Full Empirical Research Paper

Impact Assessment of Corporate Governance on Performance Of Selected Listed Companies in Nigeria

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ABSTRACT

The erosion of trust has put pressure on corporations to improve their performance. Due to widespread corporate scandals and failures around the world, there has been a renewed interest in the effect of corporate governance on firm performance. This study investigated the effect of corporate governance dimensions particularly board size and ownership concentration on performance and market share of selected listed companies in Nigeria. The study utilized secondary data for fifteen companies from the Financial Services, Consumer Goods and Industrial Goods Sectors of the Nigerian Stock Exchange for the period of 2014 to 2019. For data analysis, the study adopted the ordinary least multiple regression analysis. The study found that as board size and ownership concentration increase, ROE decreases. However, the study found that, to a significant extent, market share of listed firms in Nigeria increases as both board size and ownership concentration increase. This study concluded that board size and ownership concentration do not have significant effect on return on equity (ROE) of listed firms in Nigeria. Also, it concluded that board size and ownership concentration has significant effect on market share of listed firms in Nigeria. Although without significant effect, the study specifically found that as board size increases, return on equity (ROE) of listed firms in Nigeria decreases and as ownership concentration increases, ROE of listed companies in Nigeria also decreases.The study recommended that the board of the companies should always be of a size relative to the scale of its operation, allow for diversity and formation of necessary board committees in order to improve performance. Also, board of directors should ensure that ownership concentration is not too high even as board of the companies needs to ensure that they continuously subject themselves to ownership diversity and board size appropriateness in order for the business to be profitable and increase market share.

Keywords: Board Size, Board Ownership, Corporate Governance, Performance, Nigeria

Proceedings ReferenceFormat
Rufai, H.O. (2021): Impact Assessment of Corporate Governance on Performance Of Selected Listed Companies in Nigeria. Proceedings of the 28th iSTEAMS Intertertiary Multidisciplinary Conference. American International University West Africa, The GambiaSeries 28, Vol 3 October, 2021. Pp 159-168 www.isteams.net/gambia2021.
DOI - https://doi.org/ 10.22624/AIMS/iSTEAMS-2021/V28N3P12

1. INTRODUCTION

In Nigeria, there have been corporate failures which have been traced largely to malfeasance, neglect of corporate governance principles and outright dishonesty by members of the board. Cadbury Nigeria Plc., Society General Bank Limited, Intercontinental Bank Plc. are examples of such failures. Eight Chief Executives and Executive Directors of some Nigerian banks were summarily dismissed between August and October, 2009 due to issues related to poor corporate governance practices (Oghojafor, Olayemi, Okonija & Okolie, 2010). This underlies the role of directors in performance of companies and consequences of corporate failures.

The loss of confidence by investors in the Nigerian capital market and the insolvency of large companies are problems worthy of research. The recurring reforms, failures and consolidations in the Nigerian banking sector are indicators of weak corporate governance. This experience has resulted into unsustained market share and competitiveness. Following the revelation of the fraudulent actions and self-servicing behaviour of managers at the expense of shareholders, caused by the separation of the principals from management; owing to wide spread ownership of the business, stakeholders in corporate business have now taken corporate governance serious (Azutoru, Obinne & Chinelo, 2017).

Developing economies (such as Nigeria) have come to recognize the need for sound corporate governance, as international investors and many domestic investors are hesitant to invest in enterprise which do not subscribe to good corporate governance principles (McGee, 2010).Many international organisations, such as the World Bank and the Organisation for Economic Co-operation and Development (OECD) have encouraged all countries to implement international standards of corporate governance. They have also developed guidelines for corporate governance (Aguilera, Filatotchev, Gospel &Jackson, 2009).

The Securities and Exchange Commission (SEC), Nigeria issued a Code of Corporate Governance developed by a committee chaired by Atedo Peterside in 2003. Following the global financial crisis of 2007/ 2008, the need to review the code arose. Thus, SEC set up another committee headed by Abubakar Balarabe Mahmoud, SAN, to review the 2003 code. This led to issuance of the SEC Code of Corporate Governance, 2011. Other sectorial codes were issued by the Regulators of the banking, insurance, pension and telecommunications industries in Nigeria. In January 2019, The Financial Reporting Council of Nigeria issued the Nigerian Code of Corporate Governance, 2018 to further strengthen corporate values and ethical practices in companies of varying sizes and complexities.

