IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 19, Issue 8. Ver. VIII (August 2017), PP 46-51
www.iosrjournals.org

Corporate Governance and Organizational Performance: Evidence from the Nigerian Manufacturing Industry

Geraldine Banku Mbu-Ogar[1*], Sunday A. Effiong[2], John Ogar Abang[3]
[1*, 2, 3] *Department of Accounting, Faculty of Management Sciences, University of Calabar, P.M.B. 1115 Calabar, Cross River State – Nigeria.*
Corresponding Author: Geraldine Banku Mbu-Ogar

Abstract: *This study investigated corporate governance and organizational performance with emphases on the Nigerian manufacturing industry. The survey research design was used for the study and data collected were mainly from secondary sources. Ordinary least square regression technique was used in analyzing the data. Based on the empirical results, the study revealed that Board size, Board composition and audit committee size have significant effect on return on capital employed. Conclusively, recent global incidences of corporate failures have heralded the consciousness for the adoption of good corporate governance for sustained firm value. Therefore, it is expedient for manufacturing companies to comply with corporate governance codes of best practices structured to enhance accountability, transparency, integrity, equity, fairness and efficiency in organizational management. A functional board as well as other board sub committees should be constituted to allow for brainstorming on board matters for improved organizational performance. The study recommended that regulatory bodies should ensure that the board size maintained by manufacturing companies is adequate and manageable i.e not too large or too small in order to facilitate decision making and operational efficiency. A fair and balanced board composition should be adopted by manufacturing companies to ensure proper direction of strategy and long-term maximization of owner's value. The audit committee size should comprise of more shareholder representative than directors in order to uphold financial information accuracy and reliability.*

Keywords**:** *Board size, Board composition, Audit committee size, Organizational performance, ROCE*

Date of Submission: 03-07-2017 Date of acceptance: 05-09-2017

I. Introduction

Corporate governance embodies structures, systems, mechanisms and framework through which organizations are directed and controlled by those saddled with the duties and responsibilities in the interest of shareholders and other stakeholders.

According to the Organization for Economic Corporation and Development OECD (2004) the tenets of good corporate governance should be fairness, transparency, probity and accountability by management. This ensures that responsibilities are clearly defined amongst all stakeholders in order to facilitate policy implementation. By doing this, it provides guidelines through which organizational objectives are set, as well as the modalities for achievement and monitoring performance (Wolfensohn, 1999; Uche 2004; Akinsulire, 2006). An effective corporate governance structure should promotes sound internal control system, risk management, compliance with ethical and statutory requirements, ensures transparent and efficient markets, accountability and trust in the management of organizations (ICAN, 2014; Aguilera & Jackson, 2003). Nwachukwu (2007) opined that investor confidence is strengthened through good corporate governance practice in organizations. However, Management of organizations in recent times are more concerned about their own interest at the expense of that of shareholders (Berle & Means 1932). This scenario gave rise to an upshot in the collapse of high profile companies like worldcom, Enron, Rank Xerox, Global crossing and parmalat. The emergence of corporate frauds and financial crisis globally propelled regulatory authorities and agencies to establish legislations and guidelines known as corporate governance codes for publicly listed companies to ensure shareholders rights are protected, disclosure and transparency enhanced, facilitate effective functioning of the board and encourage stakeholder participation.

In order to discourage corruption and fraud in Nigeria, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) established codes of best practice on corporate governance to protect shareholders rights and promote ethical conduct of business. (Shleifer & Vishny, 1997).

The board of directors plays a critical role in promoting good corporate governance culture in organizations. The board provides entrepreneurial leadership to the company as well as ensuring that resources are in place for the achievement of set objectives and also provide appropriate obligations to it's shareholders and other stakeholders. The board establishes various committees such as the nomination, remuneration, audit and risk management committees for effective and enhanced organizational performance (ICAN, 2014). Walsh & Seward (1990) confirmed that the board as an internal control mechanism is crucial in corporate governance practice. Audit committee size is important in ensuring proper review of financial statements and reporting on the actual position of organizations operations.

