

**EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL
PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN
NIGERIA**

BY

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M.Sc ACCOUNTING AND FINANCE

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF
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NIGERIA**

DECEMBER, 2017

DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for Master of Science Degree in Accounting and Finance. All quotations are indicated and sources of information specifically acknowledged by means of references.

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Sign

Date

CERTIFICATION

This Dissertation entitled, “Effect of Corporate Governance on Financial Performance of Listed Consumer Goods Companies in Nigeria” meets the regulations governing the award of Master of Science (M.Sc) Degree in Accounting and Finance, Faculty of Administration, Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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DEDICATION

This dissertation is dedicated to God Almighty the fountain of knowledge

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ABSTRACT

Corporate governance is a tool that is used in running an organization in a way that guarantees that its owners and stakeholders receive a fair return on their investment. This study investigates the effect of corporate governance on firm's financial performance of some selected consumer goods companies listed on the Nigerian Stock Exchange. The intent of the study is to determine whether corporate governance mechanisms – Board Size, Ownership Concentration and CEO duality have effect on firm performance surrogated by Return on Assets (ROA); Return on Equity (ROE), and Profit Margin (PM). It provides empirical evidence for ten (10) listed consumer goods companies in Nigeria for the period of ten (10) years – 2006 to 2015. This study adopted a descriptive research design. The study population was all those consumer goods companies listed on the Nigerian Stock Exchange. Secondary data were collected using documentary information from Company annual accounts for the period under study. Data was analyzed using the Ordinary Least Square (OLS) Regression method to examine the relationship existing between the variables. The results reveal that the corporate governance measures have an insignificant relationship with firm performance but the signs vary. Some signs are positive while others are negative. Board size show a negative insignificant relationship with all the variables. Also, CEO duality reflects a positive insignificant relationship with ROA and PM, although its relationship with ROE was negative but its effect is not significant. The study concludes that the formality of following the regulation regarding governance structure do deliver positive impacts on the bottom line of a firm, reflecting by the results that two classical mechanisms (CEO duality and ownership concentration) are supported by the statistics of positive relationship. The study recommends that the size of the board should be that which is adequate to ensure that the board is in a position to exercise board power effectively, and what is the right size should be based on the complexity of the company and the competitive environment.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance is all about running an organization in a way that guarantees that its owners who are the stakeholders are receiving a fair return on their investment. It is the process of a virtuous circle that links the shareholders to the board, to the management, to the staff, to the customer and to the community at large (Clarkson & Deck, 1997). Clarkson(1997) also observed that a company is a separate legal entity which no one actually owns. A typical firm is characterized by numerous owners having no management function and managers with no equity interest in the firm. Shareholders or owners of equity are large in numbers and an average shareholders control a minute proportion of the shares of the firm. This gives rise to shareholders to take no interest in monitoring of managers, who are left to themselves and maybe pursuing interest different from those of the owners of equity.

Given the fury of activities that have affected the efforts of consumer goods companies to comply with the various policies and the antecedents of some operators in the system, there are concerns on the need to strengthen corporate governance in companies. This will boost public confidence and ensure efficient and effective functioning of the companies. According to Heidi and Marleen (2003), listed companies supervision cannot function well if sound corporate governance is not in place. Consequently, production supervisors have strong interest in ensuring that there is effective corporate governance at every manufacturing organization.

It is therefore necessary to point out that the concept of corporate governance of consumer goods companies and quoted companies have been a priority on the policy agenda in developed market economies for over a decade (Ofiafoh & Imoisili, 2010). Further to that, the concept is gradually warming itself as a priority in the African continent. Indeed, it is believed that the Asian crisis and the relative poor performance of the corporate sector in Africa have made the issue of corporate governance a catchphrase in the development debate (Berglof & Von-Thadden, 1999).

Several events are therefore responsible for the heightened interest in corporate governance especially in both developed and developing countries. The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies.

In Nigeria, the issue of corporate governance has been given the front burner status by all sectors of the economy. For instance, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies. This is in recognition of the critical role of corporate governance in the success or failure of companies (Ogbechie, 2006). Corporate governance therefore refers to the processes and structures by which the business and affairs of institutions are directed and managed, in order to improve long term share holders' value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders (Jenkinson & Mayer, 2002). Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance.

Jensen and Meckling (1976) acknowledged that the principal-agent theory which was also adopted in this study is generally considered as the starting point for any debate on the issue of corporate governance. A number of corporate governance mechanisms have been proposed to ameliorate the principal-agent problem between managers and their shareholders. These governance mechanisms as identified in agency theory include board size, board composition, CEO pay performance sensitivity, directors' ownership and shareholder right (Metrick& Ishii, 2003). They further suggest that changing these governance mechanisms would cause managers to better align their interests with that of the shareholders thereby resulting in higher firm value.

Although corporate governance in developing economies has recently received a lot of attention in the literature (Isaih & Michael, 2017; Oman, 2001; Malherbe & Segal, 2001; Carter, Simkins& Simpson, 2003; Staikouras, Maria-Eleni, Agoraki, Manthos & Panagiotis, 2007; McConnell, Servaes & Lins,1990, Bebchuk, Cohen & Ferrell, 2009), yet corporate governance of consumer goods companies in developing economies as it relates to their financial performance has almost been ignored by researchers (Alkali, 2016; Levine,1997;Ntim, 2009). Even in developed economies, the corporate governance of consumer goods companies and their financial performance has only been discussed in the literature (Macey & O'Hara, 2001).In fact, scanning the journal articles on the subject only retrieved studies by Mans-Kemp and Viviers (2015), Muchemwa, Padia and Callaghan (2016) who examined the impact of individual corporate governance variables on company performance of some listed companies on the stock exchange. There were neither specific focus on the industry type nor on the composition of corporate governance mechanisms.

The few studies on corporate governance narrowly focused on a single aspect of governance, such as the role of directors or that of stock holders, while omitting other factors like board size and interactions that may be important within the governance framework. Feasible among these few studies is the one by Adams and Mehran (2002) for a sample of US companies, where they examined the effects of board size and composition on value. Another weakness is that such research is often limited to the largest, actively traded organizations- many of which show little variation in their ownership, management and board structure and also measure performance as market value.

Financial performance is a subjective measure of the accountability of an entity for the results of its policies, operations and activities quantified for an identified period in financial terms. In the public sector the nature of financial performance is a function of what the public sector entity is held accountable for accomplishing in financial terms in the identified period Adams(2003). Multiple perspectives of financial performance considered together provide a comprehensive picture of a public sector entity's achievement in relation to the multiple accountabilities expected of it. A subjective 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. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to

look deeper into financial statements and seek out margin growth rates or any declining debt.

The word 'Performance' is derived from the word '*par four men*', which means 'to do', 'to carry out' or 'to render'. It refers to the act of performing; execution, accomplishment, fulfillment, etc. In broader sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frick Kohlar (2008) "The performance is a general term applied to a part or to all the conducts or activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance.

It is a fact that the objectives pursued by shareholders and corporate managers tend to be differing and contradictory with regards to their own interests. Consequently, this has nurtured the conception of a wide spectrum of approaches and processes ensuring that conflicting interest's spill-over are minimized. One of the compromises that have been given birth to address this divergence is corporate governance. At its very root, according to some researchers (Harris and Raviv, 2008, Larcker, Richardson and Tuna, 2007) the theoretical platform on which foundations of corporate governance is built is weak and as such finds itself deprived of any theoretical base. Tricker (2015) also have the same line of reasoning and conclude that studies carried out on corporate governance have not been consistent whether empirically, methodologically, or even theoretically. As such, a vast number of theoretical frameworks have seen the day, stemming from the fields of

economics, finance, management or even sociology, so as to serve as a basis for researchers in their analysis of Corporate Governance. Though to some (for instance Stiles and Taylor, 2002), these piecemeal attempts to understanding Corporate Governance leave them skeptic about the actual function of the Board of Directors in a company, others like Solomon and Solomon (2004) have adopted an optimistic position and consider that these differing frameworks share commonalities on a theoretical base. The well-known and widely discussed theories are the Agency cost theory (Berle and Means, 1932; Jensen and Meckling 1976), the Stakeholder theory (Freeman et al., 2004; Kiel and Nicholson, 2003; John and Senbet 1998); the stewardship theory (Donaldson, 1990; Pfeffer, 1972) and the resource dependency (Ruigrok et al., 2006).

In Nigeria, among the few empirically feasible studies on corporate governance are the studies by Sanda and Mukailu and Garba (2005) and Ogbechie (2006) that studied the corporate governance mechanisms and firms' performance and found that there is no significant effect of corporate governance on financial performance of consumer goods companies. In order to address these deficiencies, this study examined the role of corporate governance in the financial performance of consumer goods companies. Unlike other prior studies, this study is not restricted to the framework of the Organization for Economic Cooperation and Development principles, which is based primarily on shareholder sovereignty. Finally, while other studies on corporate governance neglected the operating performance variable as proxies for performance, this study employed the accounting operating performance variables to investigate the relationship if any, that exists between corporate governance and performance of consumer goods companies in Nigeria.

1.2 Statement of the Problem

The problem areas that spurred the interest in researching on this topic are specifically the loss of confidence by the investors on the capital market, the persistent agency problem and the insolvency of large companies as a result of financial improprieties.

Kajola (2008) asserts that financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria have shaken investors' faith in the capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. Good corporate governance is an important step in building market confidence and encouraging more stable, long-term international investment flows (Bocean & Barbu, 2007). The loss of confidence by investors in the capital market is therefore an indicator of poor corporate governance practice in quoted companies (Oyebode, 2009).

The insolvency of large companies as a result of financial improprieties has awakened discuss on the effect of corporate governance on firm's financial performance (Claessens, 2003; MENA-OECD Investment Programme- Working Group 5). In the same vein, the predominance of sharp practices by management and insider trading for the purpose of defrauding such companies as a result of the need to satisfy some personal interest may also be a contributory factor to poor firm's financial performance.

Previous researchers have been only concentrating on Banking and other service industries thereby ignoring other sectors like consumer goods sectors which are still prone to Corporate Governance issues. Directors have acted illegally or in bad faith towards their shareholders (Dzingai & Fakoya, 2017).

In Nigeria, the studies done have focused on companies other than consumer goods providers in Nigeria. For instance, Udeh, Abiahu and Tambou (2017) evaluated the Impact of Corporate Governance on Firms Financial Performance in Nigeria Quoted Banks, Azutoru, Obinne and Chinelo (2017) investigated the effect of corporate governance on financial performance of Insurance companies in Nigeria while Abdulazeez, Ndibe and Mercy (2016) examined the impact of corporate governance on the financial performance of all listed deposit money banks in Nigeria. The findings from all the aforementioned authors were conflicting and inconclusive coupled with the fact that relevant data from empirical studies are still few. The conflicting evidence may partly be explained by the fact that prior studies suffer from methodology problems, small unrepresentative sample sizes, irrelevant time frames or shorter observation time spans. As a result, the findings of prior studies are fraught with limitations, which make it impossible to generalise results. Hence a need for further research that could lead to new contributions to the scant body of knowledge in this area of consumer goods.

