

**CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE
FIRMS IN RIVERS STATE**

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ABSTRACT

This study examined the relationship between corporate governance and financial performance of quoted manufacturing firms in Port Harcourt Metropolis. Secondary data from Nigerian Stock Exchange Fact Book of 2015 and the organization's financial records for the period of 2011 - 2015 were used. The study employed the use of Pearson Product Movement Correlation and descriptive statistics with the aid of SPSS version 21. The result of the analysis shows that a positive but insignificant relationship exists between board size and net profit margin and return on assets of quoted manufacturing firms in Nigeria. This implies that the larger the board size, the higher the net profit margin of the firm. It is believed that large board size will make better decisions that will enhance the performance of firms. More so, it was observed that a negative significant relationship exists between duality of CEO and net profit margin and return on assets of quoted manufacturing firms. Furthermore, board composition was found to have a positive significant relationship with net profit margin and return on assets of quoted manufacturing firms. This means that the larger the number and caliber of non-executive directors, the better for the firm as such increase's the impact on the board's decision making and consequently increase financial performance. Finally, it was observed that organizational culture significantly moderates the relationship between corporate governance and performance of quoted manufacturing firms in Port Harcourt Metropolis. Hence for quoted manufacturing firms to successfully improve their performance, they may wish to have an enlarged board size to enhance the quality of their decision-making. The practice of holding dual executive positions, such as Chairman/CEO, is fast fading as it is increasingly perceived to violate corporate governance, composition of the board of directors of the firms should be made more of non-executive directors to have more influence on boards decisions.

Keywords: Corporate Governance, Board size, Duality of CEO, Board composition. Organisational culture and Firm performance.

INTRODUCTION

On a general premise, issues related to clearness in governance of recent corporate entities has continued to attract, considerable national and international attention and have again appeared at the top of the agenda with the current global financial meltdown. Governance of recent corporate entities, entails: effective, transparent as well as accountable governance of affairs of an organization through her management plus board. It is about a decision-making process that holds entities accountable, encourages stakeholder participation and facilitates the flow of information. The ongoing global financial crisis has further reinforced the message that governance of firms, should always aim in ensuring that the welfares of stakeholders are shielded and secured, this includes: shareholders, customers, creditors, regulators in addition to the entirety of populace. The finance-ridden scandals in the United States and Europe additionally conveyed regard for the significance of governance and gave new energy to introducing imperative legitimates and administrative changes. Certainly, the scandals were not just instrumental in moving corporate governance up the policy-making plan, yet additionally in making corporate governance an integral piece of the everyday decision making process of organizations. Though, Shleifer & Vishny (1997), in recent-time, postulated that the governance of modern corporate entities remains a noteworthy political issues attracting significant considerations for examples: policymakers, officials,

administrators of recent organizations, financial institutions, shareholders, investors, media houses in addition, legitimate as well as financial professionals. Prior empirical studies carried out by various scholars show that corporate governance enhances firms performance. Kojola (2009), examined corporate governance and firm performance in Nigeria. The result shows that board size and chief executive positively impacts on return on equity (ROE) and profit margin respectively. Akingunola, Adenkule & Adedipe (2013), did a work on corporate governance and bank's performance in Nigeria (post bank's consolidation) and stated that it is cleared that corporate governance is catalyst that speed up the performance of banks. Adeoye & Amupitan (2015) concluded in their study that corporate governance is necessary to the proper functioning of organizations. Accordingly, this paper departs from these extant empirical works as it is aimed at adding to the existing body of knowledge, literatures to further buttress the extent to which corporate governance can enhance firm's performance through board size, Duality of CEO and Board composition in Nigeria Manufacturing Industry.

Literature Review

There are two schools of thoughts in the relationship between board size and firm's performance. The first argues that a smaller board size will contribute more accomplishment to an organizations (Lipton & Lorsch 1992) as cited in (Jensen, 1993) as well as Yermack (1996). However, the second school of thought considers that a large board size will improve the performance of the firm Coles et al., (2008), Pfeffer (1972) & Klein (1998) in their wordings, enunciated that a large board will support and advice management of firms more effectively because of complex of business environment and an organizational culture (Klein, 1998). Furthermore, a large board will gather much more information. As a result, a large board size appears to be better for firm performance (Dalton et al., 1999). In their study, Truong et al. (1998) considered that, in Vietnam, there is a significant difference in management culture compared to the international practice. For example, they concluded that Vietnamese management does not appear to share managerial power. This philosophy reflects a "gap of power" culture in Vietnamese companies. This culture in Vietnam is completely divergent with the principles of working as a group and management delegation. As such, these authors concluded that when board size increases, delegation will be reduced.

