International Journal of Intellectual Discourse (IJID)
ISSN: 2636-4832 **Volume 3, Issue 2.** **December, 2020**

Corporate governance and the economic performance of non-financial companies in Nigeria

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Abstract
Corporate governance has become a great deal of concern for countries in developing economies, with the spate of corporate governance catastrophes and the need to prevent a continuation of this trend. In Nigeria, the call for an enhanced and improved corporate governance practices has seen the development of the Code of Corporate Governance 2011 and now 2018. This is why this study seeks to empirically examine the effects of corporate governance mechanisms on the economic and financial performances of listed non-financial companies in Nigeria from the perspective of board size and CEO duality. A total of 34 companies were selected at random from all sectors of the economy to represent the sample size of this study. Analyses were made for 170 observations for a 5-year period (2014-2018). The data were regressed through fixed effects robust method and the results showed among others a positive and non-significant relationship between board size and economic performance. On the other hand the result for the relationship between CEO duality and economic performance showed a direct and significant relationship. Therefore, the study recommends that corporate governance principles should be strengthened and given more priority when it comes to the administration of non-financial companies in the public sector in Nigeria.

Keywords: Corporate Governance, Economic Performance, Non-Financial Companies, Return on Assets, and Returns on Equity.

1.0 Introduction

The impact of corporate governance on the economic performance of firms is an important and crucial issue since the last global financial distress in 2008. The global corporate scandals that took its toll on most economies with the collapse of once prestigious "blue chips" companies such as Enron and WorldCom reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism worldwide. It has been observed by accountants and financial experts that central to these corporate failures is that "there are systematic deficiencies in accounting standards and governance that generate financial information" (Hassan & Ahmed, 2012). A look at the world today shows that, the success of any nation's economy depends on the crucial role of organizations' competitiveness, transparency and governance structure which operate within its territory; since organizations are the entities that create economic value. There is no doubt that, the requirement for trust and straightforwardness in the administration of corporate organizations has been one of concerns for standard setters all over the world. This need has obviously spurred renewed interest in corporate governance practices of modern corporations, particularly in relation to accountability and economic performance (Adebayo, 2014).

In Nigeria, enough concern has been noted about the serious malpractices and abuse of the system by capital market operators in the past, especially following incidences on the sale of forged shares of publicly quoted companies. Companies have gone into liquidation for reasons bordering on ineffective or non-existing system of corporate governance (Kantudu & Samaila, 2015). And For any organization to have achieve a very good financial or economic performance, it must follow the codes of good corporate governance practice. Effective corporate governance should fundamentally guarantee shareholders' value by ensuring the appropriate use of firms' resources, enabling access to capital and improving investor confidence (Marashdeh, 2014). However, the way in which corporate governance is organized is different between countries, depending on the economic and socio-political contexts. For example, firms in developed economies have dispersed shareholders and operate in stable political and financial systems, well developed regulatory frameworks and effective corporate governance practices. However, firms that operate in developing countries such as Nigeria may be affected by political instability resulting in severe economic instability and sharp fluctuation in expenditure, which ultimately give rise to a widening fiscal deficit (Heenetigala & School, 2011).

Economic performance is the overall measure of a firm's general financial health and asset base 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. It can be measured using proxies like profitability, return on equity, return on asset, solvency and sales growth and all these can be extracted from the financial statements (Bernard, 2013). The non-financial sector in Nigeria, is a branch of the economy providing employment for over 50% of the working population in the formal sector. Because of its importance to the Nigerian economy especially from the employment and production perspective, this study uses non-financial industries to determine the relationship between corporate governance and firms' economic performance.

The empirical studies of Lilian, 2015, Fatima, 2012, and Sanda, Mukaila & Garba (2005) all demonstrates a link between Corporate Governance practices on the financial and economic performance of banks. Moreover, Peters & Bagshaw (2014), examined empirically the impact of corporate governance mechanisms on firm economic performance of listed firms in Nigeria for two years 2010 and 2011. A study of Ngwenze & Kariuki (2017), also did a research to determine the influence of corporate governance practices on the financial performance of listed companies in Nigeria from 2012 - 2016. However, these works did not exclusively assess the impact of corporate governance on a significant sector like the non-financial sector. To the best of the researcher's knowledge there has not been any research work on the relationship between Corporate Governance and financial performance of listed non-financial companies in Nigeria as it relates specifically to returns on assets and equity. So, it is due to these research gaps that this study was undertaken to answer the following questions:

i. Does corporate governance influence the economic performance of listed non-financial companies in Nigeria?
ii. To what extent does corporate governance attribute of board size influences the economic performances of companies in the non-financial sector of the Nigerian economy?
iii. What is the effect of the corporate governance attribute of CEO duality on the economic performance of companies operating in the non-financial sector of the Nigerian economy?

