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Dimensions of Corporate Governance on Performance of Manufacturing Companies in Nigeria: A Theoretical Review

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Abstract

The study empirically examined dimensions of corporate governance on performance of manufacturing companies in Nigeria. The study revealed that three of the independent variables examined had effect on performance of companies in Nigeria. First, board size had a significant effect on performance. Secondly, internal control had a significant negative effect on performance of companies in Nigeria. Board gender diversity had a significant effect on performance. The study recommended that companies in Nigeria should ensure that there are sufficient directors on the board with requisite experience that can impact performance positively. Companies should continue to ensure firm control over operation to enhance performance, but they should always carry out cost and benefit analysis of internal control.

Keywords: corporate governance, board size, board independence, internal control measures, board gender diversity, company size, company age, performance

1. Introduction

Corporate governance became a central issue in both academic and social circles following the several corporate collapses of the 1990s which undermined people's confidence in corporate leadership and cast doubts on the credibility of financial statement. Some of these failures resulted from weaknesses in the internal control infrastructures and operating environments, and a lack of commitment to high ethical standards. These events of the 90s, led to the call for good governance and corporate responsibility to help assure well-functioning markets necessary to facilitate economic growth and development. Corporate governance is one of the tools that can be used to ensure companies operate in a manner that will contribute to the provision of reliable information, reduce exposure to the risk of fraud and failure and enhance protection of investors and other stakeholders. Generally, the elements and instruments of good corporate governance consists of policies, rules, processes, practices, programmes and institutions used in administering, directing and controlling the operations and affairs of an organization (Bayoumi & Youssef, 2015).

Manufacturing companies are established with the aim of effectively utilizing various resources to meet the goals of the organisation and ensure a financially stabled future. It is however regrettable that some organisations are faced with negative effects, such as: corporate governance failure, poor financial reporting and capital shortage, which poses a serious challenge to the survival of the organization (Hamid, 2008). Corporate governance has not only become a key determinant in the identification of company's strengths and weaknesses, the aim of corporate governance report is to improve corporate governance environment (Bhagat & Bolton, 2009).

Thus, corporate governance mechanism does not only improve the performance of the firm but also provides opportunities to reallocate resources. In Nigeria, various committees have been inaugurated to review the corporate governance code. For example, the Corporate Governance Code 2003, was reviewed and new issues such as differentiating independent and exclusive directors, training of directors, separation of functions of chairpersons of the board and chief executive officer, amongst others were raised. Subsequently, due to some shortcomings and inconsistency. This study seeks to investigate the effect of corporate governance mechanisms on the performance of manufacturing companies in Nigeria.

2. Statement of the Problem

Corporate governance practices in Nigeria may vary from industry to industry, due to the existence of several corporate codes such as private sector code of corporate governance issued by the Financial Reporting Council of Nigeria in 2016, Security and Exchange Code of corporate governance in 2011, Central Bank of Nigeria and Chartered Institute of Bankers Code of corporate governance for banks in 2014, Not-for-profit organisation Governance Code. This may suggest that the effect of corporate governance variables on performance of companies in Nigeria may also vary. There have been several cases of corporate governance infractions in Nigeria leading to the collapse of companies especially in the banking sector.

There have been corporate scandals resulting from the failure of corporate governance involving companies such as Cadbury Nigeria Plc and Lever Brothers Plc. Some companies in Nigeria like MRS Oil Nigeria Plc, Conoil Plc, Oando Plc and Forte oil have abandoned some service stations all over the country. Could the closures of the stations be due to failure of corporate governance? There are certain responsibilities that are better handled by specific gender, therefore if there is no gender diversity in manufacturing companies in Nigeria, there is a tendency that it could pose a challenge to them. Besides, fewer board size may result to inadequate decision making while excessive board size may be challenging for the chairman of board to control. This may cause inconsistency of the system for internal evaluation overtime and may likely affect board effectiveness negatively on monitoring the activities of manufacturing companies in Nigeria. This study therefore seeks to investigate corporate governance on the performance of manufacturing companies in Nigeria.

3. Theoretical Framework

1) Agency theory

Berle and Means (1932) were the first scholars to explore the concept of agency and the applications towards the development of large corporations. They asserted that the interest of managers differs from those of the owners of the firm. The theory posited the presence of agency problem and since then, it has been a motivating factor for the economists to nurture the aspects of agency theory. If an organisation is managed by a person or group of persons who are not the real owners, then there is a chance that they may not work for the owners' benefit. In a joint stock company, the ownership is held by individuals or groups in the form of stock and these shareholders (principals) delegate the authority to the managers (agents) to run the business on their behalf, but the major issue is whether these managers are performing for the owners or themselves.

