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EFFECT OF CORPORATE GOVERNANCE ON FIRM FINANCIAL PERFORMANCE: EMPRICAL EVIDENCE FROM LISTED COMPANIES IN NIGERIA

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ABSTRACT

This study examined the effect of corporate governance on firm performance of listed firms in Nigeria. Corporate governance is proxies with board size, CEO duality, Ownership concentration and audit committee. The population of this study consists of all the quoted firms on the Nigerian stock exchange as at 2021. The study covered a period of twenty seven years 1994 to 2021. Secondary data source was used which were extracted from the CBN Bulletin. Multiple Regression analysis was adopted in the study. The findings revealed that, Board size has significant positive effect on the performance of listed firms in Nigeria, while the combination of CEO &Chairman are positively and significantly related to performance of listed firms in Nigeria. The findings of the study also revealed that Ownership concentration are significant but negatively related to performance of listed firms in Nigeria. Finally, the result of this study also confirmed insignificant negative effect between audit committee and performance of listed firms in Nigeria. It is recommended amongst others that proper checks and balance should be done regularly by the Securities and Exchange Commission to ensure strict adherence Corporate Governance Code.

Keywords: Effect, Corporate Governance, Firms, Financial Performance, Nigeria.

1.1 Introduction

Banks and other financial intermediaries are at the heart of the world's recent financial crisis. The deterioration of their asset portfolios, largely due to distorted credit management, was one of the main structural sources of the financial crisis (Sanusi, 2010). To a large extent, this problem was the result of poor corporate governance in countries' banking institutions and industrial groups. Schjoedt (2018) observed that this poor corporate governance, in turn, was very much attributable to the relationships among the government, banks and big businesses as well as the organizational structure of businesses.

Africa, particularly Nigeria had its own share of the contagious financial crises. Financial institutions in Nigeria witnessed untold financial distress in which banks that were considered healthy by investors happened to be the most distressed (Abdulazeez, Ndibe and Mercy 2016). This made the apex bank (CBN) to take a bold step in revitalizing the banking sector through the stipulation of N25 billion naira capital bases for all banks in Nigeria. This led to the emergence of 25 commercial banks in Nigeria as at 31st December, 2005. In 2006, the Central bank of Nigeria issued a code of corporate governance to complement the existing one in order to make Nigerian banks more competitive and be able to play in the global market and the provisions of the new code were said to be indispensable in achieving viable and successful banking practice (CBN, 2006). Since the issuance of the code of corporate governance by the CBN, efforts have been made to evaluate its impact on the financial performance of banks.

The Nigerian financial system is dominated by the DMBs. These Banks plays intermediate role between depositors of funds and the users of the funds. The sector is so important to the extent that most transactions on the Nigerian Stock Exchange (NSE) are always in the banking sector. For instance, in 2012 it accounted 53% in terms of volume and 54% in terms of value of total transactions carried out on the floor of the NSE (SEC, 2013) with an all share index of N447.84, 351.4 Billion in 2013 and 2014 respectively. Despite its impressive performance on the NSE, available records especially the highly publicized and financial reporting frauds, or EM as in the cases of Spring Bank, Wema Bank has eroded the confidence of shareholder and other stakeholders on the true and fair view of financial statement issued by companies (Beasley, 1996).

Also, the code for corporate governance indicate that two-thirds of mergers world-wide failed due to inability to integrate personnel and systems and also as a result of the irreconcilable differences in corporate culture and management, resulting in Board of Management squabbles. The current banking crises in Nigeria, has been linked with governance malpractice within the consolidated banks which has therefore become a way of life in large parts of the sector. Furthermore, corporate governance in many banks failed because boards ignored these practices for reasons including being misled by executive management, participating themselves in obtaining un-secured loans at the expense of depositors and not having the qualifications to enforce good governance on bank management (Sanusi, 2010).

The boards of directors were further criticized for the decline in shareholders' wealth and corporate failure. They were said to have been in the spotlight for the fraud cases that had resulted in the failure of major corporations, such as Enron, WorldCom and Global Crossing. The series of widely publicized cases of accounting improprieties recorded in the Nigerian banking industry in 2009 (for example, Oceanic Bank, Intercontinental Bank, Union Bank, Afri Bank, Fin Bank and Spring Bank) were related to the lack of vigilant oversight functions by the boards of directors, the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders (Uadiale, 2010). Inan (2009) also confirmed that in some cases, these bank directors' equity ownership is low in order to avoid signing blank share transfer forms to transfer share ownership to the bank for debts owed banks.