From these questions this study intends to tackle specifically, the objectives stated below:

a. The impact of board size as a tool of corporate governance on the economic and financial performances of listed non-financial companies in Nigeria.
b. The effect of CEO duality as a tool of corporate governance on the economic and financial performances of listed non-financial companies in Nigeria.

In line with these objectives, the following null-hypotheses were formulated and tested in this study:

H_{01}: Board size does not significantly impact on the economic performance of listed nonfinancial firms in Nigeria.

H_{02}: CEO's duality does not have any significant effects on the economic performance of listed nonfinancial firms in Nigeria.

The paper has been arranged into five sections. The introductory part gives us a background of the subject matter of corporate governance and economic performance of non-financial companies. At the same time it bring out the problem statement, objectives and hypotheses. The second section is a critical review of related literature on both corporate governance and economic performance of companies. The research methodology which is the third section pointed out the research design and method of data analysis. In the fourth section, the result of analyses was presented, thoroughly discussed, interpreted and hypotheses tested. In the final section a summary of the whole work was done followed by disclosures of the major findings and recommendations.

2.0 Review of Literature

2.1 Historical Development of Corporate Governance

Corporate governance has a very long history. Monks and Minor (2008) asserted that the term corporate governance was not in literature until 1985. While Zingales (1997), believed that the term corporate governance came into existence twenty years ago, and Beasley 1996 asserted that corporate governance seem to have been used first by Richard Ell 1960 to denote the structure and function of the corporate polity. According to Berle and Means (1932) corporate governance issues have been around since the eighteenth century as the precedence for modern corporate governance. McCabe (2005) suggested that the corporate form of business enterprise, with multiple owners of structured entity can trace its origin from the Romans times at least. Hence, the problem of corporate governance is expected to have long been addressed. However, earlier in the sixteenth century, the British East India Company received its Charter from the queen Elizabeth I, (Monks and Minor 2008). Then two years later the Dutch East India

Company received their Royal Charter with permanent capital and shares of unlimited duration. And in the seventh century the first joint stock company was said to emerge from Britain and Holland. Gradually the need to enhance the efficiency of corporate governance became paramount, as in the 19th century, the state corporation laws enhanced the rights of corporate boards to govern without the concept of shareholders in exchange for statutory benefits like appraisal right. As a result of shareholders complain over administrative pay back and stock losses, the need for corporate governance reform became necessary. At this period, the term corporate governance became an established field of literature (McCabe 2005). In the twentieth century the need to change the role of Modern Corporation in the society became pounding following the aftermath of Wall Street of 1929, (Berle and Means 1932).

Consequently, in the early 90's the issues of corporate governance received considerable press attention in the United States as a result of the wave of CEO dismissal while in 1997, the Asian financial crises saw the down fall of various Asian countries as a result of exit of foreign capital after property assets collapsed. Later, in the 2000's the massive bankruptcies and criminal practices of Enron and WorldCom as well as the lesser corporate debacles, led to increased shareholder and government interest in corporate governance. Many countries began to develop their codes of best practice. In Nigeria, the first codes of corporate governance were issued by Security & Exchange Commission and Central Bank of Nigeria in 2003, and has address the issue of Board of Directors, shareholders and the audit committee. For the board of directors, the code recommends a board size of not more than 15 and not less than 5 including executive and non-executive directors. The minority shareholders are also fully represented by at least one director on the board. This early code was explicit in prescribing the power of separation between the Chairperson and the Chief Executive Officer (CEO). To ensure capability and independence the attendance at meetings must be captured, hence the code requires that the notice of meetings must reach shareholders in nothing less than 21 working days to the date of the meeting and also the meeting must hold at easily accessible and affordable distance.

In the case of the auditors the code emphasizes that the number of Executive Directors on the audit committee must be limited to one with other members as non-executive directors and a strong non-executive director to serve as the Chairman. So also the tenure of the members of the committee will be fixed and there will be option for election. There should also be at least three meetings in a year. The 2003 Code of Corporate Governance further requires them to meet at least once in a year with the external auditors in the absence of the executive board members. The code suggests a term of reference for members in line with section 356 (6) (a) - (e) of CAMA (2004 as codified).

2.2 The Concept of Corporate Governance

The concept of Corporate Governance is very wide considering the way and manner it has penetrated the minds of numerous researchers. Thus, the concept has various definitions from the accounting, economic, political and legal points of view. So many scholars view corporate governance from different perspectives because corporate governance has no single accepted definition. This is often attributed to the huge differences in countries corporate governance codes (Solomon, 2010). For instance, Cadbury Committee (1992), OECD (1999); view it as those structures and processes developed for the direction and control of corporations. Corporate governance is referred to as a continuum of relationships, which broadly divides it into two - a narrow view and a broader view. In a narrow view, it refers to the relationship of a company to its shareholders; and in a broader view, it represents the company's relationship with the wider society. Hence it can be seen as a set of rules governing the relationship between the directors through the members and the general community (The Financial Times, 1997).