1.2 Problem Statement

The incidence of high profile corporate failures in recent times, as a result of poor corporate governance culture inherent in organizations which are entities that create economic value have spurred the need for the establishment of codes of corporate governance/best practices. This enhances management performance, increases investor confidence and prevents situations that will reduce shareholders value, waste and inefficiency. Organizations board size and composition are important conduits through which performance can be attained. But this is not feasible in some manufacturing companies, because of the size and composition of board and the size of the audit committee. More non executive directors on the board scrutinize and checkmate the strategy as well as other responsibilities of executive directors to ensure they are accountable for decisions taken which must always be in the best interest of shareholders as against any vested interest or short term executive pressures. The audit committee make up of some manufacturing companies does not conform to the requirements of the Companies and Allied Matters Act (CAMA, 2004).

1.3 Objectives of the study

The main objective of this paper is to determine the extent to which corporate governance relates to organizational performance of manufacturing companies in Nigeria.
The specified objectives are:
1) To determine the extent to which board size relates to return on capital employed.
2) To ascertain the extent to which board composition relates to return on capital employed.
3) To examine the extent to which audit committee size relates to return on capital employed.

1.4 Research questions

The research questions for the study are as follows:
1) To what extent does board size relates to return on capital employed?
2) To what extent does board composition relates to return on capital employed?
3) To what extent does audit committee size relates to return on capital employed?

1.5 Research hypotheses

The research hypotheses for the study are:
1) Board size has no significant relationship with return on capital employed.
2) Board composition has no significant relationship with return on capital employed.
3) Audit committee size has no significant relationship with return on capital employed.

I. 2.0 Literature Review

2.1 Conceptual framework

2.1.1 Nature of corporate governance

Corporate governance as a concept has varied definitions which ultimately describes how companies are managed and controlled. Babatunde and Olaniran (2009) Opined that corporate governance apparatus is twofold, internal and external. Internal Corporate governance embodies giving precedence to owner's concerns and ensuring that the board checks on top management serving as a link between management and the owners. External corporate governance examines and controls executive actions by means of external policies concerning other stakeholders. Cadbury report (1992) emphasized that corporate governance deals with shareholders wealth maximization and efficient utilization of firms assets.

Corporate governance characteristics are statutory requirements that protects outside shareholders from expropriation by administrators, insiders or managing shareholders. Where such mechanisms are in non existence, difficulties of monitoring are suffered by outside investors while administrators or managers may misuse organizational assets at the expense of small shareholders and this will impact on the long run performance of firms (Rezaee as cited in Ammar et al, 2013) Corporate governance is basically concerned with building trust, ensuring accountability and transparency as well as maintaining an effective channel of information disclosure which helps to bridge the gap between information available to directors and the information available to stakeholders thereby helping to resolve the agency problem and foster good performance of firms (Rogers, 2008).

Corporate governance is also seen as a mechanism by which managers provide guidance and direction, creates adequate environment that encourages teamship effort amongst work groups. Managers are therefore expected to be competent, proficient and skillful in conceptual thinking, goal setting and objectives and developing strategies of arriving at suitable decisions (Isele & Ugoji 2009 as cited in Lai & Bello 2012). From the view of Rwegasira & Sullivan (2000) as cited in Oyejide & Soyibo (2001), corporate governance is examined from two points of view; the narrow and the broad perspectives. The narrow perspective looks at the structure within which organizations are directed and the broad perspective is professed as being the hull mark of both a market and democratic society. From the above, it is crystal clear that corporate governance is the bedrock for the survival and enhanced corporate performance of firms.

