

Core Corporate Governance Structure and Financial Performance of Manufacturing Companies in Nigeria

***Dr. Nwaiwu, J. N. & Joseph, B.**

**Department of Accounting,
Faculty of Management Sciences,
University Port Harcourt, Port Harcourt, Nigeria
*johnsonnwaiwu@gmail.com**

ABSTRACT

The widespread corporate scandals and failures around the world, has resulted in a renewed interest in the relationship between “core corporate governance and financial performance has been immensely undertaken in developed countries and markets, particularly the “UK” and “USA”, but relatively little evidence is provided in the middle East, specifically “Nigeria”. This study investigates empirically the relationship between core corporate governance and financial performance of quoted manufacturing companies in Nigeria. “Time series” data on different types of core corporate governance and financial performance from 2012-2016 were collected from annual reports, journal articles and Nigerian stock exchange websites. The “ordinary least square of multiple regression based autoregression distributed lay, ADR stationarity unit root test and pair-wise granger causality test were used in analyzing the data with the aid of SPSS version 21 and e-view version 7. The results indicate that audit committee members have a significant effect on earnings per share and return on assets. Explaining about 86.0%, we conclude that they exert a significant relationship among ACM, ROA and EPS and recommends that the board needs to comprise of well-educated people since they are actively involved in shaping companies strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms.

Keywords: “Return on Assets, Earnings Per Share, Audit Committee Members, Corporate Governance and Financial Performance.”

INTRODUCTION

The recently well publicized cases of accounting misadventure of renowned corporations like Enron, World Com, Global Crossing and other companies in the global space have greatly shaken investors’ confidence in the integrity of corporate financial performance. A typical example in Nigerian was petroleum industry where the auditors of Africa Petroleum (now Forte Plc) failed to disclose 24 billion naira credit facility in the financial statements was unethical and had demonstrated the fragility of professional reputations.

These perceived high profile-financial scandals have become a major source of concern, and “galvanized considerable interest in and discussion” on the imperative of “corporate governance in the reality of financial performance.” Besides the shareholders prospect being damned, the confidence of other stakeholders is lost on the pages of window-dressed financial performance in the financial statements of the entities. The Sarbanes-Oxley Act of 2002 was passed by the U.S. congress in response to preventing the reoccurrence of financial scandals; “to reinforce corporate accountability and professional responsibilities, and to rebuild investor confidence”. In the same vein, the Code of Corporate Governance for Public Companies in Nigeria by Securities and

Exchange Commission (SEC) 2011 and Financial Reporting Council of Nigeria Act of 2011 were enacted to harmonize activities of relevant professional and regulatory bodies with regard to ensuring effective corporate governance and credible auditors reporting. This is a worrisome phenomenon; hence, prompting an empirical investigation to determine the relationship between corporate governance structures and financial performance of quoted manufacturing companies in Nigeria.

Core corporate governance has become a concern in developed and less developing economies since the financial scandals in the past, which have resulted in demands for improved core corporate governance practice (Baydoun., Maguire; Rayan & Willett, 2013; Herbert & Tsegba, 2013; Nwaiwu & Ogbowu, 2015; Nigeria 2015; Ibanichuka., Nwaiwu & Okah 2018). Good core corporate governance has become essential for improving financial performance. Ensuring economic development (Zraga-Alves & Shastri, 2011; Roman & Rountree, 2010). Although attention has been given to core corporate governance in developing countries, many of these countries has attracted considerable attention in academic research (Weir & Laing, 2001; Reed, 2002; Clark, 2004; Mallin, 2004; Solomon & Solomon, 2004; Sternberg, 2004, Ihendinihu, 2009).

Core Corporate Governance is the rule and practices that given the relationship between the managers and shareholders of a corporate, as well as its stakeholders. It contributes to growth and financial stability by reinforcing market confidence. Financial market integrity and economic efficiency (organization for economic corporation and development (2004).As a result, core corporate governance distributes the rights and responsibility among the various participants in a company, such as the board, managers; shareholders and other stakeholders. It also ensures that the rules and procedures for making decision regarding corporate affairs are clear (Feleayga, 2011). Corporate governance practice is considered as internal mechanism for monitoring management. Good corporate governance practice is considered on internal mechanism for monitoring management. It is an effective tool for helping a firm to attain better financial performance (Ghabayeu, 2012).

The concept of core corporate governance in developed economies has been explained using various theories (Solomon, 2010). The agency theory, the purpose of core corporate governance is to reduce potential conflicts between managers and the interests of the shareholders (Jensen & Meckling, 1976). The stakeholder theory also plays an essential role in explaining core governance structures because companies are made aware of all stakeholders rather than only the shareholders (Freeman, 1984). Donaldson & Preston (1995) have argued that “the stakeholder theory can help to maximize firm financial performance and the combined benefits of all stakeholders.

An increasing number of empirical studies have been conducted regarding the practice of corporate governance in developing countries and emerging markets in many parts of the world (Arun & Turner, 2014). Corporate governance has been investigated in Cyprus (Krambia – Kapardis & Psaro, 2006), Kenya (Mulili & Wong, 2011), Bahrain (Hussian & Malian, 2002), Taiwan (Solomon et al 2003) Nigeria (Olayiwola, 2010; Herbert & Tsegba, 2013; Nwaiwu & Ogbowu, 2015). Turkey (Gurunlu, 2009), five Arabian countries (Baydoun et al, 2013), Indonesia (Junarsia & Ismiyanti, 2009), Ukrain (Muravyer, 2010). Egypt (Bremer & Elias, 2007). However, Shleifer and Vishny (1997) have stated that “core corporate governance practice is weak in developing countries”, and they have suggested that better firm performance could be achieved by better governance. This means that good corporate governance could significantly contribute to enhancing firm financial performance because it produces better management and increased allocation of the company’s resources (Keong, 2002).