In order to address these deficiencies and in light of the above problems, this study seeks to provide a perspective, to assess whether or not corporate governance have effects on the financial performance with a view to exposing the root cause(s) of corporate collapses, failures and losses. This study is design to fill the gap by considering factors relating to corporate governance (board size, CEO & Chairman, ownership concentration and audit committee) that affect firm's performance of listed companies in Nigeria. The study covered a period of twenty seven years 1994 to 2021.

Literature Review and Theoretical Framework

2.1 Conceptual Framework

Financial performance is a measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The efficiency of the banking system has been one of the major issues in the new monetary and financial environment (Sharon, 2013). The efficiency and competitiveness of financial institutions cannot easily be measured since their products and services are intangible in nature. Many researchers have attempted to measure the productivity and efficiency of the banking industry using outputs, costs, efficiency, and performance (Kosmidou, 2008).

According to Morck, Shleifer and Vishny (1989), among the main factors that support the stability of any country's financial system is good corporate governance. Corporate governance has been looked at and defined variedly by different scholars and practitioners. However, they all have pointed to the same end, hence giving more of a consensus in the definition. Coleman and Nicholas-Biekpe (2006) defined corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. However, Mayer (1999**)** offers a definition with a wider outlook and contends that it means the sum of the processes, structures and information used for directing and overseeing the management of an organization.

In another perspective, Arun and Turner (2002) contend that there exists a narrow approach to corporate governance, which views the subject as the mechanism through which shareholders are assured that managers will act in their interests. However, Shleifer and Vishny (1997), Vives (2000) and Oman (2001) observed that there is a broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they can earn a return on their investment.

There is a consensus, however that the broader view of corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders (Macey and Hara (2001). It was further argued that, the unique nature of the banking firm, whether in the developed or developing world, requires that a broad view of corporate governance, which encapsulates both shareholders and depositors, be adopted for banks. They posit that, in particular, the nature of the banking firm is such that regulation is necessary to protect depositors as well as the overall financial system (Arun & Turner, 2002).

This study therefore adopts the broader view and defines corporate governance in the context of banking as the manner in which systems, procedures, processes and practices of a bank are managed so as to allow positive relationships and the exercise of power in the management of assets and resources with the aim of advancing shareholders‟ value and shareholders‟ satisfaction together with improved accountability, resource use and transparent administration.

2.2 Corporate Governance and Firm Performance

Ebelechukwu and Yakubu (2015) examined the impact of corporate governance (CG) on microfinance bank's financial performance in Nigeria. The analysis of data determined whether the following corporate governance functions – Board Composition (BC) and the Composition of Board Committees (CBC) have significant relationship with banks financial performance. Earnings per share (EPS) and return on assets (ROA) were used as proxies for financial performance. The Pearson correlation shows that significant relationship exists between Earnings per share (EPS) and corporate governance (Board Composition and Composition of Board Committees) while the regression analysis shows that no significant relationship exists between corporate governance and bank's financial performance.

Adekunle and Aghedo (2014) assessed the relationship between corporate governance and financial performance of randomly selected quoted firms in Nigeria. It investigates corporate governance variables and analyses whether they impact on firm performance as measured by return on asset (ROA) and profit margin (PM). The ordinary least square regression was used to estimate the relationship between corporate governance and firm performance. Findings from the study show that there is positive and significant relationship between composition of board member and board size as independent variables and firm performance.

Kojola (2009) examine corporate governance and firm performance in Nigeria. The result reveals that there is a significant relationship between Return on Equity (ROE) and board size. This result tend to be consistent with Coleman and Biekpe (2006), they observed a positive relationship exist between firm performance and board size. This also contradicts Manas and Saravanan (2006), they conducted a research on listed banks in India and discovered that there is no presence of a relationship between the size of the board and the performance of the banks. This could imply that the large board size leads to better decision-making as result of the availability of wide range of expertise.

Abdulazeez, Ndibe and Mercy (2016) assessed the relationship between corporate governance and the financial performance of listed deposit money banks in Nigeria from 2006 to 2012, using data collected from the financial statements of all the fifteen listed (15) deposit money banks in the Nigerian stock exchange and it was discovered that bigger board size contributes more to performance than smaller board size. Also, when a board size is large, it will be difficult for a person (may be CEO) to dominate the board and decisions reached by the board.