2.1.2 Corporate governance in Nigeria

Corporate governance in Nigeria took center stage about the early 2002. Prior to these period most companies in Nigeria were operating below capacity and were not accountable to investors, shareholders, suppliers, depositors and other stakeholders (Kajola 2008). This trend culminated into the collapse of notable Nigerian banks which were characterized by insider abuses, inefficiencies and poor corporate governance structures. This scenario led to regulatory agencies evolving codes of best practice to enhance adequate corporate governance culture in firms.

2.1.3 Board of directors role and organizational performance

The board of director's role is the hub upon which corporate governance is built. The board is charged with the task of effectively discharging its duties regularly. Different scholars however have suggested that board effectiveness can only be achieved if they exists an appropriate board size, composition and leadership structures. The board should comprise of individuals from diverse backgrounds with the capacity of discerning the strategic aims and objectives of the company, which in turn will lead to increased firm value. Members of the board should posses basic skills and tenets which will enhance their performance on the board. These skills include but are not limited to sense of accountability and integrity, entrepreneurial bias, knowledge on board matters, relevant core competence, upright character and pro-active intuition (ICAN 2014).

2.1.4 Board size and organizational performance

A company's board size boarders on the number of directors on the board of a corporate organization. Organizational performance is a function of the number as well as the quality of directors. Ascertaining an ideal make-up of directors is crucial to board effectiveness. Scholars have posited that large board size provides an increased and diversified pool of knowledge and expertise which make them better able of handling strategic issues. They are also proficient at reducing the dominance of overbearing CEO (Forbes & Milliken, 1999 as cited in Ogbechie et al 2010). Effective board monitoring is enhanced and supervisory functions broadened if more directors are on the board (Jensen, 1993) On the contrary, some authors have suggested that smaller board size increases performance of firms. This is based on the premise that directors in large board size may have difficulty interacting with each other which slows down decision making and impacts negatively on firm performance. This proposition is in line with the studies of Yermack (1996); Eisenberg et al., (1998); & Singh & Davidson, (2003), who proved that board size has an inverse relation with firm value.

2.1.5 Board composition and organizational performance

Board composition entails the proportion of executive directors to non executive directors on the board. Executive directors also known as insider directors are saddled with the routine administration and operation of organizations while non executive directors also known as outsider directors participate indirectly in the management of organizations. Non executive directors contribute to the strategic success of companies and also challenge the strategy if need be and equally makes their inputs on direction of strategy. They ensure their executive counterparts are accountable for decision taken and also monitor their reporting performance to avoid information asymmetry.

2.1.6 Audit Committee Size and Organizational performance.

Audit committee is considered one of the functional subcommittees on the board of organizations with the mandate of supervising and enforcing compliance with accounting and reporting policies. True and reliable financial information is the base upon which investors and potential investors make informed economic decisions. Therefore, the size of an audit committee influences the quality of financial reports. Bansal and Sharma (2016) however, proposed that financial information misrepresentation and earnings management can be mitigated if organizations audit committee structure is adequate.

2.2 Theoretical Framework

2.2.1 Agency Theory

This theory propounded by Jensen and Meckling (1976) is based on the premise that when ownership of an organization is separated from control, managers acting as agents on behalf of the owners or principal, are prone to pursuing their own interest to the detriment of the owners. It further emphasized that managers have interest which does not align with maximizing returns to shareholders thus creating agency problem between shareholders (principal) and directors (agents). The principal has to bear some agency cost in order to monitor the activities of the agent to ensure efficiency.

2.2.2 Stakeholders theory

According to Donaldson and Preston (1995) as cited in Bessong and Tapang (2012), the concept of agency theory is narrow. This is because they identify shareholders as the only interest group of a corporate entity necessitating further exploration. By expanding the spectrum of interested parties, Mitchel, Wood and Agle, (1997) argue that, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholder in order to ensure that each interest's constituency receives some degree of satisfaction. In separate contribution, According to Elkington (2002), stakeholder theory appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituent; employees, banks, governance, relevant stakeholders. Related to the above discussion, Freeman and Evan (1990) provide a comprehensive review of the stakeholders' theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. They also emphasize the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance (Tapang & Bassey, 2017).