International Finance Corporation (IFC) sees corporate governance as "the stimulating and processes developed for the direction and control of companies". The term corporate governance is used in distinct ways as observed by Allen & Gals (2002). In Anglo–Saxon countries like the US and UK, good corporate governance involves firms pursing the overall interests of shareholders (equity owners). While in some other countries like Germany, France and Japan it involves presenting the interests of all corporate stakeholders that include employees, customers, and the public to whom the preparation is responsible as well as the shareholders. Corporate Governance is defined as the process and structure used to direct and manage the business affairs of the Company towards contributing to the prosperity and corporate accounting with the overall aim of realizing shareholder long-term value while taking into account the interest of other stakeholders (Wanyama & Olweny, 2013). However, a more encompassing definition of the term is that given by Millstein (2003), as the ways (blend of laws, regulations and voluntary private practices) in which all interested parties in the well-being of the firm ensure that the those charged with the responsibility of moving the firm's affairs attract financial and human capital, perform efficiently and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interest of stakeholders and society as a whole.

From these definitions, it may be stated that different systems of corporate governance will demonstrate what are measured as fair positions between managers and owners of the business. It can also be understand from the various definitions above that corporate governance is a system by which businesses are directed and controlled. It also gives a clear picture that corporate governance is a general set of customs, regulations, practices, and laws that determine how a firm should be administered. In a broader sense, corporate governance is all about maximizing the shareholder value in a corporation while ensuring fairness to all stakeholders (customers, employees, investors, vendors, the government and the society-at-large). Corporate governance in the researcher's view is seen as the effectiveness of the principles of board composition and CEO duality in order to assist in setting up mechanisms of attaining good and efficient governance for the achievement of the firm's numerous objectives. This is in line with Wolfensohn (1999) who further included promoting corporate fairness, integrity, transparency and accountability as some of the other numerous objectives.

2.3 Corporate Governance Mechanisms

Corporate governance mechanisms are the tools, techniques and instruments through which accountability is ensured, it is the various medium through which stakeholders monitor and shape behavior to align with set goals and objectives. Adebayo (2014) defined corporate governance mechanism as "the processes and systems by which a country's company laws and code of corporate governance are enforced". From a broader perspective, corporate governance is about the mechanisms, relations, and processes via which a business organization is controlled and directed. It encompasses complementing the many interests of the stakeholders of a company. Wherever cooperate governance is weak, there is the likelihood of corporate failure. It must therefore be improved. This was the main reason why SEC in September 2008 inaugurated a committee to address the weaknesses of corporate governance in Nigeria and improve the mechanism for its enforceability (SEC, 2011). This study considers some corporate governance mechanisms from the perspective of board size and CEO duality.

2.3.1 Board Size

Board size is the number of individuals appointed to the Board of Directors. It is an important factor in determining the effectiveness of the board. There are two schools of thoughts on board size – Small bard size and Large board size. However, there is no agreement on which of them is better. Researchers in the first school of thought are of the opinion that small board size contributes more to the success of a company (Ilona, 2008). It is estimated that limitation of board size is very healthy to get better firm performance and also, it is argued that small board sizes should be encouraged to promote effective communication and decision-making. However, the theory does not stipulate a rule for determining the optimal board size. (Brown, 2004) denoted that firms with between 6 and 15 board sizes have higher returns on equity as well as higher net profit margins than do firms with smaller board size. Strictly speaking, the effective economic performance of firms is determine by board composition, independence and size. The more the members of a board are outsiders the more likely a better economic performance.

2.3.2 CEO Duality

One aspect of corporate governance, which has given rise to concern, is the dominant personality' phenomenon that includes role duality, where the Chief Executive Officer (CEO) or Managing Director is also the Chairman of the board (Al-Matari, 2012). A single person holding both the Chairmanship and CEO roles improves the value of a firm as the agency cost between the two is eliminated (Alexander, Fennell & Halpern, 1993). On the negative side, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders (White & Ingrassia, 1992). The aspect of duality as depicted here implies being a shareholder and an executive Director of an organization. The aspect looks at the two key positions of a firm Chairman of the Board of Directors and a shareholder. The same person is both the Chairman of the Board (a shareholder) and the Managing Director (CEO). Such positions are common in developing economies where they are grossly abused. The significance of this is to see whether or not the concentration or otherwise of these positions in a single individual will in anyway affects environmental disclosure.

CEO duality is a principal aspect of board size (Barako, Hancock & Izan, 2006). This position is also significant as non-shareholder Directors (Fama & Jensen, 1983), acts as neutralizers in the event of conflicts between management and shareholders; thereby providing checks and balances on examining the association between board monitoring and financial performance (Chen & Jaggi, 2000; Haniffa & Cooke, 2002; Cheng & Courtenay, 2006). For positive share value, tender offer bids, and management buyout announcements, CEO's who are not shareholders have played important roles (Cotter, Shivdasani & Zenner, 1997; Brickley, Coles & Terry, 1994; Lee, Rosenstein, Rangan & Davidson, 1992; Cormier, Gordon & Magnan, 2004). These vital roles played by non-shareholder Directors have greatly aided in the economic performance of firms.