However, despite the multiplicity of codes of corporate governance and the benefits of compliance, some companies have not imbibed the tenets of corporate governance. The codes are robust but are perhaps limited by the behaviours of the stakeholders especially directors and institutional shareholders. This has led to several studies examining the relationship between corporate governance and organisation performance. The literature testing the relationship between different corporate governance mechanisms and the performance of an enterprise across the globe is quite extensive.

Empirical studies undertaken by scholars such as Hirindu and Kushani (2017) and Yameen, Farhan and Tabash, (2019) on the relationship between different mechanisms of corporate governance and firm performance and between corporate governance index and performance for both developed and developing countries around the world have produced mixed results especially in the developing countries leaving gaps for study on the relationship between corporate governance mechanism and performance of a company to be carried out in a country like Nigeria. It is against this background that this research evaluated the corporate governance dimensions (board size, ownership) and their impact of performance of selected companies listed on the Nigerian Stock Exchange. This includes fifteen (15) selected listed companies in the Financial Services, Consumer Goods and Industrial Goods Sectors. The time frame for this study is six years from 2014 to 2019.

2.0 LITERATURE REVIEW

a. Conceptual Analysis

Corporate Governance

The term corporate governance can be seen as the interconnectedness that exist between the different participants and defining the direction and performance of a corporate firm.Corporate governance can be defined as a number of processes, customs, policies, laws and institutions which have impact on the way a company is controlled (Okoh, 2009). This term can also be seen as the nature and extent of accountability of people in the business, and mechanisms that try to decrease the principal/ agent problem. Corporate governance has been categorized to measure performance through the activities of the directors of the company who are vested with the responsibility for overall performance of the company as representatives of the shareholders. Therefore, the board is responsible for business strategy and financial soundness of the company, internal structure and executive approach, risk management and law compliance (Aliabadi, Shakeri&Aghdam, 2017).

Cadbury Report (1992) defined corporate governance as “the system by which companies are directed and controlled”. Abor and Biekpe (2005) defined corporate governance as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. According to the Australian Stock Exchange, ASX Corporate Governance Council (2007), Corporate Governance is “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations”.

It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised. The key words in these definitions are “direct” and “control”. Direction refers to decisions that relate to setting the overall strategy of the company including long-term strategic decisions, large-scale investment decisions, mergers and acquisitions, and succession planning. Control looks at the actions necessary to oversee the management’s performance and follow up on the implementation of the strategic decisions.

Both corporate directors and management should have a long-term strategic vision that, at its core emphasizes sustained shareholder value. In turn, despite differing investment strategies and tactics, shareholders should encourage corporate management to resist short-term behaviours by supporting and rewarding long-term superior returns. In addition to the above, information about companies must be transparent to permit accurate market comparisons (Adewuyi & Olowookere, 2008).

b. Theoretical Framework - Agency Theory

The Agency Theory also known as the Principal Agent problem deals with the conflict that ensue as a result of the arrangement called firm. It refers to the variety of ways in which agents, linked by contractual arrangements with a firm, influence its behaviour. These may include organizational and capital structure, remuneration policies, accounting techniques and attitudes toward risk-taking. Agency costs are deemed the total cost of administering and enforcing these arrangements (Jensen & Meckling, 1976).

Agency theory explains how best to organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1985). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, the two agency problems of adverse selection and moral hazard arises. The main concerns of this theories is that whether and how the initial contract can be structured in such a way as to bring about a perfect coincidence of objectives between the entrepreneur (manager) and the investor. Second, when the initial contract cannot achieve this coincidence of objectives, how the control right can be allocated

c. Empirical Review

In view of Dimgba, Onwuchekwa and Ogbonna (2018) in their study which major objective of study was to employed two analytical tools in Pearson Moment Correlation and Multiple regression to test for both correlation and regression analysis respectively based on three aspects of corporate governance namely; Board Size (BS), Non-Executive Directors (NED) and Executive Directors (ED). Deposit Money Banks performance is measured through Return on Equity (ROE) and Return on Assets (ROA). The results revealed that all variables of corporate governance positively and significantly correlated with ROE and ROA at 5% level of significance. However, corporate governance was all unable to individually and collectively impact DMBs performance within the study sample and framework.