In recognition of the importance of a separation of duty between a chairman and a CEO, for the period from 1999 to 2003, many businesses had tainted their existing structure of duality to a non-duality structure (Chen, Lin & Yi, 2008). These authors considered that, in many businesses with a duality structure, there has been an abuse of power at the expense of the company and the shareholders. In Vietnam, Ministry of Finance (2012) stipulates that "*a chairman/chairwoman of a board should not be in the position of the CEO of a company unless this duality is approved by the annual general meeting of shareholders*". In addition, Fama and Jensen (1983), Jensen (1993) concluded that duality would reduce a board's supervision of the management of a company. This reduction results in an increase of costs to an agency.

One of the key objectives in current corporate governance is to deal with agency problems (Jensen & Meckling, 1976). A delegate agency theory considers that the goals adopted by a firm's management and the shareholders are generally not similar. As such, shareholders should attach their financial benefits to reward paid to a firm's management. Once management behavior is uncertain, reward is a corporate governance mechanism to encourage management to run a firm in the interest of shareholders. This link will resolve an agency issue between management and shareholders and contribute positively to a firm's performance (Jensen & Murphy, 1990; Mehran, 1995).

METHODOLOGY

There are two major variables in this study- Corporate Governance and Firm Performance. While Corporate Governance is the explanatory (predictor) variable operationalized as board size, duality

of CEO, board compensation, board ownership, and board independent; Firm Performance is measured by net profit margin and return on equity.

Results Test of Hypotheses

The purpose of this section is to verify the hypothetical claims made earlier in chapter one of this study using Pearson product- moment coefficient of correlation and multiple regression analysis.

Hypotheses One

Board size has no significant relationship with net profit margin of quoted manufacturing firms in Nigeria. In testing this hypothesis, data on board size were correlated with data on net profit margin and the result obtained is presented in the table below.

Table 4.6: Effect of Board Size on Net Profit Margin of Quoted Manufacturing Firms in Port Harcourt Metropolis

	BSize	NPM
BSize Pearson Correlation	1	.103
Sig. (2-tailed)		.071
N	36	36
NPM Pearson Correlation	.103	1
Sig. (2-tailed)	.071	
N	36	36

Source: SPSS Version 21 Window Output.

The result presented in Table 4.6 above revealed a correlation coefficient (R) of 0.103, which is close to zero (0) from the positive side, and a p-value of 0.071. This suggests that there is a positive insignificant relationship between board size and net profit margin of quoted manufacturing firms in Port Harcourt Metropolis. Hence, the null hypothesis is accepted.

Hypothesis Two

Board size has no significant relationship with return on assets of quoted manufacturing firms in Port Harcourt Metropolis. In testing this hypothesis, data on board size were correlated with data on return on assets, and the result obtained is presented in the table below.

Table 4.7 Effect of Board Size on Return on Assets of Quoted Manufacturing Firms in Port Harcourt Metropolis

	BSize	ROA
BSize Pearson Correlation	1	.071
Sig. (2-tailed)		.088
N	36	36
ROA Pearson Correlation	.071	1
Sig. (2-tailed)	.088	
N	36	36

Source: SPSS Version 21 Window Output.

The result presented in Table 4.7 above revealed a correlation coefficient (R) of 0.071, which is close to zero (0) from the positive side, and a p-value of 0.088. This suggests that there is a positive insignificant relationship between board size and return on assets of quoted manufacturing firms in Port Harcourt Metropolis. Hence, the null hypothesis is accepted.

Hypothesis Three

There is no significant relationship between duality of CEO and net profit margin of quoted manufacturing firms in Port Harcourt Metropolis.

In testing this hypothesis, data on CEO duality were correlated with net profit margin, and the result obtained is presented in the table below.

Table 4.8: Effect of CEO Duality on Net Profit Margin of Quoted Manufacturing Firms in Port Harcourt Metropolis

	DCEO	NPM
DCEO Pearson Correlation	1	-.862
Sig. (2-tailed)		.000
N	36	36
NPM Pearson Correlation	-.862	1
Sig. (2-tailed)	.000	
N	36	36

Source: SPSS Version 21 Window Output.