2.4 The Concept of Economic Performance

The term Economic Performance can be used alternatively with Financial Performance. It can be referred to as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is also referred to the general measure of a firm's overall financial health over a given period of time which can be used for comparative analysis (Bernard, 2013). Economic/Financial performance is part of financial management in organizations which involves the art and science of managing financial resources of an organization (Jacobs, 2001). Firms performance has been studied and measured by different researchers (Shah, Butt & Saeed, 2011; Yaseer, Entebang, & Mansor, 2011) using different measurements. Venkatraman & Franco-Santos (2007), argued that financial performance is mostly denoted by financial ratios which are considered as a meaningful financial indicator which can be used by the different financial information users. Their study classified these financial ratios into liquidity ratios, activity (operational) ratios, profitability ratios, debt ratios and market ratio. The profitability ratios such as the return on assets (ROA) and the return on equity (ROE) are the most used profitability ratios in the analysis. They stated that while ROA (measured as a ratio of net profit to total assets expressed as a percentage) measures the operating efficiency of the company based on the firm's generated profits from its total assets, ROE (measured as a ratio of net profit to total shareholders' equity express as a percentage) measures the shareholders rate of return on their investment in the company. This study examines two key accounting measures of firm's financial performance which are Return on Assets (ROA) and Return on Equity (ROE).

2.4.1 Return on Assets (ROA)

One of the widely used accounting-based measures of economic performance in literature is the ROA. It assesses the effectiveness of capital employed and provides a basis on which investors can measure the earnings generated by the firm from its investment in capital assets (Ashbaugh-Skaife & Collins, 2006). According to Wanyama & Olweny, (2013), the ROA is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of *kobo* earned on each *naira* worth of assets. It allows users, stakeholders and monitoring agencies to assess how well a firm's corporate governance mechanism is in securing and motivating efficient management of the firm. ROA refers to the amount of net income returned as a percentage of total assets. Scientifically, it is presented as follows:

$$ROA = \frac{\text{Net profit}}{\text{Average total Assets}} \times 100$$

2.4.2 Return on Equity (ROE)

ROE refers to the amount of net income returned as a percentage of shareholders equity. It measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE eludes the aggregate sum of wage collected as a level of investor's value. Profit for value measures organizations benefit by indicating how much benefit an organization produces with cash investors have contributed. Every protection company's ROE is communicated as a rate and ascertained mathematically as:

$$ROE = \frac{\textit{Net profit}}{\textit{Shareholder's Equity}} \times 100$$

2.5 Nigerian Code of Corporate Governance (2011 & 2018)

Without appearing suspiciously patriotic, Nigeria is globally legendary for corrupt practices which have eaten deep into the social fabrics of the Nigerian society. The subject of corporate governance is relatively new in Nigeria and the rest of the underdeveloped and developing economies. Thus, the Nigerian Code of Corporate Governance Practices was developed in 2003 based on unitary board structure (as in UK and USA) with emphasis on the identified triple constraints: the role of board of directors and management, shareholders rights and privileges, and the audit committee (Oyebode, 2009).

The 2011 Code of Corporate Governance for public companies in Nigeria which was born out of this specifies ethical codes applicable to all listed firms in Nigeria (SEC, 2011). Of specific significance to environmental issues contained in the Code as it affect this research are the following provisions:

i. Ensuring the maintenance of ethical standard and compliance with Nigerian laws [Sec. 3.1(i) (j)].
ii. Membership of the Board of Directors should not be less than five (Sec. 4.3) and a mix of executive and nonexecutive members (Sec. 4.3).
iii. Board members should possess relevant core competence. This is very important with regards to the inclusion of environmental experts as BOD members (Sec. 4.4).
iv. Members of the Board should be independent of management (Sec. 4.5).
v. Separation between the Chairperson and the CEO to cement the independence of board members [Sec. 5(b)].

"Part D" and "Part G" specifically pointed out the "relationship with other stakeholders" and "accountability and reporting" on host the community and the general public respectively. The code was clear in this in Sec. 28 tagged: "Sustainability Issues" (SEC, 2011), which states:

> Companies should pay adequate attention to the interest of their stakeholders such as its employees, host community, the consumers and the general public. Public companies should demonstrate sensitivity to Nigeria's social and cultural diversity and should as much as possible promote strategic national interests as well as national ethos and values without compromising global aspirations where applicable. Sec. 28(1).

Moreover, "The Board should report annually the nature and extent of its social, ethical, safety, health and environmental policies and practice …. Sec. 28(3)."

Section 28(3)(d) recommended the following categorization:

a. Adaption, in the company's operations, of options with the most benefit or least damage to the environment, particularly for companies operating in disadvantaged regions or religions with delicate ecology in order to minimize environmental impact of the company's operations: … Sec. 28(3)(d)…

b. Nature and extent of the company's social investment policy; … Sec. 28(3)(h).

c. "company's sustainability policies and programs covering issues such as corruption, community service, environmental protection, HIV/AIDs and matters of general corporate social responsibility". Sec. 34(4)(k).