Many studies have investigated the relationship between corporate governance and financial performance (Jensen & Meckling 1976); Jensen, 1993; Bhagat & Black, 2001; Ishii & Metrick, 2003; Klapper & Love, 2004; Haniffa & Hudib, 2006; Adams & Mehran, 2008; Ramdani & Van

Wittelorsuiju, 2009; Trabelsi, 2010; Griffin et al, 2014) have highlighted that firm financial performance can be significantly affected by its corporate governance rules and practices. However, in “Middle East, North African, South Africa and West Africa” countries and even in the West Africa, Nigeria in particular, there is lack of studies that investigate the effect of core corporate governance on firm financial performance, which justifies the purpose of this study.

Academically, there has been little or limited research on core corporate governance in the context of emerging economies, and to date, there has been a scarcity of studies on core corporate governance in the context of Nigeria. Therefore, the current research addresses this current gap, which is a developing country with emerging capital market. The objective of this study is two fold. One, due to the few studies regarding core corporate governance in developing countries, and specifically in Nigeria, compared with developed countries. This empirical paper presents evidence concerning core corporate governance practices. Two, it investigates the relationship between core corporate governance and firm financial performance of quoted companies in Nigeria.

The rest of this empirical paper is organised as follows: Section two provides a review of the related literature, theoretical framework, concepts and hypotheses. Section three discusses the research methodology and model specification. Section four presents the empirical results and discussion. Section five ends up the paper with summary, conclusion and recommendations.

Theoretical framework and Hypotheses Context

Stakeholder Theory

Freeman (1984), one of the foremost exponents of the Stakeholder theory, distinguished the unexpected rise of stakeholders group as significant components to the organization demanding deliberation. Freeman (1984) defines stakeholders as “any group of individual who can affect or is affected by the achievement of the organization’s objectives”.

“If organizations want to be effective, they will pay attention to all and only those relationship that can affect or be affected by the achievement of the organization’s purpose. That is, stakeholders management is fundamentally a pragmatic concept. Regardless of content of the purpose of the firm, the effective firm will manage the relationships that are important” (Freeman 1999:234).

Sundaram & Inkpen (2004) suggest that “Stakeholders attempts to address the question of which groups of stakeholders deserve and require management’s attention”. Donaldson & Preston (1995) present a diagrammatical representation of the stakeholder model as shown below:

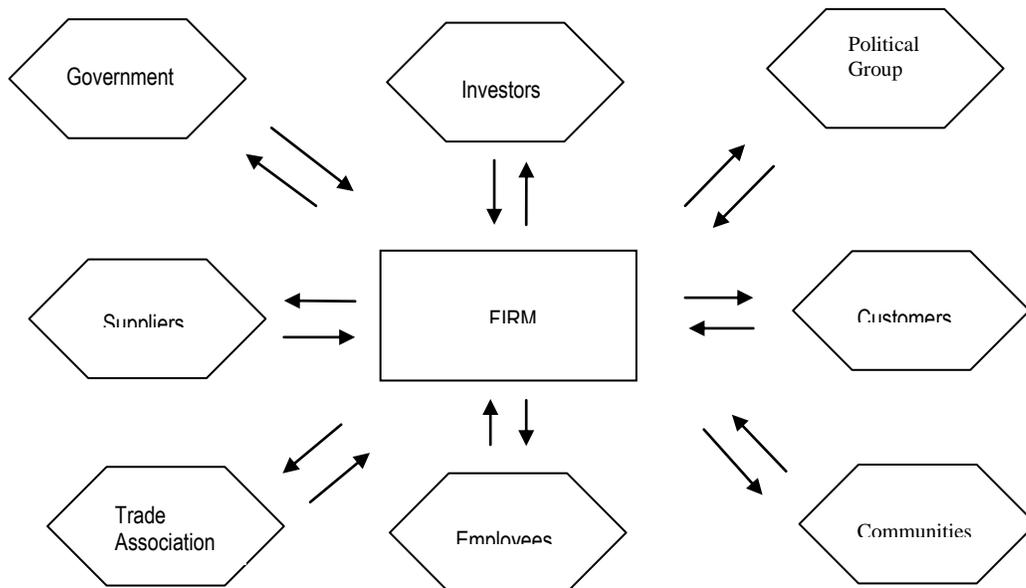


Figure 1: The Stakeholder Model

Source: Donaldson and Preston (1995:69).

The diagram above, portrays the number of groups with interest in (or relationship with) the firm. The explanation is that under this model, all persons or groups that have legitimate interest partake in a venture. They do so to acquire beliefs and there is no existence of prima facie precedence of one set of interests and benefits over another. Stakeholder theory tenders architecture for deciding the structure and operations of the firm that is apprehensive of the abundant participants who seek manifold and sometimes disparate goals (Donald & Preston, 1995).

Audit Committee Size

It is the requirements of some Stock Exchanges that the audit committee for the listed companies be made up of three members (Al –Sa’eed & Al-Mahamid, 2011). However, CAMA (1990) sec. 359 specifies the maximum number of audit committee members in Nigeria as six but did not specify the minimum. Bedard, Chtourou & Courteau (2004) have argued that when the “audit committee is large, the control and oversight functions over the accounting and financial processes increase.” In agreement to this Anderson, Mansi & Reeb (2004) found that “large size audit committees” with a large size has the potential to protect and control the process of “accounting and finance by bringing in greater transparency.” A very large “audit committee” can bring about dispersion of responsibility and process losses (Karamanou & Vafeas, 2005).