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders (i.e. stakeholders). For instance, Savage, Nix, Whitehead and Blair, (1991) proposed that companies are no longer the instrument of shareholder alone but exist within society and therefore, have responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and corporate to improve everyone's position (Freeman, 2004).

2.3 Empirical review

Several empirical studies have investigated corporate governance and performance of firms (Hamidu & Aliyu (2015) Adebayo et al 2014; & Ammar et al;(2013)). But Gadi, Emesuanwu & Shammah, (2015) extended their study by examining corporate governance and financial performance of Micro Finance Banks in North Central Nigeria. Their study sampled 23 micro finance banks that board composition and composition of board committees have significant relationship with banks financial performance. Similarly, Uwuigbe (2015) studied 30 manufacturing companies quoted on the Nigerian Stock Exchange Market between 2003 and 2007. The findings portray a significant but weak link between board size and Manufacturing firms in Nigeria. In addition, Ogbechie & Koufopoulos (2010) investigated the correlation between corporate governance and board practices in the Nigerian banking industry. The result discovered that a standard board size comprising of all board committees is ideal for any organizational set up. Similarly, Adebayo, Ibrahim, Yusuf & Omah (2014) studied corporate governance and performance of organizations. The study adopted quantitative methodological framework. The finding showed that board size, board skills, management skills and size of audit committee are positively associated with performance in organizations.

According to Hamidu & Aliyu (2015), who examined the link between corporate attributes of board size and market value of firms, using a sample of six companies, between 2004-2012. Results from the study indicate a negative correlation between board size and the market value of equity. In addition, Ammar, Asif & Ammar (2013) examined Corporate governance and performance from the Pakistan context, the study utilized data from the website of Karachi stock exchange and financial statements of sampled listed companies for the period of five years 2007-2011. The findings revealed a positive association between board size and firm performance. Yermack (1996) also investigated the relation between board size and firm performance. 452 sampled industrial firms for the period 1984-1991 were used for the study, concluding that the smaller the board sizes, the better the performance. Monks & Minow (1995) argued that large boardroom tends to be slow in decision making and hence can be an obstacle to change. However, Jensen (1993) recommended an optimal size. Previous researchers investigated corporate governance and Firm performance but this paper stands to differ by examining corporate governance and organizational performance of manufacturing companies proxied by board size, board composition and audit committee size.

II. Methodology

The entire population of manufacturing companies quoted on the Nigerian stock exchange for the year 2014/2015 were used for the study based on the following categorizations: Conglomerate, Food and Breweries, Consumer goods, Building materials and Natural resources. Secondary sources of data were used to extract the data for the study. The published financial statements of the manufacturing companies under review were used to ascertain the board size, board composition and audit committee size and the performance of manufacturing companies' proxy by Return on Capital Employed (ROCE).

3.1 Model Specification

The specified model for the study is simply a simple regression model which is in line with the works of other scholars. This simple regression model is stated thus:

Model 1: $ROCE = a_0 + a_1\ BSIZE + u$

Model 2: $ROCE = a_0 + a_1\ BCOM + u$

Model 3: $ROCE = a_0 + a_1\ AUDCOM + u$

Where:

ROCE = Return on Capital Employed
BSIZE = Board Size
BCOM = Board Composition
AUDCOM = Audit Committee Size
a_0 = Unknown constant to be estimated
a_1 = Unknown coefficient to be estimated
u = Error term

III. Data Presentation And Findings

4.1 Data presentation

Table 1: Proxies for corporate governance and organization performance for 20 manufacturing companies in Nigeria

