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Corporate Governance and Firm Performance of Selected Financial Institution and Manufacturing Companies Listed in Nigeria Stock Exchange

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Abstract:
In line with the code of best practice on corporate governance of 2003, all companies and financial institutions (public and private) are mandated to ensure that they follow the corporate governance practice in their operations. Majority of the companies and financial institutions in Nigeria have complied while some others failed to follow. This paper examines the relationship between corporate governance and firm performance of selected financial institution and manufacturing companies listed in Nigeria Stock Exchange. The mechanism used to measure this relationship were board size, firm size and profit after tax. Corporate governance is measured by board and firm size while the firm performance is measured by profit after tax. Secondary data were generated from the annual reports of the selected firms for the period of 2012 to 2016.The data were analyzed by Ordinary Least Square regression and econometrics method of analysis (E-vie 9 statistical software), the results indicates that board size has statistically significant influenced on firm performance. This shows that the larger the board sizes the better the firm's performance. The result also indicates that the coefficient of firm size has negative influence on the performance of financial institution and manufacturing companies in Nigeria. This connotes that the larger the firm size, the lower the performance of financial institution and manufacturing companies in Nigeria.

Keywords: *Corporate governance, firm performance, board size, firm size and profit after tax*

1. Introduction

Can board size and firm size influence performance of firm financially? In an attempt to have a better response to this question, this paper examines critically the previous empirical studies on the corporate governance and firm performance using board and firm size as variables. However, interest in corporate governance has increased since the turn of the century due to corporate fraud, managerial misconduct, and negligence and massive loss of shareholder wealth (Krechovska & Prochazkova, 2014).There are many reasons for such an explosive interest in this subject, but the main reason is corporate scandal (Allen, 2005). Such explosive interest has resulted in heightened interest on the issue among researchers and policy makers due to series of unexpected corporate failure that has reignited and increased concerns regarding the effectiveness of board oversight (Hsu & Wu, 2014). In the view of Babatunde and Akeju, (2016), there has been a wide variety of interests among researchers, scholars, governments and global agencies on corporate governance after the financial crisis of 2008 that led to the collapse of many institutions in the world. Corporate governance has now become a mainstream concern of discussion in corporate boardrooms, educational meetings, and police circles in the world over (Claessens, 2006).

Generally, banks and manufacturing sectors occupy an important position in the Nigeria companies listed in the Nigeria Stock Exchange, thus its performance may invariably affects the economy of the country. Deficiency in corporate governance of this sector may contribute to their failure and poor performance which in turn affect the economy of the country in a negative way. Das and Gosh (2004), stated that performance of a firm depends on the effectiveness of their corporate governance.

This study was carried out on Zenith Bank (financial institution), Dangote Cement and Cadbury Nigeria PLC (Manufacturing firms) in order to contribute to the needed research area. Also, the study identifies that previous research mostly focused on corporate governance and firm performance in financial institution or in manufacturing firms separately. But, this study examines the corporate governance and financial performance in a financial institution and manufacturing firms jointly using the board and firm size as independent variables.

The key objective of this study is to examine the relationship between corporate governance and firm performance in Nigeria financial institution and manufacturing companies.

2. Literature Review

Giving an acceptable definition of corporate governance may not be as easy as we thought because there is no consensus on its meaning in the previous literature reviews. This is as a result of the differences in the culture, history, academic backgrounds and financial dealing which vary from one country to the other (Melih & Suat,2015)

Sir Adrian, (Cadbury, 2000 cited in Gonencer, 2008): "Corporate governance is the system by which companies are directed and controlled which is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individuals, corporations and society". In examining the Adrian definition of corporate governance above, it may not be acceptable to provide needful answer to all problems of corporations in the area of complex financial markets (complex because they are not readily predictable and certainly not stable or certain). Sir Adrian Cadbury does not pay attention to the quality structure. Oman (2001), stated that corporate governance is the private and public institution, including laws, regulations and accepted business practice, which in the market economy; govern the relationship between corporate managers and entrepreneurs on one hand, and those who invest resources in corporations on the other. This definition can be criticized in the sense that it seems not considered the concept of good governance. Awan (2012), stressed that corporate governance is about ensuring that the business is run well and investors receive a fair return. In particular, this definition seems to fail to recognize the other stakeholders in the running of business but basically focus on the returns which investors are to receive. Yuksel (2008), stressed that high quality status of corporate governance means low capital cost, increase in financial capabilities and liquidity, ability of overcoming crises more easily and prevention of the exclusion of soundly managed companies from the capital markets. This definition focuses on the potential merits of corporate governance in the financial markets and accepts well- structured corporate governance in an entity. As good as the definition of Yuksel, it only considered the economic contributions of corporate governance but fails to consider the legal aspect of it.