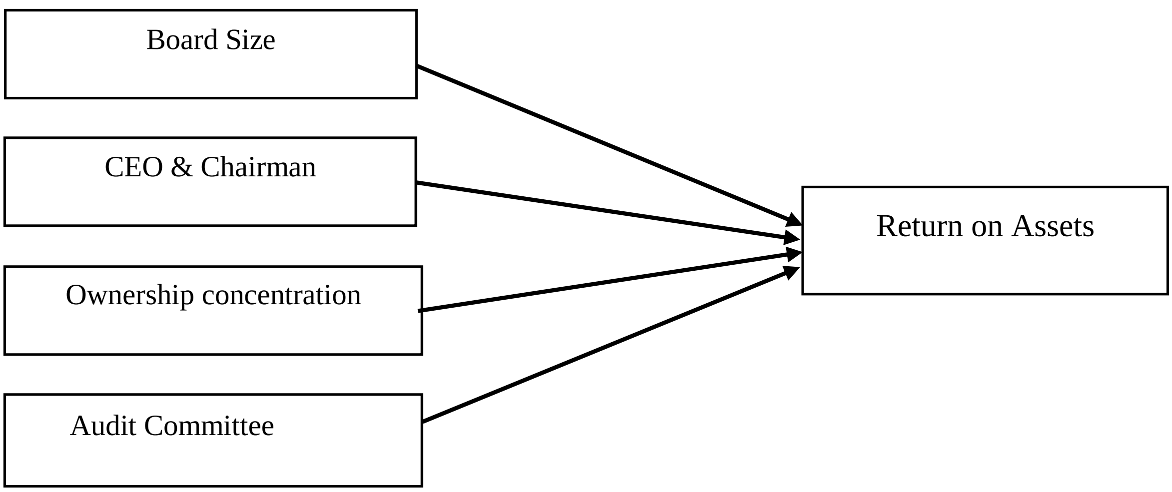
Bawa and Lubabah (2013) examined corporate governance and financial performance of banks on twelve banks in Nigeria covering a period of five years (2006-2010) and found negative relationship between board size and profitability of banks. However, the study carried out by Akpan and Roma (2012) on eleven a conclusion which also tallies with the finding of Asuagwu (2013), that smaller board size positively and significantly enhance performance and Yoshikawa and Phan (2003) added that larger board size increases agency cost.

Sanda, Mikailu, Garba (2004) obtained data from 101 firms listed on the Nigerian stock exchange from the 1999 database of a Lagos-based stock broking firm and the Fact Book of the NSE for 2000 and used the correlation and regression analysis to examine the relationship between director shareholding, and firm financial performance in Nigeria. However, the evidence from the study suggested no significant relationship between director equity ownership and firm performance.

2.3 Conceptual Framework

This framework was formed to show the variables and their relationship

Corporate Governance **Firm Financial Performance**



Independent Variable **Dependent Variable**

Source: Researcher (2018)

Figure 2.1 Model of the Study

Figure 2.1 depicted the model of this study showing the independent variable (corporate governance) with its proxies: board size, CEO & chairman, ownership concentration and audit committee and the dependent variable which is firm performance (Aggregate corporate profit).

3.1 Research Methodology

The research design adopted for this study was ex-post facto research design using panel data for the periods under study (1994-2021). It allows for the collection of past and multi-dimensional data which will provide basis for the full establishment of the relationship between the variables of this study. The population for this study consists of all the listed firms in Nigeria on the floor of the Nigerian Stock Exchange (NSE). A sample of thirty (30) quoted companies for the period 2021 year end was used. Secondary source of data was utilised. These data were obtained from the annual reports and accounts of firms quoted in the Nigerian stock exchange covering the period from 1994 to 2021.Financial performance of listed firm is the dependent variable, and it is measured by the return on asset. Return on asset (ROA) is measured by dividing the net profit after tax by the total assets to examine how productive the firms' assets have been used to generate wealth (Ogege & Bolonpremo, 2014). Board Size is measured from the number of directors on the board. CEO Duality is measured from the Dummy=1 if CEO-Chairman roles are combined and dummy=0. Ownership Concentration is measured from the Percentage of major shareholding of shareholders. Audit committee is the proportion of independent directors on the audit committee. A panel data was use to analyze the data generated for the study. Multiple regression analysis was used in order to test the hypothesized model of the study and STATA 14 software was employed to analyze the data.

4.0 Result and Discussion

This section discussed the result of the analysis of this study. Comprised of descriptive statistics and the summary of regression result.