Also, Olayiwola (2018) conducted a study that investigated the influence of corporate governance (CG) on the performance of companies. The objectives of this study were to respectively analyze and determine, individually and jointly, the influence of board size, board composition and audit committee size on corporate performance (CP). The study employed exploratory research design. Ten (10) listed firms were chosen through a purposive sampling technique and data extracted from the annual reports of these firms from year 2010 to 2016. Findings revealed that board size had a significant negative correlation with NPM, board composition had a significant positive correlation with NPM, audit committee size had an insignificant correlation with NPM and board size, board composition and audit committee size had a significant joint effect on NPM. time to time.

Wondem and Batra (2019), conducted a research that examined the impact of corporate governance practices on share companies' financial performance by using panel regression approach. Data sources from 24 share companies for five years. The findings of robust FGLS estimation of panel regression using ROA and ROE as measures of financial performance revealed board of directors' gender diversity (BDGD sig. at 5%) and size of share companies (SIZE sig. at 1%) have a positive association with return on assets and board of directors meeting attendance rate (BDMAR) in person has a positive association but not significant. The paper revealed that ROE has a significant and positive association with board meeting frequency ($p<0.05$); board of directors' gender diversity ($p<0.05$) and size of share company ($p<0.01$).

Also, in the study of Akinleye, Olarewaju and Fajuyagbe (2019) that focused on the effect of board size, activism and committee activism on return on asset and firm growth rate. Secondary data collected from four multinational firms were analyzed via static panel estimation techniques. While board size and board activism exerted significant negative impact on return on asset, committee activism exerted insignificant impact. The results of the study further showed that board size and board activism exert insignificant negative impact on firm's growth rate, while committee activism insignificantly spurs firm's growth rate.

Lastly, Yameen, Farhan and Tabash (2019) in their study which was conducted a study that investigated the effect of corporate governance practices on firms' performance, with a special reference to the Indian tourism sector. The study uses a panel dataset of 39 hotels listed on Bombay Stock Exchange (BSE) for the period from 2013/2014 to 2015/2016. The ordinary least square regression model is run for estimating the results. Findings show that board directors' size and audit committee's size negatively impact the performance of Indian hotels, while board directors' composition and diligence, the audit committee's composition and diligence, and foreign ownership positively affect the performance of Indian hotels measured by accounting proxies.

Results also reveal that board directors' size, audit committee's size, and foreign ownership positively impact the Indian hotels' performance measured by marketing proxies, whereas board directors' composition; board directors' diligence; audit committee's composition; and audit committee's diligence have a negative impact on the performance of Indian hotels

3.0 METHODOLOGY

The research design employed in this study includes the survey, ex post facto and descriptive research design. The study population constitutes of the 166 companies listed on the Nigerian Stock Exchange as at 2019 and the sample of the study consists of fifteen (15) selected listed companies in the Financial Services, Consumer Goods and Industrial Goods Sectors. The study focused on fifteen (15) selected listed companies in the Financial Services, Consumer Goods and Industrial Goods Sectors. Secondary data were used in this study. These data are generated from Annual reports of companies and Nigerian Stock Exchange Fact Book. Ordinary least square multiple regression analysis was used to analyze the data and test the hypothesis at 5% level of significance.

