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Research Paper

Corporate governance and financial performance

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With the emergence of joint stock and public limited companies, the performances of corporate activities have become diverse and complex and also corporate financial scandals are on the increase. This has aroused the need for corporate governance. Corporate governance has to do with laws, ethics, values, practices and norms that has to do with the planning, organizing and arrangement of the day to day activities of a firm. In recent times, corporate governance and its relationship with financial performance have been made popular as researchers want to know more and have indebt knowledge about these variables. Even though several researchers in this field have been called to make an indebt study on this topic, there's no absolute conclusion. Moreover, there were several results gotten from previous researchers, each with a different conclusion, definitely contrasting each other. The main objective of carrying out this study is to ascertain the importance and effect of corporate governance on financial performance of firms in Nigeria, the sample was selected from banks quoted in the Nigerian stock exchange as at 2014. The research design utilized was quasi-experimental research design (survey).the sampling method used was the purposive sampling technique. The statistical tools used to test the postulated hypothesis are spearman's rank correlation and regression analysis through SPSS. As indicated in the outcome, the number of those that make up the board, that is, its size has significant links with the amount or say, level of what comes in to the firm in the form of Returns, particularly on its Equity; in the same light there is a significant connection between the kind of freedom allowed to committees specifically the audit committee and the Return that the firms eke out on their Asset. Companies, especially Public Limited companies have been advised to measure how well it is performing in terms of its corporate governance, making sure to understand if its leadership ethics and principles are being followed properly, its board composition and how independent they are, how its members especially the executives are being compensated, how true and open is their report to the public, how active the stake holders are participating, and finally, if its members carry out its activities lawfully. However, as the improvement of a firm's financial performance is very crucialin a company, it is also important to note that the improvement of corporate governance and its sustainable financial performance should also be among the company's priority as they are also important factors in a firm.

Key words: Corporate Governance, Financial Performance, Public Limited Companies.

INTRODUCTION

Globally, with the emergence of joint stock and public limited companies, the performances of corporate activities have become diverse and complex. This has arouse the need for corporate organization to hire the services of professional managers to plan, organize, direct, control, coordinate, investigate and evaluate the extent to which it human capital resources in the various functional unit are sticking to strategic objectives in the performance of their

duties, Hence the need for effective corporate organizational governance. As stated by Shleifer and Vishney, (1997) in Muhammed and Suleman, (2013). If the corporate governance of a company is good and very effective, it will reduce wastage as a result of an effective and efficient decision making processes and a very effective operational firm. Good corporate governance has the interest of all its stakeholders at heart, both the executives and non-executives. A good corporate governance boosts the confidence shareholders have in the firm because with an effective corporate governance, dividend will be given to the shareholders as profit rather than the retaining the profit by insiders of the firm (La Porta *et al.* 2002).

As a result of the collapse of big and notable companies such as Enron, WorldCom and Satyam in the past few years, the awareness as regards the issue of corporate governance increased drastically. The collapse was as a result of poor and bad governance which led to ethnicity, unethical business practices, and ineffective and inefficient decision making processes. Questions have been raised as regards the efficiency and effectiveness of corporate governance policies and systems because the global financial crisis and economic recession which started in 2008 worsened in 2009. Moreover, it's been discovered that corporate governance work alongside value creation, therefore, without a sensible and effective corporate governance, value creation would be poor. Simply put, a corporation whose governance doesn't follow ethical and moral conducts will not succeed either financially it otherwise as the non-ethical acts will definitely scare investors away. Solomon, (2010) in George and Bagshaw, (2014) postulates that there is no definite definition of corporate governance, this is because there exist different ways and approach different countries have towards attaining or adopting the corporate governance code that best suits them. Every country adopts its own definition based on its government, economic or cultural framework, government policies, as well as its present economic and cultural situation, (Armstrong and Sweeney, 2002). The difference in definition can also arise from the different in view point, understanding and conclusions arising from different policy makers, law makers, researchers, practitioners or theorists from different spheres of life (Solomon, 2010).

The Australian Stock Exchange simply defined corporate governance as an organization made up of systems through which firms are controlled, directed and managed. Moreover, corporate governance has to do with setting up of company's objectives and goals, and what strategies or policies to put in place to achieve that objectives, and it also has the function of risk control and management, because there are several investors attached to the company, therefore the ability of the company to undertake risk based investments successfully will have a very positive impact on the company, it also has to do with how performances can be improved.

Furthermore, corporate governance helps to improve the transparency of the firm or company and how open it is to its shareholders, it helps improve the level of accountability of the firm which means that the confidence of a shareholder lies on how well a firm's corporate governance operates. Corporate governance has to do with performing activities that are lawful in an organization, not only will it be lawful but also ethical and morally upright in every conduct or activities. Corporate governance have been structured in a way that resources can be utilized efficiently and any staff that have been given full control of that resource can be able to account for them when the time arises. Corporate governance is made up of three most important persons; they are the management, the Board of Directors and finally, the shareholders.