Manufacturing Companies	BSIZE	BCOM	AUDCOM	ROCE
1	7.00	3.50	6.00	.12
2	12.00	6.00	6.00	.52
3	13.00	6.50	6.00	.60
4	9.00	4.50	6.00	.29
5	9.00	4.50	6.00	.35
6	14.00	7.00	6.00	.14
7	9.00	4.50	6.00	.38
8	7.00	3.50	6.00	.14
9	8.00	4.00	6.00	.27
10	6.00	3.00	6.00	-.10
11	12.00	6.00	6.00	.12
12	7.00	3.50	6.00	.89
13	11.00	5.50	6.00	.16
14	7.00	3.50	6.00	.32
15	7.00	3.50	6.00	-.12
16	7.00	3.50	6.00	.14
17	7.00	3.50	4.00	-.26
18	13.00	6.50	6.00	.31
19	7.00	3.50	6.00	.23
20	7.00	3.50	6.00	.05

Source: Companies annual reports 2013 and NSE Fact Book 2014/2015

4.2 Findings

Based on the empirical results, the study revealed that Board size, Board composition and Audit committee size have significant effect on return on capital employed. This results corroborates with the work of Adebayo, Ibrahim, Yusuf and Omah (2014), who studied corporate governance and performance of organizations. Their findings showed that board size, board skills, management skills and size of audit committee are positively associated with performance in organizations. Also the results are in line with that of Ammar, Asif and Ammar (2013) who examined corporate governance and performance from the Pakistan context, their findings revealed a positive association between corporate governance and firm performance.

IV. Conclusion And Recommendations

5.1 Conclusion

Recent global incidence of corporate failures has heralded the consciousness for the adoption of good corporate governance for sustained firm value. Therefore, it is expedient for manufacturing companies to comply with corporate governance codes of best practices structured to enhance accountability, transparency, integrity, equity, fairness and efficiency in organizational management. A functional board as well as other board sub committees should be constituted to allow for brainstorming on board matters for improved organizational performance.

5.2 Recommendations

Based on the findings and conclusion, the following were recommended:

1) Regulatory bodies should ensure that the board size maintained by Manufacturing Companies is adequate and manageable i.e not too large or too small in order to facilitate decision making and operational efficiency.
2) A fair and balanced board composition should be adopted by Manufacturing Companies to ensure proper direction of strategy and long-term maximization of owners value.
3) The audit committee size should comprise of more shareholder representative than directors in order to uphold financial information accuracy and reliability.

References

[1]. Adebuyo, M. Ibrahim A. O. Yusuf, B. & Omah I. (2014). Good Corporate Governance and Organizational Performance: An Empirical Analysis. International Journal of Humanities and Social Sciences 4(7) 170-178.

[2]. Aguilera, R. V. & Jackson, G. (2003). The Cross-national Diversity of Corporate Governance: Dimensions and Determinants. The Academy of Management Review 28(3) 447-465.

[3]. Akinsulire, O. (2006). Financial Management (9^{th} ed.) Lagos: El-Toda Ventures.

[4]. Ammar, A. G. Asif, S. & Ammar Abid (2013). Corporate Governance and Performer: An Empirical Evidence from the Textile Sector of Pakistan, African Journal of Business Management 7(22) 2112-2118.

[5]. Babatunde, A. & Olaniran, O. (2009). The Effect of Internal and External Mechanism on Governance and Performance of Corporate Firms in Nigeria. Journal of Corporate Ownership & Control 7(2) 330-344.

[6]. Bansal, N. & Sharma, A. K. (2016). Audit Committee, Corporate Governance and Firm Performance. Empirical Evidence from India. International Journal of Economics and Finance 8(3), 103.

[7]. Bessong, P. K. & Tapang A. T. (2012). Social responsibility accounting cost and its influence on the profitability of Nigerian Banks. International Journal of Financial Research, 3 (4), 33-45.

[8]. Berle, A. and Means, C. (1932). The Modern Corporation and the Private Property. New York: Harcourt, Brace and World.

[9]. Cadbury Report, (1992) Report of the Committee on the Financial Aspect of Corporate Governance. Gee Publishing, London.