The essence of the audit committee is based on two strands of accountability; first, management’s accountability to the board, second, board’s accountability to the shareholders. The audit committee’s role stems directly from the board’s oversight function as it oversees, both, internal as well as external, audit processes of the firm (Collier & Gregory, 1999; Bédard et al., 2004; Lee et al., 2004). One of the foremost functions of the audit committee is to review the financial data of the company on continuous basis and strengthen internal accounting controls, in order to enhance reliability and integrity of financial reporting. A good system of corporate governance requires a thorough co-ordination among the three constituents of audit viz. the board, the internal auditors and the external auditors. The audit committee participates, not only in the process whereby management disseminate information to the auditors and releasing unbiased information reducing information asymmetry between insiders and outsiders; but also play an important role in ensuring that statutory auditors are not in the influence of management. Therefore audit committees can be used as a mechanism to reduce agency problems faced by firms, (Jensen & Meckling, 1976). The composition and functioning of the audit committee play significant role in influencing quality of financial reporting (Vicknair et al., 1993; Cadbury, 1995). Several studies and reports have emphasized that the audit committees should consist of independent non-executive directors, who are less likely to be influenced by the management, and therefore, can carry out financial reporting process more effectively (Beasley 1996; Blue Ribbon Committee, 1999).

The number of “audit committee members is used as an indication of resources available to this committee” (Lin, et al., 2006). Some studies, such as those of Jensen (1993) and Yermack (1996), suggest that “the number of members on an audit committee affects its decisions.” Bédard et al., (2004) argue that “the larger the audit committee, the more likely it is to uncover and resolve potential problems in the financial reporting process because it is likely to provide the necessary strength and diversity of views and expertise to ensure effective monitoring.” Empirical studies provide mixed evidence of the impact of “audit committee size on financial reporting quality.” Xie et al., (2003) find no significant association between the number of directors on the “audit committee and earnings management.” Similarly, Abbott et al., (2004) find no impact of “audit committee size on earnings restatement.” On the other hand, Yang & Krishnan (2005) find that “audit committee size” is negatively associated with earnings management, implying that a certain minimum “number of audit committee members” may be relevant to quality of financial reporting.

Financial Performance

Financial performance can be determined easily through financial ratio and some of these measures include : Cash flow growth, Earning Per share (EPS) growth, Asset growth, Dividend growth, Sales growth, Market Value added (MVA), Economic Value added (EVA) (Coles, McWilliams & Sen, 2001; Abdullah, 2004). The study by Dehene De Vuyst & Ooghe (2001) adopted Return on equity (ROE) and return on asset (ROA) as substitute for financial performance in Belgian firms. Chen, Cheung, Stouraities & Wong (2005) adopted market-to-book ratio on firms in Hong Kong. Judges, Naoumova & Koutzevoi (2003) applied a series of indicators including financial profitability, “customer satisfaction, product/service quality capacity utilization and process improvements to assess firm performance. For the purpose of this study, Return on Asset (ROA), Earning Per Share (EPS) and Current Ratio (CR)” were used as measures of financial performance.

Return on Assets (ROA)

Return on Assets according to Lindo (2008) is the overall designed financial ratio applied to estimate the connection of profit earned to the investment in assets needed to earn that profit. Gallinger (2006) carried out a wholesome analysis of return on assets. He built a model whose variables consist of such indications as: the return on equity, the return on sales and financial leverage, and the interest expenses. This permits a firm to help management on the favourable occasion of time to transfer the asset in the future. Lindo (2008) noted that the return on asset percent is an alpha that is used to estimate the profit donations needed from fresh investments. Therefore, it pinpoints the rate of return required to at least to preserve existing performance and can be adopted to institute a barrier rates all fresh investments must attain for endorsement.

Return on assets is generally considered as a good measure of comparing the level of profit in an organization to the value of net assets invested in an organization. The assets are undoubtedly the major items that need to be in place for a financial firm to operate and these assets are seen as the current assets and the fixed assets. The return on assets (ROA) can simply be calculated as PAT/ Total Assets. The figures of net assets can be directly derived from the balance sheet. Return on assets remains a great measure of operational efficiency of any financial organization globally.

Earnings Per Share (EPS)

Earning is a critical variable that exerts enormous influence on market value of equity share. Earnings that emanates after interest, depreciation and tax are for equity shareholders. Earnings per share are derived by dividing earning (after deduction of tax, interest, preference shareholders dividend and depreciation) on total number of outstanding shares. Earnings per share is a powerful forecaster of market value in a productive tract.

In a study by Faris, Neil, Pfeifer & Reibstein, (2010), it was revealed that a positive and significant relationship exist between market value of stock and net asset value per share. Also, Malaka and Gupta (2002) found out earning per share is an important influencer of share value when the share value of major cement firms in India from 1968 – 1988 and five variables (dividends per share, retained earnings, earnings per share, the share price and sales proceeds) were conducted. Earnings per share were discovered to be significant in the determination of share price determinants.

Empirical Review

Several studies on corporate governance mechanism and financial performance have been undertaken. Ajola, et al. (2012) studied the effect of corporate governance on the performance of Nigerian banking sector using the Pearson Correlation and Regression to analyze the relationship between corporate governance variables and banks’ performance and found that a negative but significant relationship exist between board size and the financial performance of the selected banks covering a period of five years.

Bawa and Lubabah (2012) examined corporate governance and financial performance of banks on twelve banks in Nigeria covering a period of five years (2006-2010) and found negative relationship between board size and profitability of banks. However, the study carried out by Akpan & Roman (2012) on eleven (11) selected banks in Nigeria using linear regression analysis arrived at a conclusion which also tallies with the finding of Asiyagwu (2013), that smaller board size positively and significantly enhance performance and Yoshikawa and Phan (2003) added that larger board size increases agency cost.

Hassan, Shaukat & Nawaz (2014) aim at ascertaining the impact of corporate governance i.e. independence (board and audit committee) and ownership structure (ownership concentration and management ownership) with financial performance (Earning per share and market to book ratio). The study used 500 firm year observations of 50 non-financial companies listed at Karachi Stock Exchange (KSE) from 2001-2010. It was revealed that corporate governance has significant impact on firm performance.

Aggarwal (2013) investigated the impact of Corporate Governance on Corporate Financial Performance in an Indian context. The study used a sample of 20 companies listed on S&P CNX Nifty 50 Index. Tests such as regression, correlation, t-test and F-test were conducted on secondary data covering two years of 2010 to 2012. It was also controlled for size of firm and it was shown that governance ratings positively impact on corporate financial performance.