Several scholars have carried out a research on this study with the main aim of achieving the relationship that exist between corporate governance and its impact on financial performance , moreover, the main aim of this research is to critically deduce how corporate governance can affect financial performances of public limited companies in Nigeria. However the main objective of this study is as follows:

(1). One of the objectives is to know how the independence of the board of directors can affect the financial performance of public limited companies.
(2). To know what impact the board size has on the Return on Asset (ROA) of public limited company, that is if the board size to adopt should be either a large one or small one.
(3). Finally, to know the impact the audit committee has on the Return on Equity (ROE) of public limited company.

Consequent upon this, the following questions were raised for this study;

(1).To what extent does board size impact on Return on Asset (ROE).
(2).To what extent does independence of board of director's impact financial performance of public limited companies?
(3).To what extent does audit committee impact Return on Equity (ROA).

Research hypothesis

(1). There exist no significant relationship between the independence of audit committee and Return on Asset (ROA).
(2). No significant relationship exists between the size of the board and Return on Equity (ROE).

This study will look at contemporary issues on the subject matter while adding to the necessary incremental

contribution to existing body of literature by focusing on corporate governance as a means of improving financial performance in public limited companies. In the light of the growing importance of financial performance to the survival of organization, this study will provide some useful information to public limited companies and other related organizations that may have interest in this area corporate governance and financial performance.

Theoretical framework

According to Imam and Malik (2007) as cited by George and Bagshaw, (2014) postulates that the structure of corporate governance is said to be the broadest and probably the best system being used for corporate affairs to help the efficient utilization of resources, especially corporate resources. Corporate governance aids the bringing together of individual, corporations and society's interest through a process on ethical and moral basis and this will help fulfill the goals of the owners of the organization. Corporate governance structure may not be the same for all organization but its policies will be created in such a way that the interest of all the stakeholders will be the priority of the organization. The theories to be talked about in this corporate organization study are as follows:

(a) The agency theory
(b) The stakeholder's theory
(c) The stewardship theory
(d) Resource dependency
(e) Business ethics theory

Agency theory

So many fields have applied this agency theory in decision making fields such as the management sciences, social sciences, political sciences, marketing, sociology, economics and accounting, the agency theory also forms the basis of every corporate governance debate. The Agency theory has to do with the relationship that exists between principals and agents such as the relationship between the shareholders and its agents, the company's executives and its managers. The agency theory states that shareholders who are also the principals or the owners of the company will employ the agents to perform the job or duties, that is the day to day running of the company. The principal assigns the management of the business to the managers or the directors who are also the agents to the shareholders, according to the agency theory, agents are expected to act on behalf of the shareholders or principal and make decisions that will be in the interest of the principal also. In most cases, the agent may not likely make decisions that best fits the interest of the principal but he makes decisions that will definitely move the company forward and achieve its goals as quick as possible (Padilla, 2000). Agency theory can indeed be adopted to check mate the relationship that exists between the ownership structure and the management structure. In the event of division or misunderstanding of goals, the agency theory helps to bring together the goals of the owners of the company and that of the management in order to achieve the organizational objectives effectively and efficiently.

Stakeholder theory

The stakeholders theory focuses on managerial decision making, it further states that all stakeholders have equal interests that no interest surpasses the other and that the value of the stakeholder is inseparable from the stakeholder himself. With the stakeholders theory, there is an understanding that these stakeholders deserve and require the attention understanding and love of the management at large. The stakeholders theory was adopted to bridge the gap and correct the problems caused by the agency theory which only observed shareholders as the only important part of a corporate organization this was cited by George and Bagshaw, (2014). More problems have been curbed out of the agency theory, these problems are being discovered because of the introduction of the stakeholders theory and its structure, one of such problems is the problem of too much principal (Sanda *et al.,* 2011). In the agency theory, the managers serve the shareholders as well as perform the day to day running of the business, but the stakeholders theory unlike the agency theory do not have to work or perform that day to day activity but their main duty is to maintain a positive relationship with the business partners, suppliers and employees. They further explained that this type of relationship is better and more important than that of the agency theory that only explains the relationship as the owner to the manager and then to the employees. Wheeler *et al.* (2003), Postulated that the aim of every organization or firm is to create wealth for its stakeholder, since the stakeholders' main objectives is to obtain benefits. Also, the establishment of relationships with several persons or groups can affect the decision making processes of the organization, it is therefore advisable to establish relationships with group that will be beneficial and help in achievement of organizations goal and objectives and the stakeholders theory shows interest in these relationship, the processes it takes and how beneficial it is to both the organization and stakeholders (Clark, 2004).