These sections of the code of governance are what strengthens the legality of environmental reporting in Nigeria.

In this research, Board of Directors was observed from two dimensions which include:

1. Board size (Sec. 4.2).
2. Duality as per the positions held by the Chief Executive Officers in relation to Chairperson [Sec. 5.1(b)].

The new Code of Corporate Governance 2018 talked on board size and CEO duality under "Board Structure and Composition" as stated under "Principle 2" and "Recommended Practices" 2.1 and 2.7 respectively thus (SEC, 2018):

> ***Principle 2:*** *The effective discharge of the responsibilities of the Board and its committees is assured by an appropriate balance of skills and diversity (including experience and gender) without compromising competence, independence and integrity.*

Recommended Practices

2.1 The Board should be of a sufficient size to effectively undertake and fulfil its business; to oversee, monitor, direct and control the Company's activities and be relative to the scale and complexity of its operations.

2.7 The positions of the Chairman of the Board and the Managing Director/Chief Executive Officer (MD/CEO) of the Company should be separate such that no person can combine the two positions.

2.6 A General Review

Matolcsy, & Wright, (2011) Findings reveled that there is no significant impact of board size on financial performance. However, CEO duality tends to have a positive effect on firm's performance, which indicates that Jordanian firms perform better if the CEO and Chairman roles are combined in a single individual (i.e. when there is CEO Duality). It was also found that nonexecutive directors have a negative impact on firm performance, which is inconsistent with the monitoring hypothesis of agency theory, which holds that nonexecutive directors play an important role in the board as a source of experience, monitoring services, reputation and expert knowledge with the likelihood to improve firm performance, and a positive relationship between foreign ownership and firm performance. Their study therefore, reveals a mixed set of results.

Sanda, Mikailu and Tukur (2005), using correlation and regression analysis with data obtained from 101 firms listed on the NSE from the 1999 database of a Lagos-based stock broking firm and the FactBook of the NSE for 2000, examined the relationship between director shareholding, board size and firm financial performance in Nigeria. The evidence from their study suggested no significant relationship between director equity ownership and firm performance and a negative relationship between board size and firm performance. However, contrary to this George, Johnson & Freddie, (2014) also found that there is no relationship between corporate governance and financial performance, and that corporate governance has no significant effect on financial performance of savings, credit and corporative societies.

According to Augustine, Kwaku, Alex, and Eric, (2017), whose study examines the impact of corporate governance on the financial performance of Small and Medium Scale Enterprises in Ghana during, using convenience sampling technique, to select 100 SMEs from two regions in Ghana. They discovered that corporate governance has a positive but insignificant effect on the financial performance of SMEs. So also, Lilian, (2015) who examine the effects of corporate governance practices on the financial performance of businesses in Kenya, and found that proportion of nonexecutive Directors have a positive insignificant effect on financial performance measured by ROA.

In Nanakojo (2015), the study found some conflict of interest situations resulting from the fact that majority of CEO's in the selected microfinance institutions doubled as Chairs of their board. Again, the study found that many microfinance institutions in the Ashanti Region did not have structured policies for reviewing CEOs compensations and performance. Reducing ownership concentration was also identified as the most important variable in improving governance practices within microfinance institutions. To address the challenges enumerated, the researcher recommends that microfinance institutions review the role and contributions of nonexecutive Directors to ensure that all Directors have a sound understanding of the company's operations.

Similarly, the findings of Wanyama & Olweny (2013), also shows a strong relationship which exist between the corporate governance practices under study and firms' financial performance. Board size was found to negatively affect the financial performance of insurance companies listed at the NSE. There was a positive relationship between board composition and firm financial performance. And on CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed insurance firms.

Odili, Ikenna & Orikara (2015) used stratified and proportional sampling technique and analyzed their data using the ordinary least square estimation method. Their findings revealed that board independence, Directors' shareholding and audit committee meetings had positive and significant effects on banking sector's performance while board size showed negative and also significant effect on the performance of the banking sector in Nigeria. Finally, Nhung & Thuy (2017) in their study, using wide range of corporate governance variables, which include the dual role CEO, board size and board independence, measures financial performance by three different methods, which include return on asset, return on equity and Tobin's Q, showed that there is an inverse association between board size and firm performance, and that there are no significant relationships between board independence, CEO duality and company financial performance. Many literature acknowledge the relevance of corporate governance mechanisms to improve financial performance and earlier researches have demonstrated that good governance help in reducing the risk of financial performance (Ahmed, 2016).