The result presented in Table 4.8 above revealed a correlation coefficient (R) of -0.862, which is close to one (1.0) from the negative side, and a p-value of 0.000. This suggests that there is a negative significant relationship between duality of CEO and net profit margin of quoted manufacturing firms in Port Harcourt Metropolis. Hence, the null hypothesis is rejected.

Hypothesis Four

There is no significant relationship between duality of CEO and return on assets of quoted manufacturing firms in Port Harcourt Metropolis.

In testing this hypothesis, data on duality of CEO were correlated with data on return on assets, and the result obtained is presented in the table below.

Table 4.9: Effect of CEO Duality on Return on Assets of Quoted Manufacturing Firms in Port Harcourt Metropolis

	DCEO	ROA
DCEO Pearson Correlation	1	-.781
Sig. (2-tailed)		.000
N	36	36
ROA Pearson Correlation	-.781	1
Sig. (2-tailed)	.000	
N	36	36

Source: SPSS Version 21 Window Output.

The result presented in Table 4.9 above revealed a correlation coefficient (R) of -0.781, which is close to one (1.0) from the negative side, and a p-value of 0.000. This suggests that there is a negative significant relationship between duality of CEO and return on assets of quoted manufacturing firms in Port Harcourt Metropolis. Hence, the null hypothesis is rejected.

Table 4.12: Influence of Corporate Governance on Performance of Quoted Manufacturing Firms in Nigeria

Model R	R Square	Adjusted R square	F	Sig.
1 .721	.528	.466	9.034	.001

a. Predictors: (Constant), ORCUT, COG Source: SPSS Version 21 Window Output

The result presented in Table 4.12 revealed a multiple correlation coefficient (R) of 0.721, which is close to one. This suggests that organizational culture significantly moderate the relationship between corporate governance and firm performance of quoted manufacturing firms in Nigeria. The multiple co-efficient of determination (R²) of 0.528, indicates that about 52.80% of change in performance quoted manufacturing firms is attributed to variations in organizational culture in its relationship with corporate governance. In other words, about 47.2% change in performance is due to other variables other than ORCUT; hence the model is nicely fitted. The p-value (0.001) of the

model as reflected in the ANOVA table is greater than 0.05 level of significance which indicates a significant impact. Hence the null hypothesis is rejected.

Discussion of Findings

In this section, an attempt was made to discuss in some details what the research findings entails. The findings are discussed one after the other as outlined in the objectives of the study by relating them to prior studies.

The result of our analysis as indicated in Table 4.6 and Table 4.7 show that a positive but insignificant relationship exists between board size and net profit margin and return on assets of quoted manufacturing firms in Port Harcourt Metropolis. This implies that the larger the board size, the higher the net profit margin of the firm. It is believed that large board size will make better decisions that will enhance the performance of firms. This is consistent with the study conducted by Danoshana & Ravivathani (2014), to explore the effect of corporate governance on business performance of 25 listed financial institutions in Sri Lanka for the period of 2008-2012. Return on equity and Return on assets were used in the study as the key variables to define business performance. Analysis of findings shows that corporate governance variables of board of directors' size and audit committee size have significant effect on the business's performance.

More so, it was observed in Table 4.8 and Table 4.9 that a significant relationship exists between duality of CEO and net profit margin and return on assets of quoted manufacturing firms. This result is in agreement with Fooladi (2011), who investigated the effect of corporate governance on performance measures on a sample of 30 Malaysian firms with a sample collected from 2007 fiscal year annual reports of those firms. Findings indicate that CEO duality is negatively associated with performance measures namely ROE and ROA. This appears because CEO duality is found to reduce the board of directors' efficiency.

Furthermore, it was gathered in Table 4.10 and Table 4.11 that board composition has a positive significant relationship with net profit margin and return on assets of firms. The larger the number and caliber of non-executive directors the better for the firm as such increase's the influence on the board's decision making and consequently increase financial performance. This is in agreement with (ASX Corporate Governance Council, 2003). They recommended that corporate governance require boards to be composed of a majority of non-executive directors.

Finally, it was observed that organizational culture significantly moderate the relationship between corporate governance and performance of quoted manufacturing firms in Nigeria.

CONCLUSION AND RECOMMENDATIONS

Based on the findings generated from the study, for quoted manufacturing firms to successfully improve their performance: They may wish to have an enlarged board size to enhance the quality of their decision-making. The practice of holding dual executive positions, such as Chairman/CEO, is fast fading as it is increasingly perceived to violate corporate governance. Composition of the board of directors of the firms should be made more of non-executive directors to have more influence on boards decisions.

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