However, Bayoumi and Youssef (2015) argued that agency theory provided a method of explaining the difference between the owner and the employees to a point whereby only continuous supervision and sufficient planned remuneration policy can bring a positive relationship between the two parties. Similarly, Solanke (2019) posited that diversity of private interest motivates individuals to utilize the information in their possession to boost their own interest which may not be the same with the organisation's interest. Agency theory improves internal control for the firm and guides company to be properly controlled to achieve performance in an organization (Kotlar & Sieger, 2019). This study is anchored on the agency theory because corporate governance arose to address problems of expropriation of firms' resources by managers who are motivated by self-interest.

2) Stakeholder theory

The stakeholder theory was first propounded by Freeman. The traditional view of a company states that a company exists to maximize the wealth of shareholders, therefore, the company has a binding fiduciary duty to put their needs first, to increase value for them. But the stakeholder theory instead argues that there are other parties involved, including employees, customers, suppliers, financiers, communities, governmental bodies, political groups, trade associations, and trade unions. Even competitors are sometimes counted as stakeholders — their status being derived from their capacity to affect the firms and its stakeholders. The nature of what constitutes a stakeholder is highly contested. The need to protect the interest of all stakeholders was the driving force behind corporate governance principles. Thus, the stakeholder theory supports this study because it holds that managers are accountable to the different individuals and groups that collectively hold legitimate claim to the firm.

4. Conceptual Framework

The conceptual framework below expresses the variables of the research and their relationship. The conceptual framework shows that corporate governance variables include board size, board independence, internal control and board gender diversity. The performance of the firms was measured using profitability while firm size and firm age are moderating variables (Figure 1).

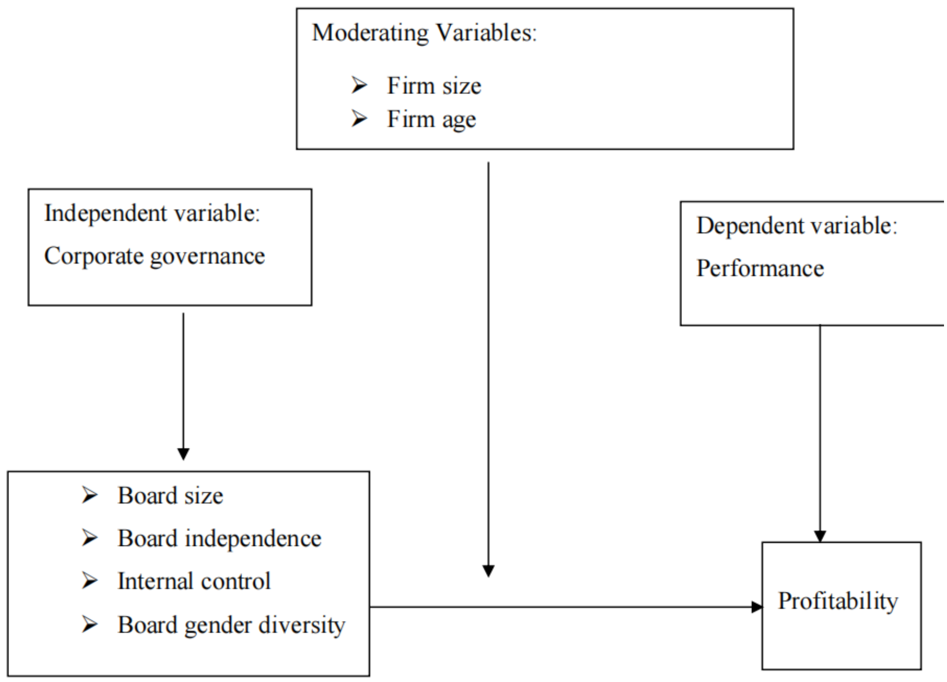

Figure 1. Conceptual framework

Source: Author's Work, 2024.