From the above reviews, it is clear that there has been inconsistency in the results of studies that are related to corporate governance. There has been positive and negative relationships as well as significant and insignificant relationships. Even though most of the reviewed cases are from developing countries, literature in the areas is still scanty. Furthermore, none of the reviewed cases attempted to examine corporate governance in the non-financial sector exclusively. This research therefore, intends to do that by basing its relationship on both the agency and stakeholders theories. Based on this the following research framework was designed.

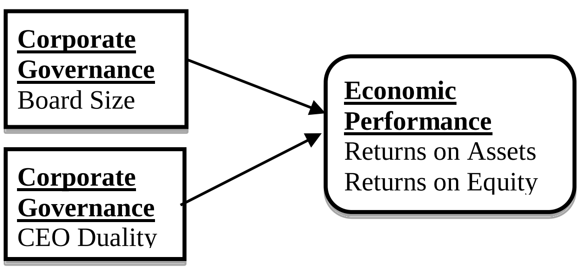

Figure 2.1 Framework of the Study

2.7 Underpinning Theories of the Study

Various theories have been put forward to help us understand the concept of corporate governance. Neuman (2006) defines a theory as a system of interconnected ideas that condense an organize knowledge about the world. Of the many theories that can be applied on corporate governance, the agency theory and the stakeholder theory are the main theories underlying the concept of corporate governance as it affects this study (Mulili & Wong, 2010).

2.7.1 Agency Theory

Agency theory is mostly used as the cornerstone of corporate governance (Muhammad, 2018; Peters, 2014). The theory is based on the idea of separation of ownership (principal) and management (agent). 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, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Agency theory suggests that employees or managers in organizations can be self-interested. In agency theory, shareholders expect the agents to act and make decisions in the principal's interest. It states that "in the presence of information asymmetry the agent is likely to pursue interest that may hurt the principal (Sanda, Mikailu & Garba 2005). On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). The agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits. Even 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). The agents are controlled by principal-made rules, with the aim of maximizing shareholders value. The Agency Theory also known as the Principal-Agent problem deals with the conflict that ensue as a result of the arrangement called firm (Adeolu, 2008).

2.7.2 Stakeholder Theory

Stakeholder theory can be defined as any group or individual who can affect or is affected by the welfare of the firm. A category that include not only the financial claim holders but also employees, customers, communities, creditors, investors and government officials and all those who contribute to the achievement of the organization's objectives. Thus, creditor, customer's employees, government, and society are regarded as relevant stakeholders. In addition, John and Senbet (1998) provide a comprehensive review of the stakeholders' theory of corporate governance which points out the presence of many parties with competing interest in the operations of the industry. They emphasize the role of non-market mechanisms such as the size of the board, CEO's dual role, committee structure, board composition, etc. as important to company's performance. Mitchel, Agle, and Wood (1997) established that the society where business operates must be considered by management as an important stakeholder. This is an extension of older theories that argue that doing business is more than a matter of making profit. Thus companies who wish to advance a logical ethical position in their businesses would recognize the conceptual limits of this theory.

3 Methodology

This study employed ex-post facto research design using panel data for the periods under study as it allowed for the collection of past and multi-dimensional data. This provided the basis for the full establishment of the impact of corporate governance on the economic and financial performance in Nigerian non-financial companies. The population of the study consists of 66 listed non-financial companies on the Nigerian Stock Exchange from 6 subsectors (Agriculture, Conglomerates, Construction & Real Estate, Consumer Goods, Oil and Gas, and Industrial Goods) from 2014 to 2018. Random sampling technique was adopted to select 34 out of the 66 listed non-financial companies of the population (Appendix I). The researcher used secondary data, which consists of annual reports and accounts of the sampled company. For the purpose of presentation and discussion of the results, descriptive statistics, correlation and multiple OLS regression analysis were employed. The variables of the research were economic performance (dependent) and board size and CEO duality (independent variables). Table 3.1 below shows how they were measured.

Table 3.1
Measurement of Variables

S/N	Variables of the research	Measurement	Source
1	Return on Asset (ROA)	Net profit as a percent of total assets	Venkatraman & Franco-Santos (2007)
2	Return on Equity (ROE)	Net profit as a percent of total equity	Wanyama & Olweny (2013)
3	Board Size (BSZ)	Total number of directors on the board	Brown (2004)
4	Chief Executive Officer Duality (CED)	Dummies (0 for the fusion of power between the Chairman and Managing Director "1" for Separation of such powers)	Al-Matari (2012)

Source: Authors compilation, 2019

For the purpose of this research, two simple models have been developed to examine the relationship between corporate governance mechanisms and economic performance of listed non-financial companies in Nigeria.

$$EP_1 = \alpha + \beta BS + e \; \ldots\ldots\ldots\ldots \; (1)$$
$$EP_2 = \alpha + \beta CED + e \; \ldots\ldots\ldots \; (2)$$

Where:
EP = Economic Performance
BS = Board size
CED = Chief Executive Officer Duality
α = Constant term
β = Parameters to be estimated (Coefficient)
e = Error term.