McGee & Yuan (2008) examined Corporate Governance and the Timeliness of Financial Reporting: An Empirical Study of the Peoples' Republic of China, measuring the timeliness of financial reporting by counting the number of days that passed between year-end and the date of the independent auditor's report from a number of Chinese companies. The outcomes were compared to data of non-Chinese companies in developed market economies which independent audit firms issued the audit opinion of which sets of accounting standard (IFRS, US GAAP or Chinese Accounting Standards) to determine which audit firms and accounting standards dominate. Thus, Chinese financial statements are less timely than the financial statements of non-Chinese companies in developed market economies. This study differs from the previous ones as it attempts to provide additional evidence on the impact of corporate governance structure on financial performance of quoted manufacturing companies in Nigeria.

Fitriya & Stuart (2012) examined Board Structure, Ownership Structure and Firm Performance: A Study of New Zealand Listed Firms, the study adopts a General Linear Model (GLM) for robustness. The result disclosed that board of directors, board committees, and managerial ownership has a positive and significant impact on firm performance. In the meantime, non-executives, female directors on the board and blockholder ownership Zealand firm performance. Erkens, Hung & Matos (2010) found that firms with more independent boards and higher institutional ownership experience worse stock returns during a crises using international sample of 196 financial firms from 30 countries. Further they found that firms with more independent boards raised more equity capital during crisis, which led to a wealth of transfer from existing shareholders to debt holders.

Faisal and Abdul (2015) considered seven different governance measures (G-Index, E-Index, Board independence, Director dollar value of ownership, Director Percentage value in ownership, and CEO-Chairman duality). They found that better governance, as measured by the G-Index, E-Index, stock ownership of board members, and CEO-Chairperson separation was significantly and positively correlated with present and subsequent operating performance as measured by ROA and Tobin's Q. Also, board independence was negatively correlated with the present and subsequent operating performance.

Sanda, Mikailu and Tukur, (2005) in their study regressed measures of operating performance on governance index and control variables such as book-to-market equity and log of market value of equity. The coefficient of their governance index was found to be negative and significant in

various modifications thereby evidencing a significant negative relation between subsequent operating performance and corporate governance index.

Bhagat & Black (2008) investigated the relationship between firm-level corporate governance and firm market value for Korean companies, they found that a strong positive relationship exist between Korean Corporate Governance Index (KCGI) and firm market value. Korean Corporate Governance Index was also found to be strongly related with other measures of firm value (market value of equity/ book value of equity, and market value of equity /sales) of Korea.

Brown & Caylor (2006) created „Gov-Score“, a governance index based on 51 firms“ specific internal and external governance variables. They found a significantly positive correlation between Tobin“s Q and Gov-Score. Using regression analysis, they found the regression coefficient on Gov-Score to be positive and significant. They affirm that a board size of between 6 and 15 members attracts a higher return on equity and better profit margins than firms with other sizes.

Kojola (2008) “studied the relationship between corporate governance and financial performance of 20 firms in Nigeria showed that a positive and significant relationship exist between ROE and board size, profit margin and chief executive officer’s status, ROE board composition and audit committees and finally between profit margin (as dependent variables) and board size, board composition and audit committee as independent variables.”

A number of studies which revealed positive relationship between audit committee size and firm performance include, (Biao, Wallace & Peter; Klein, 2002; and Coleman-Kyereboah, 2007). “However, other researchers like (Kajola, 2008; and Hardwick, 2003) reported that there is no positive relationship between audit committee size and the performance of firms.

Okhalumeh, Ohiokha & Ohiokha (2011) who seek to examine the influence of board composition in the form of the representation of the outsider non-executive directors on the economic performance of firms in Nigeria showed that there was no significant relationship between board composition and any of the performance measure” (ROE, ROCE, ROAM, EPS and DPS) using a simple regression analysis through survey for a sample of 38 listed firms in Nigeria.

Adenikinju & Ayorinde (2001), using Nigerian data investigated whether ownership mix and concentration has any variation in corporate performance of publicly listed firms in Nigeria. “The study finds that Nigerian firms are highly concentrated and there is significant presence of foreign ownership. The study went further to find that ownership structure has no impact on corporate performance in Nigeria.”

Eyenubo (2013) examined the impact of corporate governance and firm performance in Nigeria using regression analysis for 50 firms quoted on the Nigerian Stock Exchange during the period 2001-2010 showed that bigger board size had a significant negative relationship with the indicator of firm financial performance (PAT).

Hypotheses Development

This empirical studies is to offer answers to questions about core corporate governance and financial performance regarding the relevance, benefits and challenges about framework. Specifically, the two hypotheses stated in null form are as follows:

H₀₁: There is no significant relationship between Audit Committee members and Return on Assets of quoted manufacturing companies in Nigeria.

H₀₂: There is no significant relationship between Audit committee members and earnings per share of quoted manufacturing companies in Nigeria.

RESEARCH METHODS

The paradigms of researches on the process of planning, executing and investigating in order to find answers to the research questions (Ghauri & Gronhaug 2005). The research design applied is causal – comparative design which attempts to identify the case-effect relationship between two or more variables. The analysis is to evaluate the effect of overall governance and financial

equations that describes how the dependent variables are related to all the independent variables and an “stochastic error term stated as a multiple regression model as follows:

$$\lambda \text{EPS}_t = \alpha_0 + \beta_1 \text{ACM}_t + \mu_t - - - - v$$

$$\lambda \text{ROA}_t = \alpha_0 + \beta_1 \text{ACM}_t + \mu_t - - - - v_i$$

where α_0 = “Intercept terms”. β_1 = “partial regression coefficients”. μ_t = “Stochastic disturbance term”. t = period of time ‘t’

RESULTS AND DISCUSSION

This section present the statical analysis and findings obtained from the secondary data. The core objective of this study is to “empirically” examine the relationship between core corporate governance and financial performance of quoted companies in Nigeria from 2012-2016. The in-depth investigations of the relationship among the variables of study were presented.

