population of this study is the twenty-one (21) quoted consumer goods companies on the NSE floor. However, the sample size for the study is seventeen (17) consumer goods companies listed on the NSE because they have consistent data during the study period. The sampling technique adopted by the study is non-probability sampling method because the selection was based on data availability. The period of sample is ten (10) years; from 2007 – 2016. This sample period of 10 years in our opinion, is sufficient to draw reliable and verifiable conclusions and/or findings.

The study is based on secondary and panel data. Panel data was used because the study wanted to determine the time series effects, indicated by subscript t; and the cross-sectional effects indicated by subscript i. The main data source is the NSE fact book, and the annual published accounts or statements of affected companies.

The study adopted panel data analyses such as pooled ordinary lease square, fixed and random effects estimators , and the empirical results are based on the following models. According to Sanda, Mukailu and Garba (2005), Magbagbeola (2005) and Adewuyi and Olowookere (2008), board size has been shown to have non-linear effect on performance. Increase in board size at low levels is expected to have a positive relationship with performance, while at large board size level, a rise in the board size is expected to inversely associate with performance. We therefore, consider this non-linearity effect in our specifications and estimations by adding squared value of board size.

$$ROA_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BSIZE^2_{it} + \beta_3 BCOMP_{it} + \mu_{it}$$

Where:

ROA_{it} : represents EBIT over Total Assets of the consumer goods company in time t;

$BSIZE_{it}$: represents the sum total of executives and non-executives in the Board of the consumer goods company in time t;

$BSIZE^2$: Squared of Board Size

$BCOMP_{it}$: represents the number of independent or outside directors over the board size of the consumer goods company in time t;

β_0: represents constant;

$\beta_1 - \beta_2$: represents the coefficient of the regressors; and

μ_{it}: represents the error term.

Table 1: Variable Measurements

Symbol	**Variables**	**Measurements**
ROA	Return on Assets	Earnings Before Interest and Tax (EBIT) over Total Assets
BSIZE	Board Size	The sum total of executives and non-executives in the Board
$BSIZE^2$	Board Size Squared	Squared of Board Size
BCOMP	Board Composition	The number of independent or outside directors over the board size

4. Results and Analysis

Table 2 presents the mean, maximum, minimum, standard deviation and the Jarque-Bera statistic and the corresponding p-values for the study.

Table 2: Descriptive Statistics

	ROA	**BCOMP**	**BSIZE**	**BSIZE²**
Mean	0.114909	0.716340	11.30000	134.6556
Median	0.106535	0.777778	11.00000	121.0000
Maximum	0.502279	0.900000	17.00000	289.0000
Minimum	-0.303786	0.222222	7.000000	49.00000
Std. Dev.	0.114289	0.157237	2.654020	63.19048
Skewness	-0.006859	-1.117355	0.391868	0.793604
Kurtosis	5.350944	3.924249	2.346325	2.923690
Jarque-Bera	20.72672	21.93060	3.905752	9.468951
Probability	0.000032	0.000017	0.141865	0.008787
Sum	10.34185	64.47058	1017	12119
Sum Sq. Dev.	1.162519	2.200379	626.9	355380.3
Observations	90	90	90	90

From the table above, ROA has a mean of 11.50%. The range is between the minimum of (30.38%) and the maximum of 50.23%. This means that averagely, the return of the sample firms yielded 11.50% on the assets. The minimum value is a signal that certain companies lost 50.23% as return on asset. Furthermore, the result shows board size has a mean ratio of 11.00, and the minimum and maximum of 7.00 and 17.00 in that order. Whilst the board size squared shows a mean, minimum and maximum of 135, 49 and 289 respectively. The consumer goods companies boards were on the average comprise of 72%, with the minimum and maximum of 22% and 90% of ratio of outside directors to the total board size respectively. Using the Jarque-Bera statistic, board size shows evidence of normality having a probability value of 0.1419 which is more than 0.050 level of significance.

Table 3: Correlation Matrix

Variables	ROA	BSIZE	BSIZE²	BCOMP
ROA	1.000000			
BSIZE	-0.08111*	1.000000		
BSIZE²	-0.06836*	0.992645	1.000000	

BCOMP	0.213599*	-0.06779	-0.07953	1.000000

***5% level of significance**

The result of correlation shows that both BSIZE and $BSIZE^2$ are negatively correlated to ROA while a positive correlation is revealed between BCOMP and ROA. The implication is that as BSIZE increases, ROA decreases while the opposite is said between BCOMP and ROA.