Millstein and Macavoy (1998) describes corporate governance as generally the relationship between the managers, directors as well as shareholders. The characteristics of corporate governance that are commonly studied includes board size (Khanchel, 2007), board independence (Chung et al., 2003; Chen, 2013), ethnic diversity, gender roles (Julizaerma and Sori, 2012; Wagana and Nzulwa, 2016), family ownership (Choi, Shaker, Yoshikawa, and Han, 2014), CEO duality (Pi and Timme, 1993; Yermack, 1996; Mat Rabi et al., 2010), number of board meetings (Vafeas, 1999; Al-Musali and Ismail, 2014), ownership structure (Choi, Park, and Hong, 2012) and director's compensation (Kakabadse and Kakabadse, 2001; Aggarwal and Samwick, 2006). Also, there are four

distinct firm performance measurements used in the literatures which includes innovative performance, production performance, financial performance and market performance (Hornsby, Kuratko, and Zahra, 2002; Hagedoorn and Cloudt, 2003; Yilmaz, Alphan, and Ergun, 2005; Marinova et al., 2016). The firm performance measures that are frequently used include sales, profits, export revenues and productivity (Zahra and Bogner, 2000). Subsequently, the extensively used financial measures includes the returns on assets (Roberts and Amit, 2003; Sher and Yang, 2005; Bessler and Bittelmeyer, 2008), return on equity (Kassim, Ishak and Manaf, 2013; Rahman, Ibrahim, and Zahid, 2014), return on investment (Combs, Crook and Shook, 2005; Richard and Shen, 2010) and earnings per share (Zahra and Bogner, 2000; Rahman et al., 2014). This study however, will examine the relationship between corporate governance mechanisms – represented by board size, ownership concentration and CEO duality variables – and firm's financial performance –Return on Assets (ROA), Return on Equity (ROE) and Profit Margin (PM) is used as a proxy to measure firm performance. This would attempt to address the problems as stated.

1.3 Research Questions

This study addressed issues relating to the following pertinent questions emerging within the domain of study problems:

- i. To what extent does board size affect financial performance of listed consumer goods companies in Nigeria?
- ii. To what extent does ownership concentration affect financial performance of listed consumer goods companies in Nigeria?

- iii. To what extent does the combination of the posts of the CEO and Chairman of the Board (CEO duality) affect financial performance of listed consumer goods companies in Nigeria?

1.4 Objectives of the Study

Generally, this study seeks to explore the effect of internal corporate governance structures on financial performance of listed consumer goods companies in the Nigeria. However, it is set to achieve the following specific objectives:

- i. To examine the effect of board size on financial performance of listed consumer goods companies in Nigeria.
- ii. To assess the effect of ownership concentration on financial performance of listed consumer goods companies in Nigeria.
- iii. To investigate the effect of CEO duality on financial performance of listed consumer goods companies in Nigeria.

1.5 Statement of Hypotheses

To proffer useful answers to the research questions and realize the study objectives, the following hypotheses stated in their null forms will be tested:

- H₀₁:** Board size has no significant effect on financial performance of listed consumer goods companies in Nigeria.
- H₀₂:** Ownership concentration has no significant effect on financial performance of listed consumer goods companies in Nigeria.
- H₀₃:** CEO duality has no significant effect on financial performance of listed consumer goods companies in Nigeria

1.6 Significance of the Study

This study hope to be of immense value to regulators of the companies, investors, academics and other relevant stakeholders. This study provides a picture of where consumer goods companies stand in relation to the codes and principles on corporate governance in Nigeria. It further provides an insight into understanding the degree to which the consumer goods companies that are reporting on their corporate governance have been compliant with different sections of the codes of best practice and where they are experiencing difficulties. Boards of directors will find the information of value in benchmarking the performance of their firm, against that of their counterparts. The result of this study will also serve as a data base for further researchers in this field of research.

1.7 Scope and Limitations of the Study

Considering the year 2006 as the year of initiation of corporate governance codes for the listed companies in Nigeria, this study investigates the effect of corporate governance on financial performance of listed consumer goods companies. The choice of this sector is based on the fact that the consumer goods sector's stability has a large positive impact on the economy and they are the key institutions maintaining the Gross Domestic Product (GDP) of the economy that is essential for the stability of the country. Manufacturing sector stability, in turn has a profound externality on the economy as a whole. To this end, the study basically covers 10 listed consumer goods companies out of all the quoted consumer goods companies which is 23, operating in Nigeria till date. The study covers these listed consumer goods companies' activities during 2006-2015. The choice of this period allows for a significant lag period for consumer goods companies to have reviewed and implemented the Code of Corporate Governance for Public Companies in

Nigeria as released by the Securities and Exchange Commission (SEC) in October 2003. However it was not possible to obtain the annual reports of 2016 since they are yet to be published by some of the consumer goods companies as at the time of this research.

Furthermore, this study focused only on consumer goods sector because corporate governance problems and transparency issues are important in the sector due to the crucial role in increasing the GDP of the country and in providing stability to the economy as a whole. The study therefore covers three key governance variables which are the board size, ownership concentration and CEO duality.

CHAPTER TWO

LITERATURE REVIEW

2.1 Concept of Corporate Governance

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2002). As such it is essential that a comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organization depends on the underlying soundness of its individual components and the connections between them.

According to Morck, Shleifer and Vishny (1989), among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regimes and an appropriate savings deposit protection system.

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) offered 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. The Organization for Economic Corporation and Development (1999) has also defined corporate governance as a system on the basis of which companies are directed and managed. It is upon this system that specifications are given for the division of competencies and responsibilities between the parties included (board of directors, the supervisory board, the management and shareholders) and formulate rules and procedures for adopting decisions on corporate matters.

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 Consumer goods companies because of the peculiar contractual form of running manufacturing organizations which demands that corporate governance mechanisms for the firms should encapsulate depositors as well as shareholders (Macey & O'Hara, 2001). Arun and Turner (2002) supported the consensus by arguing that the special nature of manufacturing requires not only a broader view of corporate governance, but also government intervention in order to restrain the behaviour of firm's management. They further argued that, the unique nature of the consumer goods companies, whether in the developed or developing world, requires that a broad view of corporate governance, which encapsulates both shareholders and depositors, be adopted for the firms. They posit

that, in particular, the nature of the manufacturing firm is such that regulation is necessary to protect depositors as well as the overall financial system.

This study therefore adopts the broader view and defines corporate governance in the context of Manufacturing as the manner in which systems, procedures, processes and practices of a firm 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.

The foundational argument of corporate governance, as seen by both academics as well as other independent researchers, can be traced back to the pioneering work of Berle and Means (1932). They observed that the modern corporations having acquired a very large size could create the possibility of separation of control over a firm from its direct ownership. Berle & Means' observation of the departure of the owners from the actual control of the corporations led to a renewed emphasis on the behavioural dimension of the theory of the firm.

Governance is a word with a pedigree that dates back to Chaucer. In his days, it carries with it the connotation "wise and responsible", which is appropriate. It means either the action or the method of governing and it is in the latter sense that it is used with reference to companies. Its Latin root, "*gubernare*" means to steer and a quotation which is worth keeping in mind in this context is: 'He that governs sits quietly at the stern and scarce is seen to stir' (Cadbury, 1992). Though corporate governance is viewed as a

recent issue but nothing is new about the concept because, it has been in existence as long as the corporation itself (Imam, 2006).

Over centuries, corporate governance systems have evolved, often in response to corporate failures or systemic crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the security laws in the United States were put in place following the stock market crash of 1929. There has been no shortage of other crises, such as the secondary manufacturing crisis of the 1970s in the United Kingdom, the U.S. savings and loan debacle of the 1980s, East-Asian economic and financial crisis in the second half of 1990s (Flannery, 1996). In addition to these crises, the history of corporate governance has also been punctuated by a series of well-known company failures: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers. These were blamed on a lack of business ethics, shady accountancy practices and weak regulations. They were a wake-up call for developing countries on corporate governance. Most of these crisis or major corporate failure, which was a result of incompetence, fraud, and abuse, was met by new elements of an improved system of corporate governance (Iskander& Chamlou, 2000).

The role of corporate governance has been identified as indispensable to manufacturing firm performance and this is so because of the tendency for managers and some other stakeholders to engage in unethical business practice that may undermine the rights of “less informed” stakeholders in corporate organizations (Agbonifoh, 1999). These unethical practices include tampering with the financial statements to give a false impression of the financial health of the organization to the recipients of these reports, in

the case of Nigeria, African Petroleum (AP) gave misleading information on its financial statement, (Onyenankeya, 2003).

Corporate governance is about promoting corporate fairness, transparency and accountability (Glossary, 2013). While Adedotun (2003) sees corporate governance as the framework for accounting for decision making, it is effective management relationship within the organization integrity to enhance manufacturing company performance for the benefit of all stakeholders. Okeahalam and Akinboade (2003) outlined specific benefits of corporate governance to include moral uprightness among organization workforce and it could be counted upon to safeguard the resource and entitlements of all stakeholders. Also, it improves the confidence of the investing public and attracting foreign investors to the companies in particular and the economy in general. Corporate governance enhance the performance and ensure the conformance of corporate to creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firm operational efficiency, returns on investment and long-term productivity growth. The ultimate outcome of these corporate governance benefits are higher cash flows and superior performance of the firm (Love, 2011).

Emerging economy like Nigeria needs well governed and managed business enterprises or organizations that can attract investment, create jobs and wealth for the youth, remain viable, sustainable and competitive in the global market. Good corporate governance is a prerequisite for national economic development. The focus of this section is to explore some fundamental concepts that relate to the subject matter.

Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Emmon & Schmid, 1999). If these mechanisms did not exist or function properly, outside investor would not lend to firms or buy their equity securities and economic performance would suffer because many good business opportunities would be missed and temporary financial problems at individual firms spread quickly to employee and consumers. This study adopts three corporate governance mechanisms namely:board size, CEO status and shareholding (ownership) concentration. They are succinctly explained as follows:

2.2 Corporate Governance Mechanisms

2.2.1 Board Size

There is a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting result emerge on whether it is a large, rather than a small board, that is more effective. For instance, Yermack (1996) in a review of the earlier work of Monks and Minow (2001), argues that large boardrooms tend to be slow in making decision and hence can be an obstacle to change. A second reason for the support for small board size is that directors rarely criticize the policies of top managers and that this problem tends to increase with the number of directors (Lipton & Lorsch, 1992; Yermack 1996).

Empirical studies have shown that small boards were more positively associated with high firm performance (Mak & Kusnadi, 2005; Sanda, Mikailu, & Garba, 2005). However, result of the study of Kyereboah-Coleman (2007) indicates that large boards enhanced shareholders wealth more positively than smaller ones.

The board is an important internal mechanism for resolving the agency problems, since it is primarily responsible for recruiting and monitoring the executive management to protect the interests of the shareholders (Haque, Arun, & Colin, 2008). The structure and size of corporate boards have received much attention in the media and in the business community recently, fuelled by the prominent business failures of large companies such as Enron, WorldCom and Parmalat (Bennedsen, Kongsted, & Nielsen, 2008).

Many researches' have studied the effect of board size as a measure of the quality of corporate governance on firm performance. The empirical results thus far reflect mixed outcomes in the sense that some scholars (Kashif, 2008; Zubaidah, Nurmala, & Kamaruzaman, 2009) conclude that board size have a positive impact on firm performance. Mak & Kusnadi (2005); Randøy, Thomsen, & Oxelheim, (2006); Mashayekhi & Bazaz (2008); Ning, Davidson, & Wang, (2010); Connell & Cramer (2010), conclude that a negative relationship exists. Li & Niu, 2006; Frick & Andreas, (2010); results report a non-consistent relationship between board size and firm performance.