According to Ogbeche, (2006), corporate governance means utilizing resources effectively, showing responsibility in supervising over these resources and aligning individuals' interest with companies' and society. Corporate governance is concerned with ways in which all parties (the stakeholders) interested in the well-being of the firm attempt to ensure that managers and other insiders are always taking appropriate measures or adopt mechanisms that safeguard the interest of the stakeholders. Such measures are necessitated because of the separation of ownership from management, an increasingly vital feature of the modern corporations (Waseem, Saleh & Fares, 2011). As observed above, there are various studies to have attempted to give the meaning of corporate governance but many failed to show the main mission of corporate governance.

Catherine and John (2012) looked at the corporate governance as a means whereby society can be sure that large corporations are well-run institutions to which investors and lenders can confidently commit their funds. Chima, Chinadu, Abu & Oba (2013) states that corporate governance is concerned with the processes, system, practices and procedures, the formal and informal rules and regulations are applied and followed, the relationship that these rules and regulations determine or crate, and the nature of those relationships. Oyejide and Soyibo (2001), the concept of corporate governance can be viewed from two perspectives: a narrow view in which merely as being concerned with the structures within which a corporate organization receives its basic orientation and direction; and a broad view in which is regarded as being the heart of both market economy and democratic society. The narrow view portrays it as an enforced system of laws and financial accounting, where socio- environmental considerations are accorded a low priority (Saravanamuthu, 2004). This view looks at the issues relating to shareholder protection, management control and the popular principal-agent relationship (Li, Pike & Hanniffa, 2008; Ojo, 2009).

Awan (2012), stressed that corporate governance is about ensuring that the business is run well and investors receive a fair return. While Yuksel (2008), stated that high quality status of corporate governance means low capital cost, increase in financial capabilities and liquidity, ability of overcoming crises more easily and prevention of the exclusion of soundly managed companies from the capital markets. Coram, Mock and Monroe (2006); Chua,(2006) were of the opinion that sound corporate governance practice leads firms towards the achievement of higher performance; provide sources for capital investment by increasing the credibility of shareholders.Corporate performance is an essential requirement for an organization's survival and growth (Kakande, Bello, & Abba, 2016). Marn and Ramuald, (2012); Yasser, Enterbang and Abu Mansor, (2011), stated that corporate performance relates to the process by which limited resources at organization's disposal are utilized effectively and efficiently in attaining the general objectives of the enterprises for both present and future opportunities.

According to Ayininuola (2009), corporate governance is about ensuring that a mechanism is in place to guarantee that goals pursed by managers do not diverge from those of owners. Macey (2008) states that the purpose of corporate governance is to persuade, induce, compel, and otherwise motivate corporate managers to keep the promise they make to investors. Appah (2017), corporate governance is about reducing deviance by corporation where deviance is defined as any actions by management or directors that are at odds with the legitimate, investment –backed expectations of investors. Good corporate governance, then, is simply about keeping promises. Armeanu, Vintila, Gherghina and Petrache, (2017) added that good corporate governance can be an antidote to firm risk. Bad governance (corporate deviance) is defined as promise breaking behavior.

In order to have a universally accepted definition of corporate governance, it is necessary to include in the main principle of corporate governance, 'fairness, openness, independence, honesty and integrity, responsibility and accountability, reputation and judgment (Melih & Suat,2015). Given consideration to the principle of corporate governance as indicated by Melih and Suat, (2015), corporate governance can now be explained as the management progression that accommodate a set of rubrics in term of fairness, openness, independence, honesty and integrity, responsibility and accountability, reputation and judgment that will have all inclusive good and working relationship with all the stakeholders that have interest in the business.