4.1 Descriptive Statistics of the Studied Variables

This section gives a descriptive analysis of both the dependent and the independent variables. To effectively appreciate the nature of the results, discussion is made on the basic parameters of the variables with specific emphasis on the mean, standard deviation, minimum and maximum values of extracted data. The descriptive statistics of the variables are indicated in Table 4.1

Table 4.1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Corporate Profit	0.00	0.420	0.50028	0.734565
Board Size	9.00	19.00	0.14282	0.328205
CEO & Chairman	0.00	1.500	0.59784	.2523276
Ownership Concentration	0.00	1.000	0.35401	.3060953
Audit Committee	0.00	0.440	0.06957	.1078762

Source: Extract from STATA 14

The Table shows that the mean of firm performance stood at 50%, board size have an average of 0.142, while the combination of CEO & Chairman have a mean of 0.597, ownership concentration average stood at 0.354. The audit committee variables mean are 0.069. A comparison of the mean responses with the maximum values for each of the variables indicates that the firm industry operates with board size at 14%, while the combination of CEO & Chairman at 59%; ownership concentration at 35% and audit committee at 6.9%. These results indicates the average what is obtainable for each variable within the study units. In terms of average board size have on average 15 to 12 directors on the board. Also, there is a range of 9 (minimum) to 19 (maximum) members on board is preferable. This result is similar to Nicholson and Kiel (2003), which mentioned that board size from the range 2 to 19 persons on board is recommended. The average and standard deviation of combination of CEO & Chairman for the sample of Nigerian listed firm are 0.597 and 0.252 respectively with a minimum of 0.00 and a maximum of 1.5. The average of 59.7% suggests that, the Nigerian listed firms complied with exposure drafts of the revised code of corporate governance for banks in Nigeria issued by Central Bank of Nigeria (CBN). Concentration recorded a minimum value of 0.00 and a maximum value of 1.00. The zero (0) values recorded for ownership concentration indicates that in a certain year some of the firms did not have any amount of shares held within the observation. They reported that the top five shareholdings held the average percentage of about 61% each year. The minimum value for audit committee is 0.00 and the maximum value is 0.440, this implying that the audit committee is very low. As indicated in Table 4.1 descriptive statistics of the variables firm performance proxy of aggregate corporate profit has value approximately of 50.0, while the maximum value reaches (0.4284769).

4.2 Regression Results

The standardized coefficient indicates whether the direction of the impact is either positive or negative while the t-value assesses whether this effect is significant or not (Ho, 2006; Hair et al., 2006 & Zainudin, 2014). The regression for the model is presented in Tables 4.1.

Table 4.2: Summary of Regression Result

Variables Regressed	Beta coefficient	t-value	P-value	Result
(Constant)	3.053	9.97	0.003	
Board Size	0.117	0.791	0.000	Significant
CEO Duality	0.950	0.405	0.001	Significant
Ownership Concentration	-0.760	0.307	0.000	Significant
Audit Committee	0.970	-1.03	0.120	insignificant
R- squared	0.766			
Adjusted R- squared	0.707			
F-Statistic	13.07			

Predictors:, Board Size, CEO Duality, Concentration, Audit Committee
Dependent Variable: ACP
Source: Extract from Stata 14 Result

The result in Table 4.2 shows that the co-efficient of determination (R^2) overall has a value of 0.766. This means that board size, CEO duality, ownership concentration and audit committee occupy 76.6 % in the factors that account for the firm performance of the listed firms in Nigeria and other factors account for the remaining 23.4%. It can be inferred that corporate governance to a large extent influences the firm's performance of listed firm in Nigeria. The corresponding t- statistic for each of the above variables include 0.791 for board size, 0.405 for CEO duality, 0.307 for ownership concentration and -1.013 for audit committee, all of which have a significance of 0.000, 0.001, and 0.00 respectively. Furthermore, board size, CEO duality, ownership concentration have significant effect on firm performance ($p<0.05$)while audit committee has an insignificant effect on firm performance ($p>0.05$). Finally, the F-value of 13.07 is significantly at 5% level indicating the fitness of this model

4.2 Discussion of Findings

From Table 4.3, board size has a t-value of 0.791 and coefficient beta value of 0.117 with a p-value of 0.000 which is significant at less than 5%. This signifies that board size has significant effect on the performance of listed firms in Nigeria. It therefore implies that for every unit increase in the number of board size, the firm performance will increase by 0.117 units change. The results provide evidence of rejecting the first hypothesis which states that board size has no significant effect on performance of listed firm in Nigeria. This result confirms the findings of Adekunle and Aghedo (2014); Kojola (2009); Ogege, and Bolouprem o (2014); Abdulazeez, et al. (2016); Kyereboad-Coleman (2007); Adeusi (2013). Thus, larger board might be more effective in monitoring financial reporting, because the company might be able to appoint directors with relevant and complementary expertise and skills and draw from a broader range of knowledge and experiences (Xie et al., 2003; Berghe & Levrau, 2004). However, the results of other authors, conversely, argue that board size are insignificantly associated with financial performance (Bebeji, Mohammed & Tanko, 2015;Manas & Saravanan, 2006; Ajola et al., 2012; Bawa & Lubabah, 2013; Bennedsen, et al., 2006).As board size increases, increased problems of coordination and communication result, leading to decreased ability of the board to control management, thereby increasing agency problem (Eisenberg et al., 1998).