Though the Securities and Exchange Commission Code of Corporate Governance in Nigeria (2003) stipulates that the size of a board should not exceed fifteen (15) persons or be less than (5) persons in total, the question still remains on what the optimal size of a board should be. Among other scholars, Kashif (2008) suggest that the board size be chosen with the optimal combination of both inside and outside directors for the value creation of the company.

Ning, Davidson, & Wang (2010) assert that when board size increases, agency problems in the boardroom increase simultaneously, therefore leading to more director free-riding problems and internal conflicts among directors. Drawing from this pattern of thought, agency theory encourages smaller boards because of the ease of decision making and reduced tendency of conflict of interest

In the U.S., it has been observed that the board size in publicly traded companies range from 8 to 11 directors and overtime, small boards with 7 or fewer directors tend to increase their size but large boards with 12 or more directors tend to shrink their size (Ning, Davidson, & Wang, 2010). Kajola (2008) in his study on the Nigerian environment advocates that board size be limited to a sizeable level.

2.2.2 Chief Executive Officer (CEO's) Duality Status

A lot of studies that have examined the separation of office of board chair from that of CEO generally sought to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant relationship between performance and separation of board chairman and CEO. Yermack (1996) also found firms are more valuable when different persons occupy the CEO and board chairman. The results of the studies show that boards that are structured to be independent of the CEO are more effective in monitoring corporate financial accounting process and therefore more valuable (Klein, 2002). Abor and Biekpe (2005) demonstrate that duality of both functions constitute a factor that influences the financing decision of the firm. They found that firms with structure separating these two functions are more able to maintain the optimal amount in capital structure than firms with duality.

2.2.3 Ownership Concentration

The initial view of the advantages of ownership concentration in joint stock companies was determined by the concern about the opportunistic managerial behaviour (Grosfield, 2006). In a bid to forestall agency conflicts ideas on the dilution of shareholders ownership such that there are different groups of owners.

Corporate governance systems can be distinguished according to the degree of ownership concentration and the identity of controlling shareholders (Bocean & Barbu, 2007). It is for this reason that Farooque (2008) reports that the determinants of company ownership structure are classifiable into shareholder ownership concentration and board ownership. Bocean & Barbu (2007) describe ownership structure as wide dispersed ownership (outsider systems), and concentrated ownership (insider systems). The shareholder ownership concentration of companies is usually characterized by the majority or controlling shareholder who exerts control and significant influence over the company's operating and financial policies. The controlling shareholder is either an individual, family holding, bloc alliance, financial institution or other corporations acting through a holding company or via cross shareholdings (Bocean & Barbu, 2007). Board ownership suggests that board members own shares in the companies where they function. Ownership position with the company aligns directors' economic wealth to the value of the company, thus encouraging directors to be more active in monitoring and controlling the managerial initiatives that could lower the company's value (Kim, Al-shammari, Kim, & Lee, 2009).

This study focuses on board ownership concentration because it is an internal corporate governance mechanism that has the likelihood of decreasing agency costs.

The empirical studies on the relationship between ownership structure and corporate governance have often produced mixed outcomes all through literature. Based on this Earle, Kucsera, & Telgedy (2005) suggest that the effects of ownership concentration on firm's financial performance are theoretically complex and empirically ambiguous. Kumar (2003) in his empirical work resolved that there is no evidence to support that the differences in ownership structure, affect firm's financial performance; after controlling for observed company characteristics and company fixed effects.

Bolbol, Fatheldin, & Omran (2004) conclude that ownership concentration is an endogenous response to poor legal protection of investors, but seems to have no significant effect on companies' performance.

In the works of Grosfeld (2006); Javid & Iqbal (2007), they find that there is a positive relationship between ownership concentration and firm performance. Though there exist a disparity in literature as regards the relationship between ownership concentration and firm's financial performance, this study takes a standpoint based on the inverse relationship between agency cost and firm's financial performance. Based on the observation that ownership concentration enhances corporate governance, it is expected that it would increase performance since it reduces agency cost. A more concentrated director ownership implies that the directors have an interest in the company and this would prompt them to maximise profit and shareholders wealth.

2.2.4 Concept of Financial Performance

There exists a plethora of researches measuring the relationship between corporate governance and firm performance across business environments. These literatures are

reviewed in this segment identifying the variables, and the empirical findings. Firm performance from an accounting literature perspective hinges on company profitability and performance of stocks in the capital market.

The measures of firm performance based on literature can be broadly classified into two namely the market oriented measures and the accounting oriented measures. Furtado & Karan, (1994) provide evidence that boards prefer accounting measures market to measures in evaluating managerial performance.

Accounting based measures are adopted in the study as performance measures because they provide the most available data. This section gives a brief overview of the prominent market and accounting based measures.

Return on Assets (ROA)

Accounting performance measures (like ROA) have an advantage because they are backward looking . (Jong, Gispert, Kabir, & Renneboog, 2002). ROA gives an idea as to how efficient management is at using its assets to generate earnings (Khatab, Masood, Zaman, Saleem, & Saeed, 2011). It is often computed by dividing Profit After Tax (PAT) by Total Assets (TA) alternatively, it can be calculated by dividing Earnings before Interest and Tax (EBIT) by Total Assets.

Profit margin (PM)

This accounting based performance measure can be tagged as forward looking because profit for the period is measured against sales for the current period. Profit margin is calculated as Profit After Tax (PAT) divided by Turnover or Net Sales. The essence is that it provides information on the percentage of profit that sales are able to generate.

Return on Equity (ROE)

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. (Khatab, Masood, Zaman, Saleem, & Saeed, 2011). It is often viewed as a hybrid measure of firm performance because it incorporates profit which is accounting based and equity which is market based. It is determined by dividing Profit After Tax by Total Equity.

2.3 Empirical Literature

2.3.1 Ownership Concentration and Firm Performance

The effects of ownership concentration on firm performance are theoretically complex and empirically ambiguous. Concentrated ownership is widely acknowledged to provide incentives to monitor management. Large shareholders might have the greater incentive to improve firm performance than do dispersed shareholders. Furthermore, concerted actions by large shareholders are easier than by dispersed shareholders. In other words, large shareholders have both an interest in getting their money back and the power to demand it. However, despite the obvious benefits from concentrated ownership, attention has also been focused on the adverse effects. For example, while dispersed ownership offers better risk diversification for investors, concentrated ownership imposes increasing risk premia because of risk aversion of large shareholders (Demsetz and Lehn, 1985), causing potential under-investment problems. A more important issue in this respect is that concentrated ownership could lead to another sort of agency problem, that is, conflicts between large shareholders and small shareholders. Large shareholders have incentives to use their controlling position to extract private benefits at the expense of minority shareholders (Lee, 2008).

Since concentrated ownership has its own specific benefits and costs, it is theoretically open which one dominates. Just as in the theoretical consideration, while some empirical research supports the positive relationship, other empirical research suggests that concentrated ownership does not necessarily lead to better firm performance. Several papers (Short, 1994; Shleifer and Vishny, 1997; Gugler, 2001) provide comprehensive surveys and show that the overall empirical evidence on the effects of ownership concentration on firm performance is mixed.

There have been different studies examining the effects of ownership concentration on performance. Hill and Snell (1988) show that ownership structure affects firm performance as measured by profitability through strategic structure. Later, Hill and Snell (1989) confirm this positive relation for US firms by taking productivity as a measure of performance. On the contrary, McConnell and Servaes (1990) do not find evidence supporting any direct effect of large shareholders on firm value. Nevertheless, the empirical evidence in Agrawal and Mandelker (1990) supports the hypothesis proposed by Shleifer and Vishny (1986) that the existence of large owners or a high concentration ownership leads to better management and also better performance, especially when ownership is concentrated in institutional investors rather than individual investors. Therefore, institutional ownership could increase a firm's performance.

Wu and Cui (2002) study the effect of ownership structure on a firm's health. They found that there is a positive relation between ownership concentration and accounting profits, indicated by return on assets (ROA) and return on equity (ROE), but the relation is negative with respect to the market value measured by the share price-earnings ratio (P/E) and market price to book value ratio (M/B). Also, the contribution of government

(state) and institution ownership is significantly positive to company profit, while negative to the market value. Xu and Wang (1997) investigated whether ownership structure has significant effects on the performance of publicly listed companies in China. They find that ownership structures, both the mix and concentration of ownership have a significant effect on the performance of stock companies. There is a significant and positive relationship between ownership concentration and firm's profitability. Also the effect of ownership concentration is stronger for companies dominated by shareholders than for those dominated by the state.

There is also some empirical evidence of a negative impact of large equity holders on firm performance. Lehmann and Weigand (2000), focusing on German corporations, find indeed a negative effect of ownership concentration on firm performance. Leech and Leahy (1991) analyzed the implications of the separation of ownership from control for a UK firm value. They describe ownership structure using several measures of concentration and control types. Therefore, ownership structure is expected to affect a firm's performance through the effects of ownership concentration. They found that there is a negative and significant relationship between ownership concentration and firm value and profitability. Another study of the British case, by Mudambi and Niclosia (1998), confirms this negative relationship between ownership concentration and performance. Prowse (1992) examines the structure of corporate ownership in a sample of Japanese firms in the mid-1980s. His empirical work indicated that there is no relationship between ownership concentration and profitability. Also, Chen and Cheung (2000) found a negative relationship between concentrated ownership and firm value for a sample of 412 publicly listed firms in the Hong Kong stock exchange through 1995-1998.

A nonlinear relationship between ownership concentration and firm performance is another important issue in empirical analysis. Thomsen and Pedersen (2000) show empirically that firm performance first improves as ownership is more concentrated, but eventually declines in the largest European companies. It indicates that, at high levels of ownership concentration, the benefit of concentrated ownership is outweighed by the negative effects. Among the negative effects, the expropriation of small shareholders by large shareholders is noteworthy. Porta et al. (1999) find that the main problem in large firms of 27 advanced countries may be the potential expropriation because controlling shareholders have control rights significantly in excess of cash flow rights via pyramid structure. Using data for public companies in East Asia, Claessens et al. (2002) show that firm market value increases with the cash-flow ownership of largest shareholders, but drops when the control rights of largest shareholders exceed their cash-flow ownership. Similar results are often found in Korea (Joh, 2003; Baek et al., 2004). Interestingly, evidence shows that, in emerging economies, control rights in excess of cash flow rights are related to lower firm values, but not enough to offset the benefits of concentrated ownership (Lins, 2003). However, according to S´anchez-Ballesta and Garcia-Meca (2007), the relationship is moderated by institutional environment. The relationship is stronger in continental countries than in Anglo-Saxon countries, which would support the argument that ownership is more positively related to firm performance in countries with lower levels of investor protection.

2.3.2 Board Size and Firm Performance

Several studies concentrating on the influence of board size on company performance have mixed results. Thus, Dalton et al. (1999 cited in Nguyen et al., 2014) shows that

board size is one of the most important features of board functionality, however, they found out that the scholars could not reach to a consensus about whether or not board size has an impact on firm performance.