2.1. Board Size and Firm Performance

Performance is accomplished through the monitoring the output and ensure that the output are in line with what was intended or should have been achieved. Mak and Kusnadi (2005) stated that to measure organizational performance more completely, one can adopt the use of balance scorecard, which elevates non-financial measures to a level consistent with a traditional focus on financial measures. Board size is a critical element of a well-structured board and can affect the effectiveness of board monitoring and control function. Board size depicts the ability of the board to resist the control exercised by managers (Sundgren & Wells, 1998; Shelash Al-Harwery, 2011). Previous study indicated that board size is expected to play a key role in term of the quality of the board in supervising, monitoring the management of the company and thus affecting the quality of the internal control (Lipton & Lorsch, 1992; Jensen, 1993; Vallelado, 2008). Brown and Caylor (2004) stated that firm with board sizes between 6 to 5 have higher returns on equity and higher net profit margins than the firm with lower board sizes. Dogan (2013) also supportively added that the big firms have the opportunity to have more profit since they have a bigger market shares. This study seeks to examine the relationship between board size and firm performance.

2.2. Firm Size and Firm Performance

The size of firms depends on the nature of industry and the size of the firm is vital to its success due to the singularity of economics of scale. Shaheen and Malik (2012) looked at the firm size as the quality and array of production capability and potential a firm possesses or the quality and diversity of service a firm can concurrently make available to its clients. Babalola (2013) argued that the larger a firm is, the more the influence it has on its stakeholders and so large firm has a tendency of perform well. This study looks at the relationship between firm performance (financial) and firm size in Nigeria.

3. Theoretical Framework

Stewardship theory was chosen because it presents a contrasting view to agency theory and it is relevant to the study. The goal of this theory is to maximize shareholder wealth or to maximize social benefit. Aduda, Chogii and Magutu, (2013) explains the stewardship theory thus; managers are inherently trustworthy and faithful stewards of the corporate resources entrusted to them. Managers are good stewards of the organization and it is in their own interest to work to maximize corporate profits and shareholder returns. The theory sees a strong relationship between managers striving to successfully achieve the objectives of the firm, and the resulting satisfaction accorded to investors or owner, as well as other participants in the enterprises (Clarke, 2004). The stewardship supports the need to combine the role of the chairman and chief executive officer, and favour boards consisting of specialist executive directors rather than majority non-executive directors (Yimka, Babatunde & Okezie, 2014).

The basic idea of corporate governance under the stewardship theory is that in any given situation managers are good stewards of corporate assets and they work diligently to maximize shareholder returns (Donaldson, 1990). The assumption from this view is that if mangers do, indeed, fit the "model of man", their performance is not influenced by self-interest, but is more likely to be "affected by whether the structural situation in which he or she is located facilities effective action" (Davis et al., 1997) . The board of directors must ensure that they practice a governing style based on belief that they have the duty to do whatever is right and necessary in the overall interest of corporate objectives.

4. Empirical Review

Recently, Lehn, Sukesh and Zhao, 2004; Boone, Field, and Raheja, 2007; Coles, Daniel, and Naveen, 2008; Gust, 2008; and Linck, Netter, and Yang,2008 examined the determinants of board size empirically and board size is expected to be greater when the need for information and hence board advice is high. Such needs find are expected to increase with the scale and complexity. All the above reviews agreed that board size is positively related to firm size. Karamanou and Vafeas, 2005 argued that the effect of board size on firm performance may not just vary by firm level characteristics, but also by variations in country-specific governance mechanism, institutional, legal practices. Khurram, Ali and Moazzam, (2011) carried out the effect of corporate governance on firm's performance of the Tobacco Industry of Pakistan using data from 2004 to 2008. Multiple regression statistical method was employed to measure the relationships between the dependent and independent variables. Return on equity (ROE) and Return on assets (ROA) were the dependent variable while ownership concentration, CEO duality and Board's Independent variables and the results indicate that there is a strong and positive effect of the corporate governance on firm's performance. . Kajola (2008) in a study conducted in Nigeria of twenty listed firms concluded that there is a positive and significant relationship between return on equity (ROE) and board effectiveness. In the same vein, Balta (2008) also found positive relationship between corporate governance mechanisms and business performance.