Stewardship theory

According to Clark, (2004) stewardship theory talks about the strong relationship that exists between the

manager who works so hard and strives to achieve organizational goals and objective and the owner or principal who finds utmost satisfaction in the work done. A steward has the duty of maximizing and protecting the shareholders wealth which in turn increases his benefits. It should therefore be understood that a good firm performance will welcome investors into the company but a bad one will never satisfy the groups who wants to invest in the company.

Resource dependency theory

Resource dependency theory has to do with the fact that the role of the director is to make available the resources needed for the firm. The resource dependency theory appreciates the fact that directors have to create a relationship with external environment and create a link with them in order to be able to provide the needed resources for the firm, so that the firm can in turn be able to achieve its stated organizational goals and objectives. As long as directors have been considered as a very important resources of an organization, several aspects of a director becomes very important criteria for qualification such as the gender, experience, qualifications of the director etc.

Business ethics theory

Business has helped the economy in major ways. Through business, jobs have been provided; products and services have also been readily made available for the society to enjoy. If a business collapse at this period the impact will be greatly felt more than before, and recently, the stakeholders have become more demanding than ever before as their demands have become so challenging that it may likely affect businesses. Only few successful businesses have gained knowledge or any formal education about businesses and it. However, business ethics is the study of business, its activities that are being carried out in the environment, its decision making processes and if the activities or decision making are right or wrong, it has to do with how morally upright is the business environment, its decisions and activities. Business ethics was introduced because businesses have grown stronger than how it use to be, the power and influences businesses have now has been a major concern in the society, so the need for business ethics arose as this helps check mate attitudes and behaviors in the business environment or world. Moreover, business ethics helps us to be able to ascertain the right or wrong conducts of a particular entity in the business world and gives us the ability to know the problems that has to do with ethical issues in the firm, business ethics also makes us knowledgeable on the traditional and present view of ethics and morals.

Financial performance

An organization financial performance talks about how an organization can use its resources or asset efficiently to generate profit. Kothari, (2001) deduced that the value of an organization can be regarded as its present value of its expected future cash flows after risk has been deducted at an acceptable or suitable income rate. Base on this study, financial performance of a firm can be measured using the Return on asset (ROA) and the Return on equity (ROE).

Return on assets (ROA)

It is through the ROA which in full is the Return on Asset that profitability can be measured. It is regarded as one of the profitability ratios. The Return on Asset ratio measures how effective a firm can be in utilizing its available resources or assets to attain profit. Return on Asset (ROA) and Return on Investment (ROI) are similar in their usefulness and value but the former is more a more preferable tool when measuring the effectiveness of a firm's operations or activities. ROA= operating profit divided by total assets.

Return on Asset (ROA) = Net income\total assets

Return on equity (ROE)

Return on equity measures how the stockholders are being taken care of (Ross *et al*., 2003). It is the amount of net income returned as a percentage of shareholders equity. It is a ratio that provides investors insight on how efficiently a company or its management team is managing the equity that shareholders have contributed to the company, it measures the ability of a firm to make profits from its shareholders investment in the company. It is measured as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net income}}{\text{Total equity}}$$

EMPIRICAL REVIEW

Corporate governance is a very crucial factor for firm's performance as well as economic growth. The popularity of it is as a result of its great importance to the corporate organization, because a good corporate governance will have a positive impact on the firm, society and economy at large and then the reverse is the case. According to Magdi and Nadereh, (2002) as cited by Umoh *et al*. (2013) postulates that corporate governance has to do with making sure the firm is making the appropriate profit it should make and therefore any investor who has interest in the firm should be treated fairly and just.

METHODOLOGY

RESEARCH DESIGN

In line with the subject matter under investigation, corporate governance and its impact on financial performance in public limited companies in Nigeria, the cross-sectional research design which is part of the quasi-experimental research design was adopted. The reason for employing the quasi-experimental design is because the various element of the design are not under the control of the researcher.

Population of the study

The population of the study is made up of one hundred and eighty eight (188) public limited companies in Nigeria as listed in the Nigeria stock exchange, 2015. But since it will be cumbersome to study the entire population of public limited companies in Nigeria, therefore Nine (9) public limited companies from three (3) different sector of the economy operating in Port Harcourt will be chosen as the accessible population from which the sample size will be selected from.

Sampling procedure and sample size determination

Due to the size of the population, the sample size of this study shall be determined using the purposive random sampling technique. Three (3) publicly owned quoted firm each shall be selected randomly from the chosen sectors namely (Manufacturing, construction and services), making a total of Nine (9) public limited companies as the sample size of this study. The benchmark for selection includes existence for over ten years, experience and noticeable branch network within Port Harcourt. However, since the health and performance can better be explained by different top officials of Public limited companies, the researcher then decided to choose Six (7) top officials comprising of Management and Accounting department for the first three (3) companies and five (5) officials for the next six (6) selected public limited companies to serve as the respondents for the study since it is believe that these people can provide the much needed information relating to the health and financial performance of their organization.