It is argued that agency theory expects a negative correlation between board size and firm performance (Jensen, 1993 cited in Nguyen et al., 2014). There are two primary sources of the board-size effect: an increase in the problems of communication and coordination when board increases its size, and the reduced ability of the board in controlling management, which causes agency problems due to the separation of control and management (Yermack, 1996; Jensen, 1983 cited in Eisenberg et al., 1998). It is greatly believed that coordination, communication and decision-making process of large board would be slower and more complicated than that of smaller ones (Jensen, 1993; Lipton and Lorsch, 1992; Yermack, 1996 cited in Eisenberg et al., 1998). Jensen (1993, cited in Wang et al., 2013) indicates that larger boards would cause less candid discussions about managerial performance and reduce the board's ability to oppose CEO control. Therefore, the scholar emphasizes in his study as follows: "when boards get beyond seven or eight people they are less likely to function effectively and are easier for the CEO to control" (Jensen, 1993, p. 865). Yermack (1996, p. 210) also supports this view by stating that "CEO performance incentives provided by the board through compensation and the threat of dismissal operate less strongly as board size increases". He points out that there is an inverse correlation between board size and several accounting measures of profitability. Hence, limiting board size is believed to improve firm performance because the benefits of larger boards from increased monitoring are outweighed by the poorer communication and decision-making of larger groups (Lipton

and Lorsch, 1992; Jensen, 1993 cited in Bown and Caylor, 2004). Furthermore, Yermack (1996) strongly claims that decreasing board size is a strong preference for those who search for improving firm performance. He argues that some additional evidence shows that companies with small boards could achieve the highest market value. Besides, he also states that several results of operating efficiency and profitability present a negative correlation with board size over time within companies. Stock returns of a set of companies show significant changes in board size, which indicates that investors react negatively when the boards become larger and positively when the boards reduce their size (Yermack, 1996). Similarly, Eisenberg et al. (1998) report that firms having small board size would achieve higher returns on investment in comparison with their peers.

Board size has several implications for board independence. According to Shaw (1981, cited in Muth and Donaldson, 1998), a smaller board may be easily influenced and controlled because of potential social unity, meanwhile, a larger board will require the CEO to spend more time and effort to gain consensus when dealing with a particular situation. Thus, the board's independence is increased when the board is large, which makes the influence of the CEO on the board be diminished. As a result, it would be harder for the CEO to aim for dominating the board (Muth and Donaldson, 1998). Anderson et al. (2004 cited in Brown and Caylor, 2004, p.6) also claims that the cost of debt is lower for large boards because the creditors may assume that those firms "having more effective monitors of their financial accounting processes". Some evidence is found to support for larger boards. The research of Chaganti et al. (1985 cited in Muth, Donaldson 1998) on the correlation between board size and bankruptcy argues that unsuccessful firms in their sample tend to have smaller boards than successful ones. They

suggest that larger boards would be more independent of management, which explains for the correlation between larger boards and higher performance.

The scholars also have different views about the size of an effective board. Jensen (1993 cited in Mak and Kusnadi, 2005) argues that boards having more than seven to eight members seem to be less effective because of problems in communication, coordination and decision making. He also claims that this size of board is more likely to be greatly influenced by the CEO. Nevertheless, the research of Bhagat and Black (1999) states that that an effective board is between seven to nine members, while Brown and Caylor (2004) shows that companies whose boards are between about six to 15 members, have higher returns on equity and higher net profit margin than those with different sizes. The research of Lipton and Lorsch (1992) is consistent with Bhagat and Black (1999), which suggests that limiting the board size to ten people would improve performance, with a favored size of eight or nine. It is strongly believed that the benefits of increasing the board size would be outweighed by the costs such as “slower decision-making, less candid discussion of managerial performance and biases against risk-taking” (Yermack, 1996, p. 186).

The empirical findings yield some mixed results. According to Nguyen et al. (2014), while several scholars believe it is a positive correlation between board size and firm performance (e.g. Beiner et al., 2006), others report an inverse relationship (e.g. Mak and Kusnadi, 2005; Yermack, 1996). Kiel and Nicholson (2003 cited in Finegold et al., 2007)’s research on Australian companies shows a positive correlation between firm size and firm performance or the three year average of Tobin’s Q. The studies of Daily and Dalton (1993) and Walsh and Seward (1990) also indicate that those firms having larger boards gain better financial performance (Finegold et al., 2007). Besides, Denis and Sarin

(1999, cited in Finegold et al., 2007) show that market-adjusted returns are improved in firms having more directors onboard. Additionally, Dalton et al. (1999 cited in Finegold et al., 2007) argue that adding more directors on the board would help firms to improve their financial performance. They suggest that this conclusion is true for firms of all size, but the impact of board size on performance was higher in smaller companies.

Nevertheless, there is a wide range of evidence consistent with the finding of a negative correlation between board size and firm value (Yermack, 1996). The scholar states that financial measures and market value of firms with smaller boards are improved significantly. He suggests that when board changes its size from small to medium, the largest proportion of lost value would take place. Nevertheless, he could not find any evidence, which supports the hypothesis that companies adjust board size as a consequence of past performance. He also claims that financial measures of profitability and operating efficiency tend to decline when board becomes larger. Besides, the performance incentives for CEO decided by board such as compensation and risk of dismissal could be reduced when board size increases (Yermack, 1996). De Andres et al. (2005 cited in Finegold et al., 2007)'s research on the US companies concluded that there is a negative correlation between board size and firm performance measured by 12-month equity market to book value. Furthermore, the empirical findings of Yermack (1996), Eisenberg et al. (1998) greatly support this view that large boards correlate with lower firm value measured by Tobin's E. In the study of Mak and Kusnadi (2005) about Singaporean and Malaysian firms, it is found out that there is a negative relationship between board size and firm value, which could be generalized to environments with various corporate governance system. This is compatible with the empirical findings of

Yermack (1996) and Eisenberg et al. (1998) for the US market. Research in organizational behavior also reflects that large boards are less likely to be effective than small groups in decision-making (Hackman, 1990 cited in Mak and Kusnadi, 2005). In addition, large groups cost more in terms of directors' remuneration and have a tendency of adding more directors instead of replacing existing ones (Mak and Kusnadi, 2005). In the research conducted by Eisenberg et al. (1997 cited in Vo and Nguyen, 2014) on 900 small and mid-sized Finnish firms, the researchers find that there is a negative relationship between board size and return on assets and operating margin. Additionally, the study of Eisenberg et al. (1998) presents that there is a negative relationship between board size and profitability in small firms with small boards. Also, problems concerning communication and coordination could be found in smaller boards and firms. Moreover, the scholars also suggest that the optimal board size is different according to firm size.

2.3.3 Chief Executive Officer (CEO) duality and financial performance

Although several studies argue that the separation of the CEO and chairman would create a better corporate governance system, it is still questioned whether or not the board would become a better monitor and could increase firm's value (Abdullah, 2004).

It is argued that CEO duality would lead to maximum firm performance because it allows explicit leadership to formulate and implement strategy (Stoeberl and Sherony, 1985; Anderson and Anthony, 1986 cited in Baliga et al., 1996). Therefore, the scholars explain that non-duality would: (1) increase the conflicting actions and expectations of management and the board (Alexander et al., 1993 cited in Baliga et al., 1996); (2) create the potential competition between the chairman and the CEO; (3) cause confusion due to the presence of two public representatives, (4) restrict innovation and entrepreneurship of

the CEO if he thinks that the board “will perennially second guess his or her actions” (Baliga et al., 1996, p. 42). The advocates of the CEO duality also suggest that combining these two roles provide a clear focus for objectives and operations while the separation of the CEO and the chairman would create more costs than benefits, especially for larger firms (Brickley et al., 1997 cited in Abdullah 2004).

In contrast, those who argue against CEO duality indicate that duality would: (1) constrain board independence and reduce the possibility that the board can properly execute its oversight and governance role (Lorsch and MacIver, 1989; Finkel and Louie, 1990; Dobrzynski, 1991; Millstein, 1992 cited in Baliga et al., 1996), (2) “signal the absence of separation of decision management and decision control... the organization suffers in the competition for survival” (Fama and Jensen, 1983, p. 314); (3) insecure directors would feel risky to be honest when they have to provide assessment on financial performance, which results in structural drift in the long-run (Carver, 1990 cited in Baliga et al., 1996). On the basis of agency theory, CEO duality would hamper the board from performing its monitoring role because of a compromising impaired board (Donaldson and Davis, 1991 cited in Nguyen et al., 2014). Furthermore, it is greatly believed that the power of monitoring function would be abused for CEO’s self-interests. In order to resolve this problem, Daily et al. (2004 cited in Nguyen et al., 2014) suggest that CEO non-duality would lead to better monitoring results. This view is strongly supported by Fama and Jensen (1983 cited in Nguyen et al., 2014), who believe that CEO non-duality would reduce agency problems by diffusing and separating managerial functions from control functions. Abdullah (2004) also points out several drawbacks of CEO duality. He indicates that when a person holding both positions of chairman and CEO; the board’s

ability in monitoring and controlling management would be diminished due to a lack of independence and conflicting interests. He also claims that the separation of the chairman and the CEO would reduce the power of the CEO and strengthen the board's intensity to perform its oversight function. Thus, the board would have greater freedom to evaluate the performance of the CEO and executives, as well as provide unaffiliated judgment. Moreover, the monitoring function of the board would be seriously damaged when an individual person holds both the CEO and chairman of the board. This leads to a significant impact on the board incentive to make sure that executive directors will conduct value-increasing operations (Abdullah, 2004). Rechner (1989 cited in Abdullah, 2004) argues that the weakest corporate governance is the one that the board primarily consists of insider directors and the CEO is also the chairman of the board. When a firm is properly dominated by one person, the role of outside unaffiliated directors becomes "hypothetical" and the structure is seen as a rubberstamp board – a board is not able to protect the interests of all shareholders while the CEO taking overall control (Rechner, 1989 cited in Abdullah, 2004).

Empirical studies examining the link between CEO duality and firm performance are few and their findings present mixed results (Baliga et al., 1996; Bhagat and Bolton, 2009 cited in Nguyen et al., 2014). Some studies show that this relationship is positive or insignificant while others find that it is a positive or significant correlation (Donaldson and Davis, 1991; Laing and Weir, 1999 cited in Nguyen et al., 2014). It is due to many different methods being used such as accounting based or market-based measures of performance (Bhagat and Bolton, 2009 cited in Nguyen et al., 2014). For example, while they saw a negative association with ROA, they also found out a positive relation with

Tobin's Q. The research of Boyd (1995 cited in Vo and Nguyen, 2014) testing agency theory and stewardship theory suggests that "the effect of chair directors on firm performance is different across various environments" (Vo and Nguyen, 2014, p.3). The study of Baliga et al. (1996) illustrates that there is no considerable difference in performance when duality status is changed. In addition, firm performance does not present a considerable difference in terms of duality and non-duality in the long-term. Although they can see some changes in the managerial process caused by duality, it does not create more assets in order to affect financial performance of firms (Baliga et al., 1996 cited in Vo and Nguyen, 2014). They suggest that focusing on a single variable of the relationship between corporate governance and financial performance such as duality does not improve the firm performance due to the high complexity and correlation of determinants. Indeed, the researchers point out that: The finding of no significant difference in the operating performance suggests that a duality status change (especially going from duality to non-duality) is more a variant of the 'scapegoating phenomenon' and a symbolic way of 'signaling' that the board is effectively exercising its governance role, than an effective way of motivating fundamental changes in firm performance (Gamson and Scotch, 1964; Pfeffer, 2003 cited in Baliga et al., 1996).