In the view of Berger and Patti (2002) a firm's financial performance, in the view of shareholder is measured by how better off the shareholder is at end of a period, than he was at the beginning.

Jayati, Subrata and Kaustav (2012) examined a corporate governance index for 500 listed companies in India corporate sector for the period of 6 years (2003 – 2008) using information on four companies governance variables namely Board of

Directors, Ownership Structure, Information Disclosure and External Auditor. The study looked at the relationship between their corporate governance index and performance of the companies used in their study and the result indicated that there is a strong relationship between corporate governance index and performance of companies.

Ajala, Amuda and Arulogun (2012) examined the effects of corporate governance on the performance of Nigerian banking sector. The secondary source of data was sought from published annual reports of the quoted banks. The Person Correlation and the regression analysis were used to find out whether there is a relationship between the corporate governance variables and firms performance. The study revealed that a negative but significant relationship exists between board size and the financial performance of these banks while a positive and significant relationship was also observed between directors' equity interest, level of corporate governance disclosure index and performance of the sampled banks. Kyereboah-Coleman (2007) found that large and independent boards enhance firm value and that combining the positions of chief executive officer and board chair has a negative impact on corporate performance. Boards and indeed top managers have a critical role in the strategic direction and success of organizations.

Akinyemi and Adebayo (2013) used panel data analysis to constitute the effect of firm size on the profitability of firms belonging to the Nigeria manufacturing sector for the period 2005 – 2012 and the result indicated that firm size has positive significant effect on the profitability of Nigeria manufacturing companies using total assets and total sales as a measurement. Also, Kartikasari and Merianti (2016) investigated the effect of leverage and the size of a company on its profitability using 100 qualified manufacturing companies listed on the Indonesia Stock Exchange in the period 2009 – 2014. They used panel data regression analysis and the study indicated that the debt ratio has a significant positive effect on profitability while a total asset has a significant negative impact.

Tauringana, (2015); Marn and Romuald, (2012); Barisua, Tobira and Lenee, (2012); Yasser et al. (2011), referred to board composition as the number of non-executive directors on the board of a company. Also, Hambrick, (1987) and Mueller, (1981), stated that board characteristics denotes the distinguishing features of persons serving on a board and these features includes age, level of education and expertise and personality. It must be noted that a required number of board members depend on industry-specific and size of firms; for instance, banking sector is found to have board size that is larger than that of manufacturing industry (Adams & Mehran, 2003).

In another perspective, Gill and Obradovich (2012) examined the impact of corporate governance and financial – leverage on the value of American firms and the result indicated that larger board size negatively affected the value of American firms. Also, Ibrahim and Abdul Samed (2011) and Lin, (2011) in their separate studies found negative relationship between board size and firm performance.

5. Methodology and Data Analysis

This section presents the result of the analysis of secondary data generated from the annual financial reports of the sampled firms/institution (Dangote Cement, Cadbury Nigeria PLC and Zenith Bank PLC) for the period of 2012 – 2016 with a view to examine the relationship between corporate governance and firm performance. The mechanism used to measure this relationship were board size, firm size and profit after tax. The selected institution are good representation of corporate governance model because the Zenith Bank Plc used in this study was adjudged the best in corporate governance in 2016 (NSE report) and, the economic development of any nation is directly tied to its banking institution as banking sector performs intermediary roles between the deficit and surplus spending in an economy. Dangote Cement Plc and Cadbury Nigeria Plc are among the leading manufacturing firm in Nigeria. Both were chosen based on their performance in the trading activities of Nigeria Stock Exchange as well their inclusion of corporate governance in their annual reports.

Information relating to firm's performance which is dependent variable was measured by Profitability (PRFT) while independent variable data were collected on Board Size (BODSIZE) and Firm's Size (FIRMSIZE). The firm size was measured by Total Assets.

These three variables are hypothesized to test that corporate governance has significant effect on firm's financial performance in financial institution and manufacturing companies in Nigeria.

5.1. Model Specification and Analytical Technique

To accomplish testing the relationship between corporate governance and firm performance of selectedfinancial institution and manufacturing companies in Nigeria, a regression model was formulated taking into the cognizance,two independent variables that have been identified as mechanism for corporate governance. These mechanisms namely, board size and firm size were entered as the independent variables, while profit after tax as the dependent variable.