5. Concept of Corporate Governance

In present times, corporate governance has continued to serve as veritable determining factor in ascertaining company's strong points and weaknesses. One of the crucial functions achieved by corporate governance is to guarantee a high standard financial reporting practice. Various countries across the globe have set the generally acceptable corporate governance standards as guiding principles for the operation of companies. These include: Cadbury Report of the United Kingdom; Sarbanes — Oxley of the United States of America; The Dey Report of Canada; The Vienot Reporting of France; the Olivencia Report of Spain; the King's Report of South Africa; Principles and Guidelines on Corporate Governance applicable in New Zealand; while the Cromme Code is of German origin (Akeju & Babatunde, 2017).

Corporate governance is not about management activities, skills and techniques, neither is it about the formulation of business strategies. Corporate governance is concerned with managing and directing a company in the interest of the shareholders, other stakeholders and the wider society. Hence, corporate governance is concerned with how those who have powers to direct a company use those powers and how the board of directors and other senior managers take responsibility for deciding a company's strategy. Corporate governance addresses questions such as: in whose interest is the company run? Who makes decisions for the company? How do those who have the powers to make decisions for the company use such powers? Are those charged with the governance of the company held accountable for the way they use their powers? And how are risks managed?

The achievement of an organisation's objectives through effective communication, leadership, motivation, as well as proper guidance of subordinates is directing as a managerial function (Akpanuko *et al.*, 2019), while Sreeti (2017) ensured that those charged with governance are held to account by evaluating their decisions on transparency, inclusivity, equity and responsibility. However, corporate governance is a set of connections between stakeholders, shareholders, its board and the management of the company. The objectives of the company are set through the provision of corporate governance structure, and the means of accomplishing those objectives and supervising performance are determined (Eti & Ibitayo, 2019).

6. Performance

Company performance is part of an organisation's effectiveness which includes operational and financial results. However, performance is how companies make efficient resources to consistently enhance capabilities to achieve goals. While financial performance indicates the total attainment of a company in terms of profits, sales and growth measured on financial basis. It is an important variable for business survival and growth (Owolabi & Obida., 2012). In this study, performance of oil and gas companies on the floor of Nigerian Exchange Ltd from 2003 to 2021 shall be measured using profitability for performance of companies and board size, Board independence, internal control measure and board gender diversity as variables of corporate governance.

Corporate governance is a concept and a holistic approach to managing companies and involves mechanisms which cut across the major parties to corporate governance such as the Board of Directors, audit committee, external auditors and shareholders. Consequently, the effectiveness of a corporate governance system depends, to an extent, on the collective effort of the members in corporate governance. However, experience has shown that in many quoted companies especially in developing countries like Nigeria, corporate governance is solely in the hands of the Board of Directors, other major actors in corporate governance such as audit committee, external auditors, internal auditors as well as shareholders play passive roles in the governance of such companies.

This is the reason why a number of companies still experience corporate governance failure (Akpanuko *et al*., 2019). This challenge will continue until the major actors in corporate governance are actively involved in the governance of companies (Akpanuko *et al*., 2019). In explaining the concept of corporate governance, Emile defines it as the management and direction of a company in the interest of shareholders, other stakeholders, and the wider society. Thus, corporate governance is concerned with how to direct a company by Board of Directors and other senior managers who take responsibility of deciding a company's strategy.

7. Empirical Literature

Ahmadu (2017) investigated the diversity and financial performance of corporate boards: Evidence from Nigeria's cited Deposit Money Bank. The study investigated the size of the board on gender diversity, ethnic diversity, board organization, unfamiliar fascism and return on investment. The review used information from the cash banks of the 10 cited stores between 2010 and 2014. Multivariate recurrence was used to analyse the information. The review showed that the gender of the board has a significant effect on financial performance. The review then suggested that Nigerian cited store cash banks should raise the scope of women on the board to tackle financial performance.

Alhasan and Wuham (2015) investigated the relationship between mechanism of corporate governance and financial performance in textile sector of Pakistan and found that the larger portion of the bord size in an organization takes highest part of the organisation's decision and this can only be reduce if the firm can limit the number of personnel on the board size in order for majority not to carry the votes while making decision so that financial performance of the organization can be improved through the corporate governance policy.

Nhung and Thug (2017) examined the relationship between corporate governance and financial performance of listed Singaporean companies. Multiple panel regression techniques were adopted by the researchers and data were collected from the annual reports and accounts of the firms. The findings revealed that board independence, chief executive officers' duality and board size have no significant effect on financial performance. The review then suggested that board made up of fewer members is better for efficient and effective enhancement of financial performance in an organization.