4.0 ANALYSIS AND PRESENTATION OF DATA

Hypothesis One
Ho_1: Board size has no significant effect on the financial performance of companies
Dependent Variable: ROE
Method: Panel Least Squares
Cross-sections included: 15
Total panel (unbalanced) observations: 89

Table 1: Board Size and Performance of Companies in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.853128	0.480103	1.776970	0.0791
BOARD_SIZE	-0.032057	0.036732	-0.872720	0.3852

R-squared	0.008679	Mean dependent var	0.453314
Adjusted R-squared	-0.002716	S.D. dependent var	1.352880
S.E. of regression	1.354716	Akaike info criterion	3.467277
Sum squared resid	159.6673	Schwarz criterion	3.523201
Log likelihood	-152.2938	Hannan-Quinn criter.	3.489818
F-statistic	0.761640	Durbin-Watson stat	2.452216
Prob(F-statistic)	0.385218		

Table 1 depicts the OLS regression model. Thus, the regression line of ROE = 0.85 - 0.03BS indicates that, return on equity of listed firms in Nigeria decreases as board size increases. The respective p-value (0.0385) indicates insignificant effect at 5% level of significance. The R-Squared of 0.0087 indicates that about 0.87% of variation in return in equity in Nigeria can be explained by board size. The remaining 99.13% is captured by the disturbance or error term. The F-statistics of 0.76164 with its p-value of 0.385218 indicates that the regression model is not fit.

Hypothesis Two

Ho2: Ownership Concentration has no significant effect on performance of companies

Dependent Variable: ROE

Method: Panel Least Squares

Cross-sections included: 15

Total panel (unbalanced) observations: 88

Table 2: Ownership Concentration and Performance of Companies in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.775330	0.338383	2.291280	0.0244
OWNCON_	-0.588790	0.562899	-1.045997	0.2985
R-squared	0.012562	Mean dependent var		0.455500
Adjusted R-squared	0.001081	S.D. dependent var		1.360475
S.E. of regression	1.359740	Akaike info criterion		3.474929
Sum squared resid	159.0048	Schwarz criterion		3.531232
Log likelihood	-150.8969	Hannan-Quinn criter.		3.497612
F-statistic	1.094110	Durbin-Watson stat		2.473225
Prob(F-statistic)	0.298493			

Table 2 depicts the OLS regression model. Thus, the regression line of ROE = 0.78 - 0.59OC indicates that, return on equity of listed firms in Nigeria decreases as ownership concentration increases. The respective p-value (0.2985) indicates insignificant effect at 5% level of significance. The R-Squared of 0.0126 indicates that about 1.26% of variation in return in equity in Nigeria can be explained by ownership concentration. The remaining 99.74% is captured by the disturbance or error term or other independent variables not captured in the model

Hypothesis Three

Ho3: Corporate governance has no significant effect on the profitability of companies in Nigeria

Dependent Variable: ROE

Method: Panel Least Squares

Cross-sections included: 15

Total panel (unbalanced) observations: 88

Table 3: Board Size, Ownership Concentration and Performance of Companies

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.292727	0.609551	2.120783	0.0369
BOARD_SIZE	-0.038016	0.037256	-1.020395	0.3104
OWNCON_	-0.669658	0.568317	-1.178319	0.2420

R-squared	0.024512	Mean dependent var	0.455500
Adjusted R-squared	0.001559	S.D. dependent var	1.360475
S.E. of regression	1.359414	Akaike info criterion	3.485481
Sum squared resid	157.0807	Schwarz criterion	3.569936
Log likelihood	-150.3612	Hannan-Quinn criter.	3.519506
F-statistic	1.067920	Durbin-Watson stat	2.508518
Prob(F-statistic)	0.348289		

Table 3 depicts the OLS regression model. Thus, the regression line of ROE = 1.29 - 0.04BS – 0.67OC indicates that, return on equity of listed firms in Nigeria decreases as both board size and ownership concentration increase. The p-values indicate insignificant effect at 5% level of significance. The low r-squared is due disturbance or error term or other independent variables not captured in the model.

4. CONCLUSION AND RECOMMENDATIONS

Based on the empirical findings, this study concluded that there was statistically no significant effect of board size and ownership concentration on Return on equity (ROE) of listed firms in Nigeria. However, it concluded that there was a statistically significant effect of board size and ownership concentration on market share of listed firms in Nigeria. The study therefore recommended that the board of the companies should always be of a size relative to the scale of its operation, allow for diversity and formation of necessary board committees in order to improve performance. Furthermore, in order for companies to be profitable, the board of directors should ensure that ownership concentration is not too high. Also, the board of the companies needs to ensure that they continuously subject themselves to ownership diversity and board size appropriateness in order to ensure sustainable business performance.

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