Mathematically, the model is expressed as follows:

Firm performance = f(corporate governance) ……….(i)

PRFT = f(BODSIZE, FIRMSIZE) ………………… (ii)

$PRFT = \beta_0 + \beta_1 BODSIZE + \beta_2 FIRMSIZE + U_t$………. (iii)

Where:

PRFT = Firm Performance

BODSIZE = Board Size

FIRMSIZE = Size of the firm (measured by Net Assets)

U_t = Error term

The augmented dickey fuller test, ordinary least square regression, descriptive statistics, cusum and Heteroskedasticity test were used to analyze the data.

5.2. Data Analysis and Interpretations

The unit root test was conducted on the three variables using Augmented Dickey Fuller test. The result shows that none of the variables are stationary at level. The three variables are stationaries at first difference level and all are stationaries at integration order of I (1) as shown in the Table 1 below.

Variables	ADF Statistics	Integration Order
PRFT	-2983	I (1)
BODSIZE	-3.359	I (1)
FIRMSIZE	-2.82	I (1)

Table 1: Augmented Dickey Fuller Test
Source: Researcher Computation, (2017)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-606.7349	192.1110	-3.158251	0.0082
BODSIZE	69.70588	18.86883	3.694233	0.0031
FIRMSIZE	-0.069662	0.025062	-2.779615	0.0167
R-squared	0.540647	Mean dependent var		108.3733
Adjusted R-squared	0.464088	S.D. dependent var		104.6155
S.E. of regression	76.58479	Akaike info criterion		11.69153
Sum squared resid	70382.75	Schwarz criterion		11.83314
Log likelihood	-84.68648	F-statistic		7.061855
Durbin-Watson stat	1.769387	Prob(F-statistic)		0.009395

Table 2: Regression Analysis
Source: Researcher Computation, 2017

From table 2 above, the coefficient shows that board size (BODSIZE) has significant influence on the firm's performance (PRFT). The p-value of BODSIZE (0,0031) is less than 0.05. This means that it is statistically significant and the indication is that the larger the Board sizes the better the firm's performance. This complies with the study of Herman, (1981); and Pfeffer, (1987) which stated that larger boards are assume to have directors with heterogeneous educational and industrial background and skill that will help to enhance actions of the firm, hence, improving performance. The study of Yasser et al. (2001) also found a significant positive relationship between board size and performance measured by return on equity (ROE) and profit margin (PM). Also, Marn and Romuald (2012) indicate that board size has significant effect on performance of listed Malaysian firm. For effectiveness and efficiency of decision making, larger boards are supposed to provide firms with better monitoring as they generally have more time and experience than smaller board (Monks & Minow, 1995; Uadiale, 2010)

The coefficient of firm (FIRMSIZE) revealed that the variable has negative effect on the performance of financial institution and manufacturing companies in Nigeria. It is also statistically significant with the p-value of 0.0167 less than 0.05. This connotes that the larger the firm size, the lower the performance of financial institution and manufacturing company in Nigeria.This complies with the study of Amato and Burson (2007) which examined the size-profit relationship for firms operating in the financial service sector. They examined both the linear and cubic form of the relationship in terms of the linear relationship; the results indicated a negative influence of firm size on its profitability.

The R-Squared of 0.5406 indicates that 54% of the dependent variable were explained by the independent variable (BODSIZE and FIRMSIZE) leaving 46% unexplained. The independent variable showed an overall significant relationship with the dependent variable with a Prob(F-Statistics) of 0.009395. The Durbin- Watson Statistics value of 1.769 approximately 1.8 is an indication of absence of auto-correlation in the regression model.

5.3. Diagnostic Test

In order to ensure the reliability and validity of empirical result, two diagnostic tests were conducted. The diagnostic tests conducted are Heteroskedasticity and Cusum Test.

F-statistic	0.698318	Prob. F(2,12)	0.5166
Obs*R-squared	1.563791	Prob. Chi-Square(2)	0.4575
Scaled explained SS	2.541793	Prob. Chi-Square(2)	0.2806

Test 3: Heteroskedasticity Test: Breusch-Pagan-Godfrey
Source: Researcher Computation, 2017

From the table 3 above, the F-statistic and Obs*R-square value are 0.698318 and 1.563791 with P-value of 0.5166 and 0.4575. Since both P-value are less than 5% level of significance, it indicates an absence of heteroskedasticity in the model.