Diagnostic tests were also carried out to verify the normality and constant variation within the data set. The results are given below.

Table 3.2

Normality Tests of the Data

Tests	Scale	Index
Goodness of Fit	irtest	Fitted Values
Model Specification	hatsq (p value)	0.6410
Normality	Shapiro-Wilk (p value)	0.00001
Autocorrelation	Wooldridge (p value)	0.9219
Heteroskedasticity	Wald Test (p value)	0.0000

All the diagnostic tests carried out shows that the fitness and normality of the data set for this study are acceptable. Nonetheless, the homoscedasticity as with most panel data set is lacking as shown from the significant value of the modified Wald test (0.0000). Thus prompting an estimation based on fixed robust regression.

4 Empirical Analysis of Results

4.1 Introduction

The variables considered for this research are economic performance, board size and CEO duality. In this section the presentation, analysis and interpretation of results was done. After a thorough analysis of the descriptive statistics on items such as the number of observation, mean, standard deviation, minimum and maximum values; the section also tests for the strength and existence of relationships between the variables. Most importantly, the section assessed the effectiveness, strength and significance of board size and CEO duality on the economic and financial performances of non-financial companies listed on the NSE. The implications of these were discussed and hypotheses tested to give the findings of the study.

4.2 Assessment of Variables and their Relationships

Table 4.1

Descriptive Statistics and Correlation Matrix

Variables	Obs.	Mean	Min.	Max.	Corr. Index
Economic Performance	170	12.7768	-225.6897	398.3557	1.0000
Board Size	170	9.7706	6	15	0.1167
CEO Duality	170	0.8765	0	1	0.0752

From the table above there were 170 observations representing the 34 sampled companies used for a period of 5 years (2014-2018) for this research. The results for the mean gives an index of 12.7768, 9.7706 and 0.8765 for economic performance, board size and CEO duality respectively. This shows that the average returns on assets and equity is 12.98% approximately. This figure is fairly represented, and is an indication of a good performance by firms observed. Similarly, board size is made up of approximately 10 members. This is an acceptable level as the 2011 Code of Corporate Governance under which these companies have been operating provided for at least 5 members in the board. On the other hand, for CEO duality the average is 1 which is an indication of the fact that firms are complying with the Code of Corporate Governance 2011 which stresses the separation of the roles of Chairman and Managing Director. The result shows that majority of firms (88%) have different individuals as Chairmen and Managing Directors.

For the standard deviation, the only exceptional case is that of economic performance (41.98%). It is an indication of massive variation within the dataset of the observation. This has the effect of providing an insignificant result due to heteroscedasticity. The correlation index showed weak relationship between economic performance on the one hand and board size and duality on the other hand. However, while board size shows a direct relationship, CEO duality gives an inverse relationship which is an indication of poor financial performance due to the dual role played by CEO's of listed non-financial companies.

4.3 Evaluation of the Impact of Corporate Governance on Economic Performance

Table 4.2

Regression Results

Variables	Coefficient	p-value
Board Size	3.1180	0.2790
CEO Duality	2.0760	0.7680
R^2		***0.1347***
F-value		***0.4217***

An evaluation of the results on Table 4.3 shows that both board size and CEO duality have direct effects on the economic performance of firms. While board size have a 311.80% impact, CEO duality have 207.60% effect. This implies that an increase of 1% in board size would increase the economic performance of companies by approximately 312% vice versa. Similarly, an increase or decrease of 1% in CEO duality would also increase or decrease the economic performance of firms in the non-financial sector by approximately 208%. The implication here is that on individual basis, board size and CEO duality greatly influences the economic performances of nonfinancial companies listed on the NSE. Nevertheless, both variables have no significant impact on the economic performance of firms. Therefore, this is an indication that the relationship between corporate governance (board size and CEO duality) and firm performance cannot be relied upon to make accurate postulations or predictions, as such not good bases for management's decisions or judgements.

On the other hand, the overall impact of both variables (board size and CEO duality) have a total positive effect of about 135% on the economic performance of firms. This result is also not significant (F-value) hence, it cannot be relied upon to make predictions. In short, this implies that corporate governance (proxy by board size and CEO duality) have a positive and insignificant impact on nonfinancial firms' economic performance.

4.4 Test of Hypotheses

Earlier in the introduction of this research two null-hypotheses were formulated thus:

H_{01}: Board size does not significantly impact on the economic performance of listed nonfinancial firms in Nigeria.

The result from Table 4.2 shows a positive but non-significant relationship between board size and the economic performance of companies. Therefore, this hypotheses should be upheld since it supports the assertion that there is no significant relationship between board size and financial performance of firms.

H_{02}: CEO's duality does not have any significant effects on the economic performance of listed nonfinancial firms in Nigeria.

Similarly, the result for CEO duality on Table 4.2 is insignificant, hence hypothesis **H_{02}** is not rejected. The implication is that an insignificant relationship exists between CEO duality and firms' economic performance. Therefore, both null-hypothesis on board size and CEO duality should not be rejected. Hence, corporate governance have no significant influence on nonfinancial firms' economic performance.