Descriptive Statistics

Table 1 below presents the descriptive results with the minimum, maximum, mean and the standard deviation of variables used in our statistical models.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ACM	100	4.00	6.00	5.9400	.34289
ROA	100	-.01	.43	.1251	.08270
EPS	100	.00	29.95	4.5100	6.30142
Valid N (listwise)	100				

The above table shows that board size has a mean performance of **11.10** with a standard deviation of **2.29**. Audit committee members have an average of **5.94** with a standard deviation of **0.34**. The mean of ROA stood at **0.13** with a standard deviation of **0.08**. EPS has a mean of **4.51** with a standard deviation of **6.30**.

Stationarity Unit Root Test

Table 2 below shows the ADF stationarity unit root tests output of variables in this study via E-View version 8.

Table 2: Extract of ADF Stationarity Unit Root Test Output

Variables	ADF statistic	ADF statistic	ADF statistic	t-Statistic	Prob.*
	% Levels	Diff.	Critical Value.		
ACM	10%	3 rd	-2.584126	-1.547236	0.5053
ROA	10%	3 rd	-3.156439	-1.840800	0.6766
EPS	10%	3 rd	-1.614392	-0.321950	0.5668

The table above reveals the result of Stationarity using Augmented Dickey Fuller (ADF) unit root test. The results indicated that BS became stationary at the third difference with (ADF t-statistic value of -2.375415 with the test critical valve of -2.584126 at 10% level), ACM became stationary at the second difference (ADF t-statistic value of -1.547236 with test critical value of -2.58126 at 10% level) and ROA became stationary at the third difference

(ADF t-statistic value of -1.840800 with test critical valve of -3.156439 at 10% level). Similarly, EPS became stationary at the third difference (ADF t-statistic value of -0.321950 with test critical valve of -1.614392 at 10% level).

Pairwise Granger Causality Tests

Pairwise Granger Causality Tests was conducted to show which variable granger cause other variables and the direction of the causality among the variables in this study and this was achieved with the aid of E-View version 8. The results demonstrated that audit committee members with the (p < 0.0004, F = 8.60420) granger cause current ratio (see appendix vii). However, other variables are not effective enough by this analysis of this study to granger cause financial performance but they are positively related to ROA and EPS respectively.

Correlation Analysis

Table 3 below presents the correlation analysis results in a correlation matrix with all the variables in the study. The essence of the correlation analysis was to examine the relationships between the independent and dependent variables. Pearson correlation statistical tool was used for the analysis through E-View version 8.

Correlation Analysis Results

Variables	ACM	ROA	EPS
ACM	1		
ROA	-0.195698	1	
EPS	0.100696	0.342567	1

The results established that ROA and EPS have negative relationship with ACM a co-efficient of -0.1758 & -0.0703. This means that increases in ACM reduces the level of financial performance of the business. Also, audit committee members showed downhill relationship with ROA & EPS with coefficients of 0.100696 & -0.1957 respectively. This equally means that as audit committee members increases, the financial performance decreases. However, the audit committee member had a positive relationship with EPS (0.1007) implying that any increase in the audit committee member, increases the earnings per share of the companies.

Regression

The study conducted a single regression analysis to determine the nature of relationship between the predictor and criterion variables of the study. The findings are as presented in the table 4.

Extract of the Regression Model Results

$$FP = \beta_0 + \beta_2 ACM + \epsilon$$

HO	R	R ²	β	F	T	Sig
HO ₃	0.196	0.038	-0.196	3.903	-1.976	0.050
HO ₄	0.074	0.005	-0.074	0.536	-0.732	0.466

From the table above shows poor explanation of r values (0.196 & 0.074) in relation to the dependent variables respectively. R-square values present proportion of the variation in financial performance that is attributed to the changes in the explanatory variables. Their R-squared values of (0.038 & 0.005) were established and these imply that the variations in financial performance were minimally or not attributed to the changes in the explanatory variables. Put differently, other factors not captured in the study accounted for (96.2% & 99%) respective changes in the response variables.

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. P- Values less

than or equal to 0.05 are generally considered statistically significant. From the ANOVA results, the probability values of (0.050 & 0.319) were respectively obtained implying that the regression models were not statistically significant in predicting the manufacturing companies' financial performance.

The coefficients model displays both negative and positive relationship as signified by their respective coefficient of (-0.196 & 0.074). These imply that corporate governance depicted both negative and positive correlation with the financial performance of manufacturing companies. Yet, they are found to be statistically insignificant based on their P-values (0.487 & 0.319) levels of significance which are more than standard alpha (0.05) level. However, ACM had shown significant relationship with current ratio and return on assets based on their P-Values (0.036, 0.050) which are less than or equal to standard alpha (0.05) level.

Hypothesis One: There is no significant relationship between ACM and EPS of quoted manufacturing companies in Nigeria.

From table 5 above ACM with $t = -2.130$, & Sig .036) negatively related with EPS. This means that a change in the ACM results in -0.068 units decreases EPS of the manufacturing companies. However, it is statistically significant as the P-value 0.036 is less than 0.05%. Thus, the null hypothesis was rejected and the study concluded that ACM significantly relate to EPS of quoted manufacturing companies in Nigeria in the period of this study.

Hypothesis Two: There is no significant relationship between Audit Committee Members and Return on Assets of quoted manufacturing companies Nigeria.

From table 6 above, ACM with ($\beta = -.196$, & Sig .050) negatively related with ROA. This means that a change in the audit committee members results in -0.196 decrease in ROA of the manufacturing companies. However, it is statistically significant as the P-value 0.050 is equal 0.05%. Thus, the null hypothesis was rejected and the study concluded that ACM significantly relates to ROA of quoted manufacturing companies in Nigeria in the period of this study.