Nwaolisa and Chijindu (2016) on the influence of financial structure on profitability with special reference to oil and gas firms in Nigeria, the ex-post facto method of design was adopted. The data for the study were obtained from the published annual reports and accounts of ten (10) oil and gas firms listed on the Nigerian Stock Exchange. The findings of the study indicated that financial structure has negative effect on the profitability of oil and gas firms in Nigeria. Another study by Iskakou and Yilmaz (2015) on performance evaluation of major integrated oil and gas companies, the researcher adopted the quantitative research design along with comprehensive theoretical background on the global oil and gas industry. Four (4) international oil companies were selected for the study. All companies showed relatively good result from the financial ratios computed on liquidity position, Exxon Mobil Corporation had the most outstanding result on leverage on short term asset management, most healthy turnover assets management was observed from Exxon Mobil Hassan and Farouk (2014) researched on firm attributes and earnings quality of listed oil and gas companies. Multiple panel regression techniques were adopted by the researchers and data were collected from the annual reports and accounts of the firms. The findings revealed that leverage, liquidity and firms growth has a significant positive impact on earnings quality while firm size, institutional ownership and profitability have a significant but negative influence on earnings quality. Another study in relations to board size, Eisenberg *et al*. (2009) found that small board has direct positive impact on the performance of firms and enhances efficiency. Ruth and Korolo (2017) revealed that large board delay decision, leading to inefficiency and unnecessary crisis. However, Rini and Djoko (2018) found that size of the board has little or no effect on firms if the enterprise has adequate internal control system which is in line with the philosophy of the firm. Sixtus *et al.* (2019) evaluated the relationship between board diversity and a company's financial performance in Nigeria. The researcher obtained data for the study from the bank's annual report from 2006 to 2017. The review used a recurrence survey of board information and fixed impact model to investigate the information. The review showed a positive and significant relationship between gender diversity and bank's financial performance. The review also showed a negative and no significant relationship between board size and bank's performance. As a result, the study suggested women into the board to work on their financial performance.

Abbas *et al*. (2018) examined the relationship between the quality of board and performance of cited Nigerian customer product companies. The review used information from 27 customer commodity companies recorded in Nigeria between 2011 and 2017. The review used autoregressive distribution lag to evaluate the information. The review showed a no significant relationship between board size, board construction, and customer company performance. As a result, the review suggested a regular board meeting and board autonomy to improve performance. Aifuwa *et a*l. (2020) investigated the impact of board gender diversity on corporate performance. The review used information from shopper product companies from 2013 to 2018. The review used the least squares — method of the board to investigate the information. The study showed a positive and significant relationship between board gender diversity and corporate performance. As a result, the study suggested that women should always be in the board to enhance performance.

Osemwegie and Ugbogbo (2019) investigated board gender diversity and financial performance of selected Nigerian bank. The study used 15 quoted banks on the Nigerian Exchange Limited from 2009 to 2017. The review used Pearson product moment correlation coefficient, variable iteration tests and recurrence studies to analyse the information. The review showed a positive and significant relationship between board gender diversity and financial performance. As a result, the study suggested gender diversity in companies' boards. Ahmadu (2017) investigated the diversity and financial performance of corporate boards: Evidence from Nigeria's cited Deposit Money Bank. The study investigated the size of the board on gender diversity, ethnic diversity, board organization, unfamiliar fascism and return on investment. The review used information from the cash banks of the 10 cited stores between 2010 and 2014. Multivariate recurrence was used to analyse the information. The review showed that the gender of the board has a significant effect on financial performance. The review then suggested that Nigerian cited store cash banks should raise the scope of women on the board to tackle financial performance.

8. Conclusion

Corporate governance is one of the tools that can be used to ensure companies operate in a manner that will ensure better performance in the interest of all stakeholders of the company. Weak corporate governance practices have been documented in extant literature to have led to corporate collapses. This study examined the effect of corporate governance on the performance of manufacturing companies in Nigeria and also investigated whether firm size and firm age moderate the relationship between corporate governance and performance of the manufacturing companies studied.

9. Recommendations

The study recommended thus:

1) Companies in Nigeria should ensure that there are sufficient directors on the board with requisite experience that can impact performance positively.
2) Companies in Nigeria should continue to ensure firm control over operation to enhance performance, but they should always carry out cost and benefit analysis of internal control.

Companies in Nigeria should ensure there is adequate number of women on their boards to enhance performance.

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