[10]. Eisenberg, T. Sundgren, S. & Well M. T. (1998). Large Boardsize and Decreasing from Value in Small Firms. Journal of Financial Economics 48, 35-54.

[11]. Gadi, D. P. Emesuanwu, C. E. & Shammah, Y. (2015). Impact of Corporate Governance on Financial Performance of Micro Financial Banks in North Central Nigeria, International Journal of Humanities, Social Science and Education 2(1) 153-170.

[12]. Hamidu I. & Aliyu, M. (2015). Corporate Attributes of Boardsize and Market Value of Firms in the Nigerian Chemical and Paint Industry. International Journal of Humanities and Social sciences 5(6) 101-108.

[13]. ICAN (2014). Management Governance & Ethics, Emile Wolf International, UK.

[14]. Jensem, M. C. (1993). The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems, Journal of Finance, 48 831-880.

[15]. Jensen, M and Meckling W. (1976). Theory of a Firm: Managerial Behaviour, Agency Costs and Ownership Structure. Journal of Economics.

[16]. Kajola S. O. (2008) Corporate Governance and Firm Performance: The Case of Nigerian Listed Firms. European Journal of Economics, Finance & Administrative Science- Issue 14.

[17]. Monks, R. & Minow N. (1995) Corporate Governance 2^{nd} ed. Blackwell Publisher, Oxford.

[18]. Nwachukwu (2007). Understanding Share Registration in Nigeria: A Contemporary Issue and Management. Lagos: America Ltd.

[19]. Nwuigbe O. R. (2015). The Effect of Boardsize on Firm Performance: Evidence from the Nigerian Manufacturing Industry. Journal of Management Sciences, 2 (1) 14-23.

[20]. OECD (2004). Organization for Economic Co-operation and Development. “The OECD Principles of Corporate Governance”, OECD Publications Service, France.

[21]. Ogbechie, C., & Koutopoulos, D. N. (2010). Corporate Governance and Board Practices in the Nigerian Banking Industry.

[22]. Oyejide, T. A. & Soyibo, A. (2001) “Corporate Governance in Nigeria” Development Policy Centre Ibadan, Nigeria. Paper Presented at the Conference on Corporate Governance, in Accra, Ghana 29-30.

[23]. Shleifer, A. and Vishny R. W. (1997). A Survey of Corporate Governance. Journal of Financial Economics, 52(2), 737-783.

[24]. Singh, M. & Davidson, W. N. (2003). Agency Cost, Ownership Structure and Corporate Governance Mechanism. Journal of Banking and Finance 27, 793-816.

[25]. Tapang, A. T. & Bassey, E. B. (2017). Effect Of Corporate Social Responsibility Performance On Stakeholder’s Perception Of Telecommunication Companies in Nigeria: A Study Of Mtn, Globalcom & Etisalat. IOSR Journal of Business and Management (IOSR-JBM) 19 (6), 39-55

[26]. Uche, C. (2004). Corporate Governance in Nigerian Financial Industry, Chartered Institute of Bankers of Nigeria Journal. Journal, vol. 2, 11-23.

[27]. Walsh, J. P. & Seward, J. K. (1990): On the Efficiency of Internal and External Corporate Control Mechanism. Academy of Management Review 15(3) 421-458.

[28]. Wolfensohn, J. (1999) Corporate Governance is about Promoting Corporate Fairness, Transparency and Accountability; Financial Times, June, 21^{st}.

[29]. Yermack, D. (1996). Higher Market Valuation of Companies with a Small Board of Directors, Journal of Financial Economies, 40 185-221.

Geraldine Banku Mbu-Ogar. “Corporate Governance and Organizational Performance: Evidence from the Nigerian Manufacturing Industry.” IOSR Journal of Business and Management (IOSR-JBM), vol. 19, no. 8, 2017, pp. 46–51.