CONCLUDING REMARK AND RECOMMENDATIONS

- i. Board size does not significantly related to return on assets of quoted manufacturing companies in Nigeria in the period of this study.
- ii. Audit committee members does not significantly related to return on assets of quoted manufacturing companies in Nigeria in the period of this study.
- iii. Board size significantly related to earnings per share of quoted manufacturing companies in Nigeria in the period of this study.
- iv. Audited committee members significantly related to earnings per share of quoted manufacturing companies in Nigeria in the period of this study.

The study recommends that the board size and composition be considered since they affect the financial performance of the manufacturing companies listed at Nigerian Stock Exchange(NSE).

- i. The number of non-executive directors needs to be selected well since they affect financial performance of the companies.
- ii. The board needs to comprise of well-educated people since they are actively involved in shaping companies strategy.
- iii. The study recommends that non-executive directors be trained on internal corporate governance mechanisms.

Limitations and suggestion for further studies

Any factor(s) which is likely to affect the practice of the conclusion should be discussed. This study indeed has some limitations which could include the followings:

- i. The study covered only the 10 quoted manufacturing companies in the Nigeria Stock Exchange. Thus, the findings cannot be generalized. More and more studies should be

conducted under core corporate governance and financial performance of quoted companies in Nigeria.

REFERENCES

- Abdulah, S.M. (2004). Board composition, CEO duality and performance among Malaysian listed companies. *Corporate Governance*, 4(4), 47 – 61.
- AccountingExplained.com (2011-13). Current ratio; Retrieved from <https://accountingexplained.com/financial/ratio/current-ratio> on 22/1/18.
- Accounting-Simplified.com (2010-2017). Current ratio. Retrieved from accounting-simplified.com/financial/ratio-analysis/current.html on 22/1/18.
- Adams, R. & Mehran H. (2003). Is corporate governance different for bank holding companies? Federal Reserve Bank of New York. *Economic Policy Review*. 9(4), 123 – 142
- Adams, R.B. & Mehran, H. (2008). Corporate performance, board structure, and their determinants in the banking industry. Federal Research Bank of New York Staff Report.
- Adenikintu, O. and Ayorinde, T. (2001) Ownership structure ,corporate governance and corporate performance: The case of Nigerian quoted companies. *Unpublished final report presented at the AERC bi-annual workshop, Nairobi, May*.
- Aggarwal, P. (2013). Impact of governance on corporate performance. 10SR. *Journal of Business and Management* (10SR-JBM) C- ISSN:2278-437X, D-ISSN: 2319 – 7668, 3(3), 1 – 5.
- 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.
- Arun, T.G. & Turner, J.D. (2014). Corporate governance of banks in developing economies: concepts and issues.
- Bairathi, V. (2009). Corporate governance: A suggestive code. *International Research Journal*, 11(16), 753 – 754.
- Barnhart, S.W. & Roseinstein, S. (1998). Board composition, management ownership and firm performance: An empirical analysis. *The Financial Review*. 33(3),1 – 16.
- Bayoloun, N., Maguire, W. Ryan, N & Willett, R. (2013). Corporate governance in five Arabian Gulf countries. *Managerial Auditing Journal*. 28(1),7-22.
- Baysinger, B.D. & Buttler, H.N. (1985). Corporate governance and board of directors: Performance effects of changes in board composition. *Journal of Law, Economics and Organization*. 1(3), 101 – 124.
- Beasley, M.S. (1996). An empirical analysis of the relationship between board of directors, composition and financial statement fraud. *The Accounting Review*, 71(41), 443 – 465.
- Bebechuk, L., Cohen, A. & Ferrell, A. (2004). What matters in corporate governance? *The Review of Financial Studies*, 1(1), 783 – 807
- Berle, A.A.. & Means, G.C. (1932). *The modern corporation and private property*. New York: Macmillan.
- Bhagat, S & Black, B. (2002) . The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law*, 27(2), 231 – 274.
- Bhagat, S. & Black, B. (2001). Non-correlation between board independence and long term firm performance. *Journal of corporate law*. 27(4),231-273.
- Black, B.S., Tang, H. & Kim, W. (2003). Does corporate governance affect firm value? Evidence from Korea. *Working paper 237. Stanford Law School*
- Braya – Alves, M.V. & Shaztri, K. (2011). Corporate governance valuation, and performance: Evidence from a voluntary market reform in Brazil. *Financial Management*. 40(1), 139-157.
- Brennan, N. (2006) Boards of directors and firm performance: is there an explanation gap? *Corporate governance. An international review*, 14 (6), 577 – 593.
- Brickley, J.A. and James, C. M. (1987). The takeover market, corporate board composition and ownership structure: The case of banking. *Journal of Law and Economics*, 30(3), 161 – 180.
- Brickley, J.A., Coles, J.L. & Terry, R.L. (1994). Outside director and the adoption of poison pills. *Journal of Financial Economics*, 35(6), 371 – 390.
- Brown, L.D. & Caylor, M.L. (2004). Corporate governance and firm performance. *Working paper, Georgia State University USA*.
- Bvener, J. & Elias, N. (2007). Corporate governance in developing economies? The case of Egypt. *International Journal of Business Governance and Ethics*. 3(4),430-445.