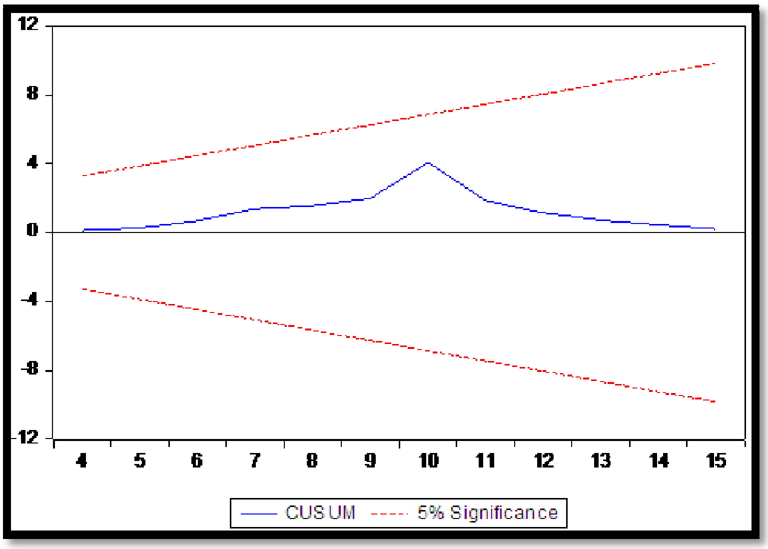

Figure 1: CUSUM Test
Source: Researcher Computation, 2017 (E-View 9)

For the stability of the short run dynamics of corporate governance function, it is important that the Cusum Square Curve stay within the 5% critically bound. This Cusum test result in Fig 1 above shows that the plot does not cross the 5% critical line, withthis; one can therefore conclude that the estimated parameters are relatively stable.

	BODSIZE	FIRMSIZ	PRFT N'billion
Mean	11.60000	1341.910	108.3733
Median	12.00000	639.0000	96.00000
Maximum	14.00000	4284.000	368.0000
Minimum	9.000000	0.280000	0.300000
Std. Dev.	2.063284	1553.437	104.6155
Skewness	-0.248481	0.778373	0.922836
Kurtosis	1.542025	1.998185	3.471473
Jarque-Bera	1.482913	2.141932	2.267996
Probability	0.036419	0.032677	0.011744
Sum	174.0000	20128.65	1625.600
Sum Sq. Dev.	59.60000	33784317	153221.5
Observations	15	15	15

Table 4: Descriptive Statistics
Source: Researcher Computation, 2017

The descriptive statistics of the variable used in this study are presented in the above table 4. The firm performance (PRFT) is the mean variable and the dependent variable. It has a mean value of 108.37 and median value of 96.0. The maximum value is 368.0 and the minimum value is 0.30. PRFT was positively skewed with a skewness value of 0.9228 and P-value of (0.0364) less than 0.05. This shows that the data is normally distributed. The other two variables as indicated above in table 4 also confirmed that both firm size and board size are normally distributed since the probability value of Kurtosis and Jargue-Bera is less than 0.05.

6. Summary and Conclusion

This study examines the corporate governance and firm performance using profit after tax as dependent variable while board and firm size were used as independent variable. The study gathered information from financial reports of banking and manufacturing firms listed on the Nigeria Stock Exchange for the period of 2012 – 2016. Resulting from the analysis, the study concluded that board as a positive significant influence on firm financial performance. The result indicates that the size, goodwill, integrity, qualification, reputation and experience of those that form board memberships are significantly influenced the firm performance. These will give them the opportunity to be divided in smaller committees which will definitely enhance their performances. That is the larger the board size the better the firm performance. Also, the finding shows that the coefficient of firm size has a negative effect on the performance of banking and manufacturing firm. This study revealed that the larger the firm sizes the lower the firm performance.The study conclude that in consideration of board size their goodwill, qualification and experience must be given adequate attention as they in turn affect the performance of banks and manufacturing companies in Nigeria

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