Regarding CEO and Chairman has no significant effects on performance of the listed firms in Nigeria; the regression coefficient of the model is positive (0.950), t-value of 0.405 with a p-value of 0.001 significant at 5%. This indicates a significant positive effect of CEO duality on performance of listed firms in Nigeria. The coefficient shows how much change in CEO duality occurs in correspond to the change in firm performance. The coefficient for the relationship between the CEOD and FP was 0.950, which means that for each unit increase of CEOD, FP would have a 0.950 unit change. Hence, this provides an evidence of rejecting the null hypothesis two of the study which states that the combination of CEO and Chairman has no significant effect on performance of the listed firms in Nigeria. Miller (2013); Hillman and Dalziel (2013); Lehn et al. (2009) argue that in small boards the powerful position of the CEO enable him to override the decisions made by the board members in accordance with their own interests leading to increase the agency and correspondingly undermining the performance of the firm (Miller, 2013).

With respect to ownership concentration and performance of listed firms in Nigeria,the regression coefficient of the model is negative (-0.760), with a p- value of 0.000 significantat less than 5%. The coefficient between the OWCN and FP was -0.760 which means that for each unit increase of OWCN, FP would have a -0.760 unit change. It therefore implies that for every 1% increase in the number of shares held in Block in Nigerian listed firms, the performance have no any significant changes. This provides an evidence of rejecting the null hypothesis three of this study. This signifies that Ownership Concentration (ONCON) is negatively but significantly influencing the performance of the listed firms in Nigeria. Much literature has supported this contention (for example, Ringim & Chandrasekharan, 2014; Uadiale, 2012; Usman & Yero, 2012; Marashdeh, 2014). These studies confirmed that ownership concentration does not have significant effect on financial performance. The finding of this study is contrary to the findings of Javid and Iqbal, (2010); Haniffa and Hudaib, (2006); Nor et al, (2010); Omran, (2009). They argue that ownership concentration is only affective when combining of both ownership concentration and managerial interests.

Lastly, from Table 4.1, audit committee has a t-value of -1.01 and a beta coefficient value of 0.970 with a p-value of 0.002 which is significant at only 5%. This signifies that audit committee has negative insignificant effect on the performance of listed firms in Nigeria. It therefore implies that for every unit increase in the number of members in the audit committee, the firm performance will decrease by 0.970 units change. This provides an evidence of supporting the null hypothesis four which states that audit committee has no significant effects on performance of listed firms in Nigeria.

5.1 Conclusion and Recommendations

From the discussion of the results, the following conclusions were drawn:
Board size has significant positive effect on the performance of listed firms in Nigeria. the study concluded that board size has significantly affected the firm performance. Additionally, the combination of CEO and Chairman has a significant positive effect on the performance of listed firms in Nigeria. Therefore, this study confirmed that combination of CEO and Chairman enhancing the level of performance of listed firms in Nigeria. The result of this study confirmed that ownership concentration significantly but inversely affects performance of listed firm in Nigeria. Therefore, this study concludes that ownership concentration is not enhancing the level of firm performance of listed firms in Nigeria. Finally, the result of this study revealed that audit committee negatively and insignificantly affect performance of listed firms in Nigeria. Therefore, this study concludes that audit committee is not enhancing the level of performance of listed firms in Nigeria.

In line with the findings of this study, Firms should have adequate board size to the scale and complexity of the firms operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. The board size should not be too large and must be made up of qualified professional who are conversant with oversight function. The Board should comprise a mix of executive and non-executive directors, headed by a Chairman. The position of the chairman should be well specified detailing the qualifications and experience of the person to occupy the position. The block-holders inability to constrain financial performance may be as a result of the poor corporate governance practice. Therefore, emphasis should be laid on the number of block-holders an organization should have. Proper checks and balance should be done regularly by the Securities and Exchange Commission to ensure strict adherence especially on the percentage of shares the block holders should hold. Finally, Regulators and Board of Firms re-examine the attributes of Audit committee with a view to strengthen and raise the bar especially on qualifications, experience and industry knowledge of committee membership.

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