Nevertheless, the scholars also agree that it may take longer than their observed two-year measurement to realize significant impact on firm performance as a result of changes in strategies and programs. Berge and Smith (1918 cited in Abdullah 2004) also support the view that there is no considerable difference in a wide range of financial indicators between firms having structure of CEO duality and those of non-CEO duality. Thus, considerable costs of separation would come from "...the incomplete transfer of

company information and confusion over who is in charge of running the company” (Goodwin and Seow, 2000, p.43). Consequently, this would hinder the performance of the firm’s financial indicators and make the decision process run slower (Abdullah, 2004).

Meanwhile, if an individual person is responsible for both tasks, he or she could understand what decisions would help to improve company performance (Abdullah, 2004). This view is backed by the study of Rechner and Dalton (1991 cited in Abdullah, 2004), which presents that firms having structure of CEO duality achieves better performance consistently than those with CEO non-duality. The research conducted by Vo and Nguyen (2014) also further supports the view of stewardship theory, which reports the role of CEO duality in improving firm performance. In contrast, several studies examining the impact of the separation of CEO and chairman, shows that agency problems are higher when a person is in charge of two tasks (Brown and Caylor, 2004). The studies of Yermack (1996) and Brown and Caylor (2004) presents that firms are more valuable when the CEO and chairman are separate. The research of Fich and Shivdasani (2004 cited in Brown and Caylor, 2004) on 100 firms during the period of 2 years from 1997 to 1999, show that firms gained greater profit and higher market value to its book value with director stock option plans.

Dzingai and Fakoya (2017) examined the effect of corporate governance structures on firm financial performance. The secondary data was selected Johannesburg Stock Exchange (JSE), Socially Responsible Investment (SRI) Index-listed mining firms’ sustainability reports, and integrated annual financial statements were used. Using panel data analysis of the random effects model, we determined the relationship between board independence and board size and the return on equity (ROE) for the period 2010–2015.

Results indicate a weak negative correlation between ROE and board size, and a weak, but positive, correlation between ROE and board independence. Additionally, there is a positive, but weak, correlation between ROE and sales growth, but a negative and weak relationship between ROE and firm size. The study suggested that effective corporate governance through a small effective board and monitoring by an independent board result in increased firm financial performance. They recommend that South African companies see compliance with the recommendations of the King IV Code on Corporate Governance not as a liability, but an ethical investment that may likely yield financial benefit in the long-term. Although complying with corporate governance principles does not necessarily translate into a significant economic benefit, firms should, however, continue to adopt corporate governance for ethical reasons to meet stakeholder's social and environmental needs for sustainable development.

Krishnan and Amin (2017) examined the relationship between corporate governance and non-technology firm performance. The empirical data on 14 public listed companies (Plc.s) in Malaysia that is observed for year 2010-2014. The data was analysed by using the simple linear and hierarchical regression analysis. Findings showed that there is a positive relationship between corporate governance and firm performance.

Herdjiono and Sari (2017) study aimed at analysing the influence of the size of the board of directors, audit committee, institutional ownership and managerial ownership on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange. The study analysed 156 Indonesia firms listed on the Indonesia Stock Exchange using linear regression analysis. The results indicated that the size of the board of directors has a positive effect on financial performance, while the size of the audit

committee, institutional ownership and managerial ownership has no effect on the financial performance. While on the simultaneous testing, it showed that the size of the board of directors, audit committee size, institutional ownership and managerial ownership influence the financial performance. The study suggested considering an external mechanism of corporate governance as predictor variables.

Roy (2016) studied whether firm level good corporate governance lead to better firm performance and higher value creation in the form of share price returns. The author used panel of 58 top Indian listed companies in terms of market capitalization—BSE 100 and NSE 100—over the five-year period from 2007–2008 to 2011–2012 for the analysis. Measurement analysis started with a broad sample of 25 structural indicators of CG relating to directors, boards committees, audit considerations, ownership and capital structure characteristics, and the defined set of control variables – two measures of firm performance, Market to Book Value Ratio (MTBVR) and Return on Equity (ROE). Principal component analysis was used to identify the underlying dimensions of CG and determined which indicators were associated with each factor. MTBVR and ROE were regressed against the factor scores generated. MTBVR resulted in an R-square of 34.9 per cent and has a strong association with five factors. ROE resulted in an R-square of 48.6 per cent and was significantly influenced by the five factors.

2.4 Theoretical Framework

The basic theoretical structures of corporate governance include the agency theory, stakeholder theory, stewardship theory, and resource dependency theory. Agency theory and stewardship theory are however, two important perspectives that provide a significant insight into the functions of the board in terms of size and independence as well as the

functions of the CEO on firm performance. The theory of agency forms the theoretical core for this study because it is a foundational theory of corporate governance. These theoretical perspectives are discussed herewith with emphasis on agency theory.

2.4.1 Stewardship Theory

The Stewardship theory presents a contrasting view to agency theory. This theory asserts that, there will not be any major agency costs, since managers are naturally trustworthy (Donaldson, 1990; Donaldson & Preston, 1995, as cited in Aduda, Chogii&Magutu, 2013). According to the perspective of the 'stewardship theorists, 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.

Therefore, proponents of stewardship theory argue that firm performance is linked to a majority of inside directors and combined leadership structure (Aduda, Funmilayo and Adesuyan, 2013). Stewardship theory sees a strong relationship between managers striving to successfully achieve the objectives of the firm, and the resulting satisfaction accorded to investors or owners, as well as other participants in the enterprise (Clarke, 2004). A virtuous circle is evident in stewardship theory, where stewards protect and maximize shareholder wealth through firm performance, which results in maximizing the stewards' utility. Therefore, by improved firm performance, the organization satisfies most groups that have an interest in the organization. Thus, stewardship theory supports the need to combine the role of the chairman and CEO, and favour boards consisting of specialist executive directors rather than majority non-executive directors.

2.4.2 Stakeholder Theory

The Stakeholder theory was embedded in the management discipline in 1970 and was gradually developed by Freeman in 1984, which incorporated corporate accountability to a broad range of stakeholders. Wheeler, Colbert and Freeman (2003) argued that the stakeholder theory is derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science. Donaldson and Preston (1995) opined that this theory focuses on managerial decision making and the interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others. Unlike agency theory in which the managers are working and serving the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve the like of the suppliers, employees and business partners. It argued that this group of network is important other than owner-manager-employee relationship as in agency theory (Wheeler, et. al, 2003). On the other end, Sundaram and Inkpen (2004) contend that the stakeholder theory attempts to address the group of stakeholders that deserve and require the attention of the management. Since the purpose of all stakeholders in business is to obtain benefits, it has been argued that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders. Also, since the network of relationships with many groups can affect decision-making processes, as the stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders (Babalola, 2014).

2.4.3 Resource Dependency Theory

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, the resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources for an organization through their linkages to the external environment (Babalola&Adedipe, 2014). Meanwhile, Wanyama and Olweny (2013) agreed that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. It has been argued that the provision of resources enhances organizational functioning, firm's performance and its survival (Daily, Gora & Okonkwo, 2003). According to Hillman, Canella & Paetzold (2000) that directors bring resources to the firm, such as information, skills, and access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community influential. First, the insiders are current and former executives of the firm and they provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction. Second, the business experts are current, former senior executives and directors of other large for-profit firms and they provide expertise on business strategy, decision-making and problem solving. Third, the support specialists are the lawyers; consumer goods companies, insurance company representatives and public relation experts and these specialists provide support

in their individual specialized field. Finally, the community's influential are the political leaders, university faculty, members of clergy, and leaders of social or community organizations.

2.4.4 Agency Theory

The Agency theory having its roots in economic theory was expounded by Alchian and Demsetz in 1972 and further developed by Jensen and Meckling in 1976. The Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the agents to perform the work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Meanwhile, Daily, Dalton and Canella (2003) argued that two factors could influence the prominence of agency theory. First, the theory is conceptual and simple theory that reduces the corporation to two participants of managers and shareholders.

Second, agency theory suggests that employees or managers in organizations can be self-interested. The agency theory states that shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross in 1973, and the first detailed description of agency theory was presented by Jensen and Meckling in 1976. Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Davis, Schoolman and Donaldson in 1997. With agency theory, the agent may be succumbed to self-interest,

opportunistic behaviour and falling short of congruence between the aspirations of the principal and the agent's pursuits, even with the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). It has been argued that instead of providing fluctuating incentive payments, the agents would only focus on projects that have a high return and have a fixed wage without any incentive component. Although this will provide a fair assessment, but it does not eradicate or even minimize corporate misconduct (Muogbo, 2013). Here, the positivist approach is used where the agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners.

2.4.5 Assumptions of Agency Theory

An assessment of literature has resulted in the observation that there are certain assumptions of the theory of agency. Jensen & Meckling (1976) opine that typical of the assumptions of agency theory is uncertainty and imperfect monitoring. Uncertainty is usually experienced by the principal in terms of not been able to ascertain the return on investment or the maximization of shareholders wealth. The principal is expected undergo a constrain of not been be able to perfectly monitor the activities of the agent. It is believed that there is also a distorted flow of communication between the principal and agent resulting in information asymmetry. Also, both parties (principal and agent) are utility *maximizers* which mostly results in divergence of interest.

2.4.6 Limitations of Agency Theory

Agency theory has been criticized to exhibit a dyadic relationship overlooking diversities between the relevant actors and their interdependencies (Nanka-Bruce, 2009). The peculiarities of these relevant actors as well as likelihood of a symbiotic relationship needs to be taken into consideration.

Agents are often viewed as opportunistic and self-centered but there are scenarios where agents are able to act as true captains based on the motivation and rewards they receive. Donaldson & Davies (1991) also corroborates that identification by managers with the company, especially likely if they have served there with long tenure and have shaped its form and directions, promotes a merging of individual ego and the corporation, thus melding individual self-esteem with corporate prestige.

2.5 Summary

Asides the global economic crisis, the incidence of creative accounting, insider trading and other corrupt practices has prospered the relevance of good corporate governance globally. These activities as in the Enron, Adelphia, World Com, Parmalat, Tyco, and Cadbury Nigeria scenarios has a down turn effect on performance. This suggests that there is a possible relationship between corporate governance and firm performance as it were. A plethora of studies have therefore been embarked on in various environments to determine the state of the relationship.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the method and procedures employed in carrying out the research. It also discusses the research design, population of the study and data gathering method.

3.2 Research Design

The study employed a composite ex post facto research design drawing from previous studies in related areas. It involves the gathering of information about the corporate governance and financial performance of consumer goods companies listed on the Nigerian Stock Exchange. The ex post facto research design is used when secondary data are relied upon for analysis.

3.3 Population and Sampling Techniques

The population of this study consists of 23 consumer goods companies listed on the Nigerian Stock Exchange (shown in Appendix 1). The time frame considered for this study is from 2006 to 2015. This 10 year period, although longer than most studies of this nature like Hillman, Cannella and Paetzold (2000) and Mulili and Wong (2011), allows for a significant lag period for consumer goods companies to have reviewed and implemented the corporate governance guidelines developed by SEC in 2003.

The sampling technique used in this study is the judgmental sampling technique. It is the non-random sampling technique wherein the choice of sample items depends exclusively on the investigator's knowledge and professional judgment. This is applied because of the need to select a sample based on the availability of the required information to achieve the objective of the study. Thus the sampling frame consisted of 10 companies from the

selected population. Only companies with financial statements covering the time period of 2006 to 2015 were selected based on access to their annual reports and accounts.