- Byrd, J.W. & Hickman, K.A. (1992). Do outside directors monitor managers? Evidence from tender offer bids. *Journal of Financial Economics*, 32(2), 195 – 221.
- Cadbury, A. (2002). *Overview of corporate governance: A framework of implementation*. The World Bank group, Washington D.C: V – VI
- Cheffins, B. (2011). The history of corporate governance retrieved from www.google.com on 11/24/16.
- Chen, J. & Roberts, R. (2010). Towards a more coherent understanding of the organization–society relationship: Theoretical consideration for social and environmental accounting research. *Journal of Business Ethics*, 97(4), 651 – 665.
- Chen, Z., Cheung, Y.L., Stouraitis, A. & Wong A.W.S. (2005). Ownership concentration, firm performance, and dividend policy in Hong Kong. *Pacific – Basin Financial Journal*, 13(4), 431 – 449.
- Clarke, A. (2004). *Theories of corporate governance*. New York: Routledge.
- Coleman, A. & Nicholas-Biekpe, N. (2006). Does board and CEO matter for bank performance? A comparative analysis of banks in Ghana. *Journal of Business Management*, University of Stellenbosch Business School (USB), Cape Town, South Africa 13,49-59.
- Coles, B. & Jarell, G. (2001). Leadership structure: separating the CEO and chairman of the board. *Journal of Corporate Finance*. 4(2), 189 – 220.
- Coles, J.L., Daniel, N.D. & Naveen, L (2004). Boards: Does one size fit all? *Journal of Financial Economics*, 87(2), 329 - 356
- Coles, J.W., Mc Williams, V.B. & Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. *Journal of Management*, 27(1), 23 – 50.
- Corporate governance: An international Review. 12(3),371-377.
- Daily, C.M.,Dalton, D.R. & Canella, A.A. (2003). Corporate governance: decades of dialogue and data. *Academy of Management Review*. 28(3), 371-382.
- Dalton, D.R.,Daily, C.M., Ellstrand, A.E. & Johnson, J.L. (1998). Meta-analytic review of board composition, leadership structure, and financial performance. *Strategic Management Journal*, 19(3) 269 -290.
- Davis, J.H., Schoorman, F.D. & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*. 22(2), 20-37
- Dehaene, A., De Vuyst, V. & Ooghe, H. (2001). Corporate performance and board structure in Belgium companies. *Long Range Planning*, 34(3), 383 – 398.
- Donaldson, L. & Preston, L.E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implication *Academy of Management Review*. 4(3),65-91
- Donaldson, T & Preston, L.E. (1995). The stakeholder theory of the corporation: concepts, evidence, and implications. *Academy of Management Review*. 20(1), 65- 91.
- Eisenhardt, K.M. (1989). Agency theory: An assessment and review. *International Journal of Management*. 5(2), 341 – 353.
- Ferris, P.W., Neil, T.B, Pfeifer, P.E. & Reibstein, D.S. (2010). *Marketing metrics: The definitive guide to measuring marketing performance*. Upper Saddle River, New Jersey. Pearson Education Inc.
- Freeman, E. (1984). *Strategic management: A stakeholder approach*. Englewood Cliffs, N5: Prentice Hall.
- Gallinger, G.W. (2000). A frame work for financial statement analysis part 1: Return – on – asset performance in *Business Credit*, 102(2), 40 – 43.
- Goodstein, J., Gantum, K. & Boeker, W. (1994). The effect of board size and diversity on strategic change. *Strategic Management Journal*, 15(3) 241 – 250.
- Goswami, O. (2001). The tide rises gradually: Corporate governance in India, OECD development centre. *Discussion paper No.96*
- Griffin, D., Guedhenui, O., Kwok, C.C., Li, K & Shau, L. (2014). National culture, corporate governance practice and firm performance. 4(1),1-46.
- Gurnla, M. (2009). The effects of corporate governance mechanisms on post-IPO performance: Empirical evidence from an emerging market. Istanbul stock exchange (ISE), working paper. <http://www6fe.uc.pt/pfn2008/userfiles/PDF/755pdf>.
- Haniffa, R & Hudib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance & Accounting*. 33(7), 1034-1062.
- Haniffa, R, & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance and Accounting*, 33(7), 1034 – 1062.

- Hassan, M., Shaukat, S & Nawaz, M.S. (2014). Reconnecting the ownership structure and independence with financial performance: An empirical evidence from manufacturing sector of Pakistan. *Pakistan Journal of Social Sciences (PJSS)*, 34(1), 273 – 281.
- Hermalin, S. & Weisbach, M. (1991). The effects of board composition and director incentives on firm performance. *Financial Management*, 20(4) 101 – 112.
- Ishii, U. & Metrick, N. (2003). Core corporate governance and financial performance. *Journal of Accounting*. 4(1),13-36.
- Jensen, M.C & Meckling, W. H (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of financial economics*. 3(4),350-360.
- Jensen, M.C. (1993). The modern industrial revolution, exist, and the failure of internal control systems. *The Journal of Finance*. 48(3),831-880.
- Jensen, M.C. (1993). The modern industrial revolution, exit, and the failure of internal control system. *Journal of Finance*, 48(3), 831 – 880.
- Jenson, M.C. & Meckling, W.H. (1976). Theory of the firm: Management behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305 – 360.
- Judge, W.Q., Naoumova, L. & Koutzevoi, N. (2003). Corporate governance and firm performance in Russia: An empirical study. *Journal of World Business*, 38(4), 385 – 396.
- Junarsin, E. & Smiyanti, F. (2009). Corporate governance in Indonesian banking industry. *Global Journal of Business Research*. 3(2),131-140.
- Kaplain, S. & Reishus, D. (1990). Outside directorships and corporate performance. *Journal of Financial Economics*, 27(2), 389- 410
- Keong, L.G. (2002). Corporate governance: An Asia – pacific critique. Hong Kong: Sweet & Maxwell Asia.
- Khtatri, Y., Leruth, L. & Piesse, J. (2003). Corporate performance and governance: A stochastic frontier approach to measuring and explaining inefficiency in the Malaysian corporate sector. *Working paper*. Retrieved from <http://ssrn.com>
- Klapper, L.F. & Love, I. (2004). Corporate governance, investor protection and performance in emerging markets. *Journal of Corporate Finance*. 10(5),703-728.
- Klein, A. (2002) Eco.nomic determinants of audit committee independence. *The Accounting Review*. 77(2), 435 -452.
- Klein, A. (2002). Audit committee, board of directors' characteristics and earning management. *Journal of Accounting and Economics*. 33(3), 375 – 400.
- Krambia – Kapar dis, M. E Malian, J. (2006). The implementation of corporate governance principles in an emerging economy: A critique of the situation in Cyprus. *Corporate governance: An International Review*. 14(2),128-139.
- Kwak, M. (2003). The advantages of family ownership. *MIT Sloan Management Review*, 12.
- Lindo, D.K. (2008). Asset management, is your job in supervision, 69(1), 14-18.
- Lipton, M. and Lorsch, J.W. (1992). A modest proposal for improved corporate governance. *Business Lawyer*, 48(1) 59 – 77
- Malakar, B. and Gupta, R. (2002). *Determinants of equity prices in India*, Ph.D thesis, Himnchel University, Shimla.
- Mallin, C.A. (2004). Corporate governance, 2nd edn New York: Oxford University Press.
- Mayor, C. (1999). Corporate governance in the UK: *A paper presented at the conference on corporate governance: A comparative perspective*, held in University of Oxford on 16th October.
- McConaughy, D., Walker, G., Henderson & Mishra (1998). Founding family controlled firms: efficiency and value. *Review of Financial Economics*, 7(1), 1 – 19.
- Mcconomy, B.J. & Butaki, M.I. (2000). Corporate governance: enhancing shareholders value. *CMA Management*, 47(8), 10 - 13.
- Mishra, C, Randoy, T. & Jensen, S. (2001). The effect of founding family influence on firm value and corporate governance. *International Journal of Financial Management and accounting*, 12(3), 235 – 259.
- Muraugew, A., Talevera, O., Bdyk, O. & Greuchaniuk, B. (2010). Is corporate governance effective in Ukraine: Eastern European Economics. 48(4),310-323.
- Nestor, S. & Thompson, J. (2001). Corporate governance patterns in OECD economies: is convergence under way. *Corporate governance in Asia: A comparative perspective*, 19-43.