Table 4: Residual Cross-Section Dependence Test

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	69.64271	36	0.0006
Pesaran scaled LM	3.964832		0.0001
Pesaran CD	5.062746		0.0000

From the above table, the Breusch-Pagan LM test indicates that the test statistic value and probability value is 69.64271 and 0.0006 respectively. Similarly, Pesaran scaled LM and Pesaran CD reveal probability values of 0.0001 and 0.0000 respectively. While the test statistic value of Pesaran scaled LM test is significantly below those of Breusch-Pagan LM test and Pesaran CD, all the p-values are statistically significant and reject the null hypothesis of no auto correlation. We therefore, conclude that there is no problem of autocorrelation.

Table 5: Correlated Random Effects-Hausman Test
Equation: Untitled Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.936179	3	0.8167

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BCOMP	0.068132	0.095789	0.001932	0.5292
BSIZE	-0.063684	-0.051297	0.000331	0.4957
BSIZESQUARED	0.002073	0.001705	0.000000	0.5438

The possibility of clustering of panel data may bias the outcome variables or even the explanatory variables, and as such fixed effect and random effect regressions were ran. The Hausman Specification Test shows that Random Effect Model is most appropriate in view of the Chi-Square value of 0.94 and its corresponding P-value of 0.82 which is greater the significance value of 0.05.

Table 6: Summary of Pooled OLS Result

Independent Variables	Dependent Variable (ROA)
BSize	-0.051297
	0.201900*
$BSize^2$	0.001705
	0.276400*
BComp	0.0957890
	0.325200*
R^2	0.06
F-Statistic	1.729158

Significant at 5% (*)

I. Board Size and Return on Assets

From the table above, coefficient of board size is -0.051297 with a p-value of 0.20190. The board size with quadratic has a coefficient of 0.001705 and p-value of 027640. This implies that the both measures of board size are not significant with the quadratic one having a positive sign. In other words, the relationship between firm performance as proxied by return on assets is positive up to a point and begins to decline. Taking partial derivatives and solving for optimal values gave results suggesting an optimal value of fifteen for board size. Board size beyond fifteen may lead to inverse relationship with firm performance for listed consumer goods companies in Nigeria at 5% level of significance. This affords us proof to reject the null hypothesis we formulated earlier, which states that board size does not have positive relationship with return on assets of quoted consumer goods companies in Nigeria. The finding finds empirical support from the works of Sanda, Mukailu and Garba (2005), Kyereboah-Coleman (2007), Adewuyi and Olowookere (2008), Joe and Kechi (2011), Qasim (2014), Johl, Kaur and Cooper (2015), Emeka and Alem (2016), and Abdulazeez, Ndibe and Mercy (2016). However, the finding contradicts that of Ibe, Ugwuanyi and Okanya (2017).

II. Board Composition and Return on Assets

The coefficients and t-value of board composition are 0.0957890 and 0.325200 respectively. This shows that board composition has insignificant and positive impact on return on assets of quoted consumer goods companies in Nigeria at 5% significant level. The coefficient of 0.0957890 explains that increase in increase by 1 non-executive director can lead to increase in return on asset by 0.0957890. The implication of this result is that the introduction of independent directors may have benefits for greater transparency, and also result to economic value addition to the company. This gives us proof to reject the null hypothesis stating that board composition does not have positive relationship with return on assets of quoted consumer goods companies in Nigeria. The finding has gotten empirical support from the works of Chiang and Chia (2011), Khan and Awan (2012), and Bijalwan and Madan (2013). However, the finding did not support the works of Rashid, De Zoysa, Lodh and Rudkin (2010), Tanko and Oladele (2010), and Garba and Abubakar (2014).

5. Conclusions and Recommendations

The study examines the effects of board size and board composition on return on assets of quoted consumer goods in Nigeria for the period 2007 – 2016. The population is the twenty-one (21) consumer goods companies quoted on the floor of the NSE as at December 31, 2016. The study used seventeen (17) firms as its sample cause in view of the fact that they have complete and consistent data set for the study period. The ex-post facto research design was adopted by the study. The study used secondary data obtained from the annual report and accounts of the sampled firms. Data were analysed using multiple panel data regression. The results of the study revealed that board size has insignificant but positive effect on return on assets of quoted consumer goods companies in Nigeria; whilst board composition has positive and insignificant effect on return on assets of quoted consumer goods companies in Nigeria.

Based on the findings of the study, it is recommended that companies should increase the size of their boards since it's related to firm performance. However, this increase should be to the extent of fifteen based on the optimal value of partial derivatives. Also, companies may increase outside directors on its board especially independent directors. This may add economic value and enhance transparency.

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