Table 3.1 Sampled Listed Consumer Goods Companies

S/N	Name of Companies
1.	CADBURY NIGERIA PLC.
2.	CHAMPION BREW. PLC.
3.	DANGOTE FLOUR MILLS PLC[MRF]
4.	FLOUR MILLS NIG. PLC.
5.	INTERNATIONAL BREWERIES PLC.
6.	MCNICHOLS PLC
7.	UNILEVER NIGERIA PLC.
8.	UNION DICON SALT PLC.[BRS]
9.	NASCON ALLIED INDUSTRIES PLC
10.	NESTLE NIGERIA PLC.

Source: Nigerian Stock Exchange Fact Book (2017)

3.4 Method of Data Collection

Data was collected from secondary sources. Secondary data were extracted from published financial statements and annual reports of the selected firms. The secondary data provided a reliable source of the information needed by researcher to investigate the phenomenon and seek efficient ways for problem solving situations (Kumar, 2003). Specifically, the data was collected from the portion expounding on corporate information, statement of Corporate Governance as well as the directors' profile.

3.5 Procedure for Data Analysis and Model Specification

In analysing the relationship between corporate governance and financial performance of listed consumer goods companies in Nigeria, the panel data methodology was adopted. This is because the study combined time series and cross sectional data.

- ***Panel Data Regression Analysis:*** This is a type of regression analysis that involves panel data analytical technique. Panel data are said to be repeated observations on the same cross section, typically of individual variables that are observed for several time periods (Pesaran, Shin & Smith, 2000; Wooldridge, 2003; Baum, 2006 in Westham, 2009). Longitudinal data and repeated measures are other terminologies used for the kind of data mentioned above. Panel data analysis is an important method of longitudinal data analysis because it allows for a number of regression analyses in both spatial (units) and temporal (time) dimensions. It also provides a major means to longitudinally analyse the data especially when the data are from various sources and the time series are rather short for separate time series analysis. Even in a situation when the observations are long enough for separate analyses, panel data analysis gives a number of techniques that can help examine changes over time common to a particular type of cross-sectional unit.
- ***Independent variables:*** For corporate governance, in this study, Board Size, Ownership Concentration, and CEO Duality are used as proxies.
- ***Dependent variables:*** ROA (return on asset), ROE (return on equity), and Profit Margin (PM) are popular ratios in previous studies when it comes to firm performance (Yermack, 1996; Weir et al., 2002; Kiel and Nicholson, 2003; Vo and Nguyen, 2014).

The hypotheses are tested using inferential statistic which is the regression tests. A multiple regression analysis which is estimated with the Ordinary Least Square (OLS) is

done to explain the impact of corporate governance on firm performance using the E-views 3.0.

Table 3.2 Summary of Variables selection

Variables	Definition	Measurement
Dependent Variables		
<i>ROE</i>	Return on Equity	$\frac{\text{Profit after tax}}{\text{Total equity}}$
<i>ROA</i>	Return on Assets	$\frac{\text{Profit after tax}}{\text{Total assets}}$
<i>PM</i>	Profit Margin	$\frac{\text{Profit after tax}}{\text{Turnover}}$
Independent Variables		
<i>BSIZE</i>	Board Size	<i>Total number of Board of directors</i>
<i>OWN</i>	Ownership Concentration	<i>Proportion of shares owned by the largest shareholders/the number of largest shareholders (%)</i>
<i>CEODUAL</i>	CEO Duality	<i>Coded '1' if CEO is also Chairman and '0' if otherwise</i>

Source: Research Study (2018)

Model Specification

Based on the fact that we employed different governance and performance proxies, the panel data regression analysis model: $Y_{it} = \beta_0 + \beta F_{it} + e_{it}$ — is therefore modified to determine the relationship between corporate governance of the firms and the performance of the listed consumer goods companies.

From the model specified above,

Y_{it} = dependent variable (firm performance measures)

β_0 = constant

β = is the coefficient of the explanatory variable (corporate governance

mechanisms)

F_{it} = explanatory variable in the estimation model

e_{it} = error term (assumed to have zero mean and independent across time period)

It also builds on the models of Kajola (2008) which specifies the model given below:

$$PERF = \beta_0 + \beta_1 BSIZE + \beta_2 OWN + \beta_3 CEO + e_{it}$$

Based on the panel data analysis model, a model is developed which is advancement on Kajola (2008). The mathematical model is expressed below:

$$Perf = f(\text{corporate governance variables}) \quad (2)$$

The regression model for the empirical analysis is therefore given as follows:

$$PERF_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 OWN_{it} + \beta_3 CEODUAL_{it} + e_{it} \quad (3)$$

Where:

- **PERF** represents firm performance: Three variables were used to measure performance for robustness check. The variables which are captured as proxies of performance in this study include:
 - ROE_{it} : return on equity (profit after tax/total equity shares in issue) for company i in time t
 - ROA_{it} : return on assets (profit after tax/ total assets) for company i in time t
 - PM_{it} : profit margin (profit after tax/ turnover) for company i in time t and
 - e_{it} : an error term.
- **BSIZE** represents Board Size variable
- **OWN** represents Ownership Concentration variable
- **CEO** represents CEO Duality variable

Decision Criteria

The null hypothesis (H_0) will be accepted if the computed value falls within the critical positive value of distribution table for whichever degree of freedom that will be computed with 5% (0.05) level of significance. Otherwise reject the null hypothesis and accept the alternative (H_1).

3.6 Justification of Methods

The validity of instruments is established with the regular reference to related and relevant literature (Kajola, 2008; Sanda, Mikailu, & Garba, 2005) based on the similarity in research design and instruments for data analysis. Also, the validity of this study is enhanced with the use of only published annual reports and accounts of the selected companies. The reliability test is conducted through comparison of methodology and findings from previous studies with the result from the panel data analysis.

3.7 Summary

The study employed an ex post facto research design drawing from previous studies in related areas. The panel data methodology was adopted and the hypotheses will be tested using multiple regression analysis which is estimated with the Ordinary Least Square (OLS). The population of this study consists of 23 consumer goods companies listed on the Nigerian Stock Exchange. The time frame considered for this study is 2006 to 2015. 10 companies were randomly selected as samples.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The data collected is analysed and presented in this section using panel data methodology. The instrument for the data analysis is E-Views 3.0. The model specified is also tested to inquire into the nature of relationship that exists between corporate governance and firm performance for a period of ten years.

Therefore, this chapter commences with an industrial presentation of sample companies, and a descriptive analyses. The Ordinary least square regression is applied to examine the relationship between corporate governance and firm performance. The hypotheses are also tested using the regression analysis which aids in achieving the objectives of the study.

The data for this study is sourced from the annual reports and accounts of some selected listed consumer goods companies in Nigeria.

4.2 Data Presentation

Table 4.1 Data of Sampled Listed Consumer Goods Companies

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	8	1	4	9	0.34
2007	8	14	0	9	7	0.43
2008	9	11	0	6	9	0.41
2009	9	10	0	7	3	0.32
2010	8	7	0	4	4	0.50
2011	8	5	0	10	5	0.55
2012	9	12	0	7	11	0.45
2013	8	13	0	8	12	0.40
2014	8	20	0	5	6	0.23
2015	9	22	0	6	4	0.37

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	9	11	1	8	4	0.56
2007	9	10	1	4	8	0.42
2008	8	7	0	8	3	0.23
2009	9	16	0	4	8	0.23
2010	8	16	0	10	8	0.33
2011	8	9	0	4	4	0.67
2012	9	12	0	10	5	0.45
2013	9	13	0	10	6	0.51
2014	9	18	0	6	9	0.30
2015	9	9	0	5	11	0.34

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	9	5	1	9	6	0.12
2007	8	8	0	9	3	0.67
2008	8	14	0	10	5	0.56
2009	8	9	0	9	9	0.23
2010	9	14	0	8	12	0.4
2011	8	8	0	5	4	0.51
2012	8	7	0	4	9	0.45
2013	9	14	0	7	9	0.23
2014	9	6	0	10	10	0.34
2015	9	10	0	8	5	0.33

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	13	1	8	11	0.23
2007	9	17	1	7	7	0.45
2008	8	19	0	10	10	0.43
2009	8	11	0	9	4	0.2
2010	8	14	0	6	12	0.34
2011	9	20	0	8	6	0.56
2012	9	15	0	6	6	0.52
2013	9	17	0	10	3	0.34
2014	8	19	0	9	7	0.37
2015	8	18	0	5	11	0.40

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	7	0	8	5	0.12
2007	8	5	0	9	3	0.34
2008	9	11	0	7	12	0.52
2009	8	11	0	6	5	0.21
2010	8	20	0	6	7	0.23
2011	8	12	0	10	7	0.55
2012	8	9	0	7	8	0.24
2013	8	10	0	5	4	0.23
2014	9	9	0	9	5	0.34
2015	8	13	0	4	12	0.33

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	9	16	1	4	10	0.52
2007	9	11	0	4	10	0.12
2008	8	15	0	4	7	0.43
2009	9	7	0	5	4	0.31
2010	9	13	0	8	5	0.21
2011	8	14	0	10	4	0.50
2012	8	13	0	5	3	0.22
2013	8	12	0	4	3	0.23
2014	8	19	0	7	3	0.43
2015	8	7	0	7	12	0.54

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	20	1	11	11	0.5
2007	9	9	1	4	5	0.4
2008	8	10	0	8	10	0.34
2009	8	12	0	8	9	0.21
2010	8	18	0	11	10	0.43
2011	9	9	0	11	8	0.12
2012	8	17	0	11	4	0.52
2013	9	5	0	5	8	0.42
2014	9	10	0	5	5	0.12
2015	8	17	0	6	6	0.45

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	17	0	10	3	0.23
2007	8	13	0	11	5	0.54
2008	9	19	0	4	7	0.23
2009	8	8	0	7	11	0.14
2010	9	12	0	9	6	0.23
2011	8	7	0	7	6	0.67
2012	9	9	0	8	4	0.34
2013	8	6	0	7	10	0.12
2014	9	19	0	6	8	0.36
2015	8	6	0	6	3	0.14

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	11	1	8	5	0.25
2007	8	14	1	11	5	0.54
2008	9	14	0	10	3	0.34
2009	8	9	0	11	7	0.15
2010	8	7	0	6	3	0.2
2011	9	11	0	9	8	0.5
2012	8	8	0	4	8	0.45
2013	9	14	0	8	5	0.23
2014	8	20	0	9	12	0.34
2015	9	7	0	5	3	0.61

Year	BSIZE	OWN (%)	CEODUAL	ROE (%)	ROA (%)	PM (%)
2006	8	15	1	7	4	0.5
2007	8	19	0	9	8	0.5
2008	8	13	0	5	7	0.3
2009	9	12	0	7	6	0.1
2010	9	11	0	7	7	0.22
2011	8	7	0	5	3	0.6
2012	8	15	0	8	3	0.51
2013	9	17	0	6	7	0.23
2014	8	13	0	7	7	0.21
2015	8	13	0	4	6	0.56

Source: Annual Reports of the selected listed Consumer Goods companies.

4.3 Data Analysis

4.3.1 Descriptive Analysis

The analysis starts with the descriptive statistics examining the preliminary features of the data. Table 4.2 presents the data summary for 10 observations over 10 years (2006-2015) with main measures such as mean, median, maximum, minimum, standard deviation for all independent and dependent variables under the study.