- OECD (1999). *The OECD principles of corporate governance, Ad-Hoc task force on corporate governance*, OECD, Paris.
- OECD, (2004). *OECD principles of corporate governance*. OECD, Paris.
- Ogbechie, C., Koufopoules, D.N. & Argyropoulou, M. (2009). Board characteristics and involvement in strategic decision making; The Nigerian perspective. *Management Research News*, 32(4), 169 – 184.
- Pande, S. (2011). Does good governance pay? Evidence from around the globe. Retrieved from <http://doi.org/10.2139/ssrn.19776772>.
- Park, Y.W. & Shin, H.H. (2003). Board composition and earnings management in Canada. *Journal of Corporate Finance*, 185(2), 1 – 27.
- Pearce, J.A. & Zahra, S.A. (1992). Board composition from a strategic contingency perspective. *Journal of Management Studies*, 29(4), 411 – 438.
- Pfeffer, J. (1972). Size, composition and function of hospital boards of directors. *Administrative Science Quarterly* 18(4), 349 – 364
- Pfeffer, J. (1983). Organizational demography . In L.L. Cummings, and B.M. Staw (Eds) *Research in organizational behaviour*, 5(4) 299 – 357.
- Preeman, U.I. (1984). Core corporate governance structure. *Journal of Finance*. 3(1).
- Prevost, A.K., Rao, R.P. & Hossain, M. (2002). Board composition in New Zealand: An agency perspective. *Journal of Business Finance and Accounting*. 29(4), 732 – 760.
- Raheta, C.G. (2005). Determinants of board size and composition: a theory of corporate boards. *Journal of Financial and Quantitative Analysis*, 40(3), 283 – 306.
- Randani, D. & Vanwittelovsuijir, A. (2009). Board independence, CEO duality and firm performance: A quantile regression analysis for Indonesia, Malaysia, South Korea and Thailand. Working Paper No. 20090004.
- Read, D. (2002). Corporate governance reforms in developing countries. *Journal Business Ethics*. 37(3),223-247.
- Rechner, P.L. & Dalton, D.R. (1991). CEO duality and organizational performance: A longitudinal analysis. *Strategic Management Journal*, 12(2), 155 – 160.
- Rhoades, D.L., Rechner, P.L. & Sundaramurtly, C. (2001). A meta- analysis of board leadership structure and financial performance: Are two heads better than one? *Corporate governance: An International Review*. 9(2), 311-321.
- Roman, S.A. & Rountree, M. U. (2010). The economic theory of agency: The principals problem: *American Economic Review*. 63(2),134-139
- Sandi, A.U., Mikailu, A.S. & Garba, T. (2005). Corporate governance mechanisms and firm financial performance in Nigeria. *AERC research paper 149, Nairobi, Kenya*.
- Shakir, R. (2008). Board size, executive directors and property firm performance in Malaysia. *Pacific Rim Property Research Journal*, 14, 1 -16.
- Shleifer, A. & Vishy, R.W. (1997). A survey of corporate governance. *Journal of Finance*. 52(2),737-783.
- Solomon, J. & Solomon, A. (2004). *Corporate governance and accountability*: New York: John Wiley.
- Solomon, J. (2010). *Corporate governance and accountability*. 3rd edn. New York: Wiley Hoboken.
- Sternberg, E. (2004). *Corporate governance: accountability in the market place*. Econlit, available at ISBN 9780255365420.
- Sundaram, A.K. & Inkpen, A.C. (2004). The corporate objective revisited. *Organization Science*, 15 (3), 350 – 36.
- Sundaramurthy, C. & Lewis, M. (2003). Control and collaboration: Paradoxes of governance, *Academy of Management Review*, 29 (3), 397 – 415.
- Trabelsi, M.A. (2010). Governance and performance of Timisian banks: *International Journal of Economics and Finance*. 2(3),189-198.
- Weir, C. & Lainy, D. (2001). Governance structures, director independence and corporate performance in the UK. *European Business Review*. 13(2),86-95
- Wikipedia (2017), Current ratio. Retrieved from https://en.m.wikipedia.org/wiki/current_ratio on 22/1/18
- Yetmack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, 40(2), 185- 211.
- Zahra, S. & Pearce, J. (1989). Board of directors and corporate financial performance: A review and integrative model, *Journal of Management* 15(2), 291 – 324.