4.5 Summary of Findings

From the analysis and evaluations it was discovered that:

i. Corporate governance have an insignificant impact on the economic and financial performances of nonfinancial companies quoted on the Nigerian Stock Exchange market.

ii. There is a positive and insignificant relationship between board size and the economic performance of firms in the industry.

iii. There is a direct and an insignificant relationship between CEO duality the economic performance of firms listed in the nonfinancial sector of the Nigerian Stock Exchange.

5 Conclusion and Recommendations

5.1 Summary of the Research

The problem of finding a solution to corporate governance in Nigeria for companies listed on the NSE has been lingering for long. Recent release of the Code of Corporate Governance 2018 buttresses this fact. This study has tackled the issue of board composition in terms of size and CEO duality as they affect return on asset and return on equity. The research emphasizes on the effects/impacts of board size and CEO duality on the economic and financial performance of firms based on the agency and stakeholders' theories. Past literatures have given inconsistent results and have not effectively not directly relate these two concepts as they affect corporate governance in the nonfinancial sector of the Nigerian economy. The study targets specifically, the nonfinancial sector of the Nigerian economy. This means that banks, insurance companies, issuing houses, and other financial organizations were not included as part of the study. Using robust regression, the result of the study illustrations that an insignificant relationship exists between corporate governance and the economic performance of nonfinancial companies listed on the Nigerian Stock Exchange.

5.2 Conclusions (Findings)

In conclusion, the assessment of results for the study reveals the following:

1. The economic performance of nonfinancial firms in Nigeria to a large extent does not depend on good corporate governance especially as it affects the returns on assets and equity.
2. Bigger board size can also improve firms' economic performance. However, this assertion cannot be upheld as it gives an insignificant relationship.
3. The separation of power between the Chairman and the Managing Director in organizations in the nonfinancial sector of the Nigerian economy can greatly enhance positive economic and financial performance of these companies.

5.3 Recommendations

On the basis of the above discoveries, it is highly recommended that:

1. Corporate governance principles should be strengthened and given more priority when it comes to the administration of nonfinancial companies in the public sector.
2. Board size should be increased as this have positive impact on the financial results of firms. The exclusion of the minimum membership of 5 in the Code of Corporate Governance 2018 is not a welcome development, rather the minimum membership should be increase to 10 members.
3. As provided in 2011 Code of Corporate Governance and also

maintained in the 2018 edition, no single individual should be allowed to act as both Chairman and Managing Director of a company simultaneously. This study has shown that such acts will seriously affect the returns on investment and capital.

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Appendix Sample Size of the Study

Code	Name of Companies	Year of Listing	Year of Incorporation
1	Ellah Lakes PLC	**1993**	**1989**
2	Livestock Feeds PLC	**1978**	**1963**
3	PRESCO PLC	**2002**	**1991**
4	ARBICO PLC	**1978**	**1958**
5	Costain West Africa PLC	**1978**	**1948**
6	C & I Leasing PLC	**1997**	**1990**
7	Cappa & D'Alberto PLC	**1945**	**1932**
8	Julius Berger Nigeria PLC	**1991**	**1970**
9	Pinnacle Construction PLC	**1991**	**1991**
10	UACN Property Development Company PLC	**1998**	**1997**
11	A.G. Leventis Nigeria PLC	**1978**	**1958**
12	Cadbury Nigeria PLC	**1979**	**1956**
13	Transnational Corporation of Nigeria PLC	**2006**	**2004**
14	United African Company Nigeria (UACN) PLC	**1974**	**1931**
15	Dangote Sugar Refinery PLC	**2007**	**2005**
16	Flour Mills Nigeria PLC	**1979**	**1960**
17	Northern Nigeria Flour Mills PLC	**1978**	**1960**
18	Honeywell Flour Mill PLC	**2009**	**1985**
19	International Breweries PLC	**1994**	**1971**
20	National Salt Company PLC	**1992**	**1973**
21	Nestle Nigeria PLC	**1979**	**1961**
22	SCOA Nigeria PLC	**1977**	**1969**
23	7up Bottling Company PLC	**1986**	**1960**
24	Unilever Nigeria PLC	**1973**	**1923**
25	CONOIL PLC	**1989**	**1970**
26	Forté Oil PLC	**1978**	**1964**
27	Mobil Oil PLC	**1991**	**1951**
28	Total Nigeria Oil PLC	**2001**	**1956**
29	OANDO PLC	**1992**	**1969**
30	MRS Oil Nigeria PLC	**1978**	**1969**
31	Japaul Oil & Maritime Services PLC	**1994**	**1994**
32	ETERNA PLC	**1998**	**1989**
33	Ashaka Cement PLC	**1990**	**1974**
34	Berger Paints PLC	**1974**	**1959**

Source: NSE official website (www.nse.com.ng), 2019