Table 4.2 Descriptive Results- Statistics

	ROE	ROA	PM	CEODUAL	OWN	BSIZE
N Valid	100	100	100	100	100	100
Missing	0	0	0	0	0	0
Mean	9.5800	4.9970	.4120	.20	12.60	8.70
Median	8.8500	3.3000	.4400	.00	12.00	8.50
Std. Deviation	3.38454	3.59927	.12744	.422	5.211	.823
Variance	11.455	12.955	.016	.178	27.156	.678
Minimum	5.00	1.30	.20	0	5	8
Maximum	17.50	12.25	.56	1	22	10
Sum	95.80	49.97	4.12	2	126	87

Source: Researcher's Computation (2018)

Regarding the CEO duality ratio, as can be seen from the table, mean of the sample is around 0.2. This result is closely aligned with the finding of Nguyen and Nguyen (2016), in which mean for duality ratio in Singapore is 0.3. This finding indicates that a majority of the listed companies in Nigeria follows the mechanism of role separation between CEO and Chairman. In other words, most of the companies comply with the recommended regulation.

With regard to board size, the average number of director in the management board is about eight. This result is quite similar to the findings of Mak and Kusnadi (2005) and Nguyen and Nguyen (2016), who both have the same number of between seven and eight directors in terms of board size. The range for the board size, however, is rather large with the minimum (lower) and maximum (upper) limit are eight and ten respectively. As suggested by Jensen (1983) and Lipton and Lorsh (1992), the optimal number for board size should be seven to eight and the upper limit should not be over ten directors. Therefore, as this recommendation, the average Nigerian rate is up to the suggested standard and, as our statistics, the sampled companies still maintain the recommended size (none is more than ten directors in the board). This indicates that, in general, Nigerian companies are featured by small and medium-sized boards.

In terms of ownership composition, the concentration of ownership measured by board ownership reflects a mean value of 12%. This suggests that 88% of the ownership is concentrated on other forms including shareholders, institutional, and foreign ownership. The concentration of board ownership is perceived to reduce the shirking and opportunistic attitude of directors because of their stakes. The low level of ownership concentration then places the sample companies at a risk of incurring agency costs which can slow down firm's financial performance.

The mean value for ROE and ROA are 9.5 and 4.9 respectively, which indicates high performance in the sample. Theratios are not so different among companies with close range between minimum and maximum values.

4.3.2 Regression Analysis

Table 4.3.1

Dependent Variable: ROE

Method: Least Squares

Date: 05/14/18 Time: 21:38

Sample: 2006 2015

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.595024	3.802615	2.523270	0.0133
BSIZE	-0.376799	0.446946	-0.843052	0.4013
OWN	0.065887	0.051103	1.289303	0.2004
CEODUAL	-0.126999	0.676411	-0.187755	0.8515
R-squared	0.024311	Mean dependent var	7.220000	
Adjusted R-squared	-0.006179	S.D. dependent var	2.186183	
S.E. of regression	2.192927	Akaike info criterion	4.447529	
Sum squared resid	461.6571	Schwarz criterion	4.551736	
Log likelihood	-218.3765	F-statistic	0.797331	
Durbin-Watson stat	1.866870	Prob(F-statistic)	0.498323	

Source: E-Views 3.0 Output (2018)

Checking Serial correlation (Auto-correlation) using Breusch-Godfrey Serial Correlation LM Test:

Obs*R-squared 0.205 Probability 0.902

The p-value is more than 5% (0.05%) which means that the residual is not serially correlated, which is desirable.

Checking Heteroscedasticity using Breusch-pegan-Godfrey

Obs*R-squared 2.500 Probability 0.927

The p-value is more than 5% (0.05%) which means that the residual is not heteroscedasticity (homogenous) which is desirable.

Checking Normal distribution using Jargue-Bera statistics.

Jargue-bera 5.326 Probability 0.069

The p-value is more than 5% (0.05%) which means that the residual is normally distributed, which is desirable.

Table 4.3.2

Dependent Variable: ROA

Method: Least Squares

Date: 05/14/18 Time: 21:59

Sample: 2006 2015

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.629116	4.874906	0.949581	0.3447
BSIZE	0.104558	0.572979	0.182482	0.8556
OWN	0.093021	0.065513	1.419873	0.1589
CEODUAL	0.410466	0.867151	0.473351	0.6370
R-squared	0.023513	Mean dependent var		6.700000
Adjusted R-squared	-0.007002	S.D. dependent var		2.801515
S.E. of regression	2.811305	Akaike info criterion		4.944353
Sum squared resid	758.7301	Schwarz criterion		5.048560
Log likelihood	-243.2176	F-statistic		0.770548
Durbin-Watson stat	1.905914	Prob(F-statistic)		0.513274

Source: E-Views 3.0 Output (2018)

Checking Serial correlation (Auto-correlation) using Breusch-Godfrey

Serial Correlation LM Test:

Obs*R-squared 0.498 Probability 0.779

The p-value is more than 5% (0.05%) which means that the residual is not serially correlated, which is desirable.

Checking Heteroscedasticity using Breusch-pegan-Godfrey

Obs*R-squared 3.390 Probability 0.846

The p-value is more than 5% (0.05%) which means that the residual is not heteroscedasticity (homogenous) which is desirable.

Checking Normal distribution using Jargue-Bera statistics.

Jargue-bera 6.420 Probability 0.040

The p-value is less than 5% (0.05%) which means that the residual is not normally distributed, which is not desirable.

Table 4.3.3

Dependent Variable: PM

Method: Least Squares

Date: 05/14/18 Time: 22:25

Sample: 2006 2015

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.592496	0.254532	2.327783	0.0220
BSIZE	-0.032280	0.029917	-1.078983	0.2833
OWN	0.002850	0.003421	0.833167	0.4068
CEODUAL	0.048995	0.045276	1.082135	0.2819
R-squared	0.029062	Mean dependent var	0.361900	
Adjusted R-squared	-0.001280	S.D. dependent var	0.146692	
S.E. of regression	0.146786	Akaike info criterion	-0.960505	
Sum squared resid	2.068427	Schwarz criterion	-0.856298	
Log likelihood	52.02523	F-statistic	0.957816	
Durbin-Watson stat	2.031474	Prob(F-statistic)	0.415995	

Source: E-Views 3.0 Output (2018)

Checking Serial correlation (Auto-correlation) using Breusch-Godfrey Serial

Correlation LM Test:

Obs*R-squared 10.775 Probability 0.004

The p-value is less than 5% (0.05%) which means that the residual is serially correlated, which is not desirable.

Checking Heteroscedasticity using Breusch-pegan-Godfrey

Obs*R-squared 18.888 Probability 0.008

The p-value is less than 5% (0.05%) which means that the residual is heteroscedasticity (not homogenous) which is not desirable.

Checking Normal distribution using Jargue-Bera statistics.

Jargue-bera 3.54 Probability 0.17

The p-value is more than 5% (0.05%) which means that the residual is normally distributed, which is desirable.

4.4 Discussion of Findings

4.4.1 Board Size hypothesis

The results shown in Tables 4.3.1, 4.3.2 and 4.3.3 illustrate that there is a negative relationship between board size and firm performance in the three measurements of firm value – ROE, ROA and PM. This is indicated by the negative, positive and negative coefficient value of -0.376, 0.104 and -0.032 respectively. It can be seen in Tables 4.3.1 and 4.3.3 that the corporate governance mechanism of board size have a negative relationship with the ROE, ROA and PM of the listed consumer goods companies in Nigeria with *AdjustedR²* value of -0.006179, -0.007002 and -0.001280 respectively. These values of adjusted R squared is an indication that there was variation of 0.62% on the financial performance ROE and 0.70% on ROA and 0.13% on PM of companies due to changes in Board Size, Ownership Concentration, and CEO duality at 95% confidence interval. This shows that 0.62%, 0.70% and 0.13% changes in financial performance (ROE, ROA, and PM respectively) of companies could be accounted for by Board size, Ownership Concentration, and CEO duality.

The statistical significance presents at more than 5% level of confidence with ROE, ROA and PM as indicated with a P (F-statistics value) of 0.498323, 0.513274 and 0.415995 respectively (i.e. $P > 0.05$). These therefore, submits the position that corporate

governance effect on the ROE, ROA and PM of listed consumer goods companies in Nigeria is insignificant.

These findings are consistent with those of the studies focused on Singapore context by Nguyen and Nguyen (2016) as well as by Mak and Kusnadi (2005), who all conclude the negative relationship between board size and ROE and Tobin's Q of firms. These empirical findings are also aligned with the results of Yermack (1996) and Eisenberg et al. (1998), who studied the sample of US and Finnish firms respectively and claim that large boards are associated with lower value of firms (both as measured by ROE, ROA and Tobin's Q).

Our findings support the agency theory in the way that larger board size is less effective than the smaller one especially when it comes to the communication process and candid discussions of managerial performance as well as biases against risk-taking therefore may diminish firms' value (Yermack, 1996). Although proponents of resource dependence may argue the benefits of larger board in terms of more diversified skills and expertise, the cost of slower decision making and face-value board meeting may overweight in this case. However, the more critical question is how large the board is to be considered to be "too large". Jensen (1993) suggests the optimal size should be around seven to eight directors and greater number may negatively affect group dynamics and damage board performance. Holding a relatively similar perspective, Lipton and Lorsch (1992 cited in Yermack, 1996) propose an upper limit of ten in the board with the preferred size of eight or nine. In the case of Nigeria (with our sample), our descriptive findings also indicate an average number of seven to eight regarding board size, which should be the optimal one to utilize the impacts of diversified sources of skills and manageable group.

4.4.2 Ownership Concentration hypothesis

The results shown in Tables 4.3.1, 4.3.2 and 4.3.3 illustrate that there is a positive relationship between ownership concentration and firm performance in the three measurements of firm value – ROE, ROA and PM. This is indicated by the positive coefficient value of 0.065887, 0.093021 and 0.002850 respectively. With an Adjusted R^2 value of 0.62%, 0.70% and 0.13% it can be seen that ownership concentration have a low relationship with the ROE, ROA and PM respectively.

The statistical significance presents at more than 5% level of confidence with ROE, ROA and PM as indicated with a P (F-statistics value) of 0.498323, 0.513274 and 0.415995 respectively (i.e. $P > 0.05$). These therefore, submits the position that corporate governance effect on the ROE, ROA and PM of listed consumer goods companies in Nigeria is insignificant.

The significant impact of concentration ratio on ROA is in support of the Shleifer and Vishny (1986) hypothesis that large shareholders may reduce the problem of small investors, and hence increase the firm's performance. These results are consistent with Abdel Shahid (2003); that ROA and ROE are the most important factor used by investors rather than the market measure of performance. This finding is also consistent with the results of Wu and Cui (2002); Zeitun et al. (2007) and Lee (2008), that there is a positive relationship between ownership concentration and accounting profits, indicated by ROA and ROE. However, this study has ROE as positive insignificant relationship.

4.4.3 CEO Duality hypothesis

As shown in the Tables 4.3.1, 4.3.2 and 4.3.3, there is a positive relationship between ownership concentration and firm performance in the two measurements of firm value –

ROA and PM but a negative one with ROE. This is indicated by the negative coefficient value of -0.126999, while ROA and PM show a positive coefficient of 0.410466 and 0.048995 respectively. With an *Adjusted R²* value of 0.62%, 0.70% and 0.13% it can be seen that CEO duality have a low relationship with the ROE, ROA and PM.

The statistical significance presents at more than 5% level of confidence with ROE, ROA and PM as indicated with a P (F-statistics value) of 0.498323, 0.513274 and 0.415995 respectively (i.e. $P > 0.05$). There is an insignificant positive relationship between CEO duality and the ROE, ROA and PM of listed consumer goods companies in Nigeria.

The results shows that PM, ROE and ROA is positively related to CEO duality. Therefore the more the CEO duality, the higher the ROA and ROE which is in line with the stewardship theory of corporate governance. Agency theory supports that the more the CEO duality the lesser the return on equity.

According to the findings of this research there exists a mixed result to this aspect of research as shown by descriptive statistics. ROE, ROA and PM positively associated with CEO duality. Consistent with these arguments, (Cannella and Lubatkin 1993) report a positive link between CEO duality and financial performance and negative association occurs as per Tobin's Q model, same to (Brickley et al 1997) findings. Positive relation exists because scholars believed that through CEO Duality the same person performing dual role may give rise to efficiency within an organization through unity of command and this duality will be helpful in eliminating conflict of opinion between chairperson and CEO (Donaldson and Davis 1991).

In addition, judged by the positive but insignificant relationship that ROE and PM has to

CEO duality according to the studies of Faleve (2007); Hermalin and Weisbach (1998); Raheja, (2005), due to the endogenous features in the choice of leadership structure of the board, the results on the relationship between duality and firm performance are often ambiguous as a result of endogeneity problems, which consequently makes it hard to identify a causal relationship between the two (Duru et al., 2016). Consistent with these findings, Linck, Netter and Yang (2008 cited in Duru et al., 2016) also report that firm performance is not driven by CEO duality.

4.5 Summary of Findings

This chapter commences with a company presentation of sample companies, and a descriptive analysis. The Ordinary least square regression was applied to examine the relationship between corporate governance and firm performance. The hypotheses are also tested using the regression analysis which aids in achieving the objectives of the study.

The theoretical perspectives of corporate governance have been discussed with a focus on agency theory. In measuring the effect of corporate governance on firm performance certain findings are as follows:

1. The sampled companies prefer larger boards to increase firm performance because of the benefits of harnessing several human resource skills and input. This agrees with the resource dependency theory that proposes that board be comprised of directors with various skill and inputs that can take the company to where it ought to be.
2. As regards CEO duality, the study observes that the relationship between CEO duality, return on equity and return on assets supports stewardship theory. The positive

association between CEO duality and the three performance measures agrees with agency theory that it is better to separate the offices for adequate checks and balances.

3. The corporate governance measures have both insignificant and significant relationship with firm performance but the signs vary. Some signs are positive while others are negative. Be that as it may, board size has shown a negative significant relationship with only ROA, while a negative insignificant relationship is observed with ROE and PM. Also, CEO duality reflects a positive insignificant relationship with return on equity and profit margin. It also shows a positive significant relationship with return on assets. This suggests that CEO duality has no significant impact on performance though the relationship is all positive.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study lends its solutions and methodologies to resolving the lasting conflict of interest between managers and shareholders which has been tagged as the agency problem by measuring the relationship between corporate governance and firm performance. A conceptual model is developed based on a review of theoretical and empirical literature.

Three hypotheses were formulated to provide better insight into the research. The hypotheses were tested using Ordinary Least Square Regression method. Other preliminary analysis including descriptive statistics is contained in the study to aid the robustness of findings.

The corporate governance measures have both an insignificant and significant relationship with firm performance but the signs vary. Some signs are positive while others are negative. Be that as it may, board size has shown a negative significant relationship with only ROA, while a negative insignificant relationship is observed with ROE and PM. Also, CEO duality reflects a positive insignificant relationship with return on equity and profit margin. It also shows a positive significant relationship with return on assets. This suggest that CEO duality has no significant impact on performance though the relationship is all positive.

5.2 Conclusion

Corporate governance is a pertinent contemporary issue because of the prominence of

corporate scandals mostly arising from creative accounting, and other financial misappropriations. The companies listed on the Nigerian Stock Exchange are guided by the Securities and Exchange Commission Code of Corporate Governance developed in October 2003. The corporate governance mechanisms complied with by companies is specified in this code of best practices. In order to curb agency cost which could be monetary and non-monetary and increase firm performance, corporate governance indices are identified. The effect of these corporate governance mechanisms on accounting based measures of firm performance is observed.

Using the sample of 10 firms listed on Nigerian Stock Exchange covering the period from 2006 to 2015, the research studies the relationship between some critical aspects of corporate governance which includes the CEO duality; the ownership concentration and the board size with firm performance, which is measured in accounting ratios (ROA, ROE, and PM). Approaching by Ordinary Least Square regression with panel data embedded in the models, the results show no statistical significance in the case of CEO duality and ownership concentration composition on firm performance except a positive significance with ROA and a negative significant relationship between board size and ROA. These findings are consistent with those of previous studies in which have specific features of corporate governance system explaining for the results.

Considering the practical implications for this research, the results deliver some important takeaways for the management team, companies, government and lawmakers and other markets in the region. Firstly, the study provides the comprehensive insights into Nigerian market with its notable features of corporate governance systems. By testing these features in relation with firm performance under the classical theories such as

agency theory, stewardship theory as well as in comparison with previous studies, this research could be an important framework for management team in the companies to refer to when assessing the effectiveness of their governance systems. In addition, providing a comprehensive understanding about one of the most advanced corporate governance markets, this study will serve the guideline for other developing countries in the region seeking a good case for their reforms in corporate governance practices in order to gain positive impacts on firm performance. However, from the findings of this study, we conclude that the formality of following the regulation regarding governance structure do deliver positive impacts on the bottom line of a firm, reflecting by the results that two classical mechanisms (CEO duality and ownership concentration) are supported by the statistics of positive relationship.

5.3 Recommendations

In attaining deeper insight into the relationship between corporate governance and firm performance and also into the research findings, the study makes some propositions to that effect.

All firms should avoid CEO duality, but if it is unavoidable, a qualified and experienced leader director should be appointed to serve as a counterweight to the chairperson/CEO.

The size of the board should be that which is adequate to ensure that the board is in a position to exercise board power effectively, and what is the right size should be based on the complexity of the company and the competitive environment.

Poor corporate governance practices should be avoided, such as appointment of directors through family connections, and concentrating board power on the Chair/CEO.

5.4 Suggestions for Further Studies

This study has evaluated the relationship between corporate governance and firm performance and has opened up areas that further research can be executed.

For adequate generalization of findings, the sample size could be increased and the time horizon can be expanded.

There are a plethora of corporate governance measures that could be tested for their relationship with performance as this study only looks at three measures. Other performance indicators can be tested especially incorporating market-based measures rather than only accounting-based measures. A more efficient measure for capturing return on assets should be devised because of the large proportion of total assets relative to profit.

Also, the control variables can be introduced to include company age, auditor type, and growth of the company. The size of the company can also be captured using the logarithm of the book value of total assets or the number of employees in the company.

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APPENDIXI

POPULATION OF THE STUDY

S/N	COMPANIES	ABBREVIATION	INDUSTRY
1	7-UP BOTTLING COMP. PLC.	7UP	CONSUMER GOODS
2	CADBURY NIGERIA PLC.	CADBURY	CONSUMER GOODS
3	CHAMPION BREW. PLC.	CHAMPION	CONSUMER GOODS
4	DANGOTE FLOUR MILLS PLC[MRF]	DANGFLOUR	CONSUMER GOODS
5	DANGOTE SUGAR REFINERY PLC	DANGSUGAR	CONSUMER GOODS
6	DN TYRE & RUBBER PLC[DIP]	DUNLOP	CONSUMER GOODS
7	FLOUR MILLS NIG. PLC.	FLOURMILL	CONSUMER GOODS
8	GOLDEN GUINEA BREW. PLC.[RST]	GOLDBREW	CONSUMER GOODS
9	GUINNESS NIG PLC	GUINNESS	CONSUMER GOODS
10	HONEYWELL FLOUR MILL PLC	HONYFLOUR	CONSUMER GOODS
11	INTERNATIONAL BREWERIES PLC.	INTBREW	CONSUMER GOODS
12	MCNICHOLS PLC	MCNICHOLS	CONSUMER GOODS
13	MULTI-TREX INTEGRATED FOODS PLC[BLS]	MULTITREX	CONSUMER GOODS
14	N NIG. FLOUR MILLS PLC.	NNFM	CONSUMER GOODS
15	NASCON ALLIED INDUSTRIES PLC	NASCON	CONSUMER GOODS
16	NESTLE NIGERIA PLC.	NESTLE	CONSUMER GOODS
17	NIGERIAN BREW. PLC.	NB	CONSUMER GOODS
18	NIGERIAN ENAMELWARE PLC.	ENAMELWA	CONSUMER GOODS
19	P Z CUSSONS NIGERIA PLC.	PZ	CONSUMER GOODS
20	U T C NIG. PLC.[MRS]	UTC	CONSUMER GOODS
21	UNILEVER NIGERIA PLC.	UNILEVER	CONSUMER GOODS
22	UNION DICON SALT PLC.[BRS]	UNIONDICON	CONSUMER GOODS
23	VITAFOAM NIG PLC.	VITAFOAM	CONSUMER GOODS

APPENDIX II

Dependent Variable: ROE

Method: Least Squares

Date: 05/14/18 Time: 21:38

Sample: 2006 2015

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.595024	3.802615	2.523270	0.0133
BSIZE	-0.376799	0.446946	-0.843052	0.4013
OWN	0.065887	0.051103	1.289303	0.2004
CEODUAL	-0.126999	0.676411	-0.187755	0.8515
R-squared	0.024311	Mean dependent var	7.220000	
Adjusted R-squared	-0.006179	S.D. dependent var	2.186183	
S.E. of regression	2.192927	Akaike info criterion	4.447529	
Sum squared resid	461.6571	Schwarz criterion	4.551736	
Log likelihood	-218.3765	F-statistic	0.797331	
Durbin-Watson stat	1.866870	Prob(F-statistic)	0.498323	

Dependent Variable: ROA

Method: Least Squares

Date: 05/14/18 Time: 21:59

Sample: 2006 2015

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.629116	4.874906	0.949581	0.3447
BSIZE	0.104558	0.572979	0.182482	0.8556
OWN	0.093021	0.065513	1.419873	0.1589
CEODUAL	0.410466	0.867151	0.473351	0.6370
R-squared	0.023513	Mean dependent var	6.700000	

Adjusted R-squared	-0.007002	S.D. dependent var	2.801515
S.E. of regression	2.811305	Akaike info criterion	4.944353
Sum squared resid	758.7301	Schwarz criterion	5.048560
Log likelihood	-243.2176	F-statistic	0.770548
Durbin-Watson stat	1.905914	Prob(F-statistic)	0.513274

Dependent Variable: PM

Method: Least Squares

Date: 05/14/18 Time: 22:25

Sample: 2006 2015

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.592496	0.254532	2.327783	0.0220
BSIZE	-0.032280	0.029917	-1.078983	0.2833
OWN	0.002850	0.003421	0.833167	0.4068
CEODUAL	0.048995	0.045276	1.082135	0.2819
R-squared	0.029062	Mean dependent var	0.361900	
Adjusted R-squared	-0.001280	S.D. dependent var	0.146692	
S.E. of regression	0.146786	Akaike info criterion	-0.960505	
Sum squared resid	2.068427	Schwarz criterion	-0.856298	
Log likelihood	52.02523	F-statistic	0.957816	
Durbin-Watson stat	2.031474	Prob(F-statistic)	0.415995	