Methods of data collection

The primary and secondary data are the two sources used to generate the data for this study.

The primary source

The primary source of data collection in this study will be gathered through structured research questionnaire which will be supported by personal discussion (oral interview) with management staff. The procedure for sourcing the information under primary data collection will involve visitation of the management of companies selected for this study, administering the questionnaire to top officials and going back on agreed date to collect the filled copies of the questionnaires.

The secondary source

Secondary data collection will be relevantly source through textbooks, journals, websites, dissertation, thesis, magazines and newspapers.

Validity and reliability of instrument

Test of Validity

Content validity is be used for this study. Validity of the instrument employed for this study will be achieved through peer vetting, supervisors approval and acceptance by knowledgeable professionals on the subject.

Test of reliability

The questionnaire is a good measure of reliability because several researchers have used this measure over the years to measure the same variables. Therefore the reliability of our instrument will be measured by cronbach Alpha, to be generated through SPSS analysis.

RESULTS AND DISCUSSION

Descriptive and inferential statistics will be used to determine the computation of our primary and secondary analysis. Descriptive statistics that will be used in this research are the average and simple percentage which will determine the percentage differences between the actual observed and the expected response, while the inferential statistic that will be used are spearman's Rank order correlation coefficient for relationship and multiple regression for evaluating the moderating effects. This statistical tools mention will be calculated using SPSS.

Model specification

CG=f (ROA+ROE) Where
Corporate governance (CG) =BS+AC
i.e BS mean Board size
AC means Audit Committee

From Table1, we can conclude that mean of the

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	51	0.20	4.00	1.0655	1.15147
ROE	51	0.15	6.00	1.8220	1.94560
BODSIZE	51	9	16	11.69	1.749
AUDITCOM	51	3	7	5.04	1.264
Valid N (list wise)	51				

Table 2. ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.620	1	0.620	0.161	0.690[b]
Residual	188.647	49	3.850		
Total	189.267	50			

a. Dependent Variable: ROE
b. Predictors: (Constant), BODSIZE

Table 3. ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	12.125	1	12.125	10.967	0.002[b]
Residual	54.170	49	1.106		
Total	66.295	50			

a. Dependent Variable: ROA
b. Predictors: (Constant), AUDITCOM

Table 4. Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
Constant	-0.897	0.611	-	-1.469	0.148
Auditcom	0.389	0.118	0.428	3.312	0.002

[a]Dependent Variable: ROA

Table 5.Coefficients[a]

	Unstandardized Coefficients		Standardized coefficients		
Model	B	Std. Error	Beta	T	Sig.
Constant	2.566	1.874	-	1.369	.177
Auditcom	-.064	0.159	-.057	-.401	0.002

[a]Dependent variable: ROA

ROA&ROE is 1.0655 and 1.8220 respectively. This means that there is a poor performance of the selected firm in Nigeria under study period because minimum ROA&ROE is 0.20 and 0.15 respectively. The board size shows that at least 12 board member are perfect for the great performance of the company. The result of the Audit committee indicates that round about 5 auditors are essential for good performance of a firm. With F-values of 0.161 (sig.0.690) and 10.967(sig.0.002) for ROE and ROA as performance proxies respectively (Tables 1, 2 and 3). This simply means that there is a strong relationship between the dependent variables as ROE which is Return on Equity and ROA which is Return on asset and the independent variables as Board size (BODSIZE),and Audit committee (AUDITCOM).The result from the regression coefficient show 0.428 and -0.57 (Tables 4 and 5). It explains that, if Audit Committee Size is increased by one member, that will give 43% increases to the ROA. So Audit Committee Size has significantly positive relationship on the firm's, and the Board size

shows negative significant relationship on the ROE. This implies that if the firm has a decrease in board member it will have effects on the ROE.

Conclusion

In conclusion, this study and its various aspect shows that corporate governance have a significant impact on the financial performance of public limited companies. The positive impact of compliance with legal and regulatory guidelines indicated the greater compliance would induce greater positive effect and ultimately result to significant increases in return on equity. Cost-saving board composition and proactive practices would mitigate the negative effects on performance and, thus, enhance return on equity. Board composition that negates legal and regulatory guide lines or adherence to guide lines at rising management costs has more damping effect on performance than cost-driven proactive practice of the firms' boards and managements. Combined negative effect of cost-inducing board composition and proactive practices crowds out the positive effect of legal/regulatory compliance.

Recommendations

Due to the above summary, findings and conclusions, the following are major recommendations on how to achieve good corporate governance; Public limited companies should:

(1). Endeavour to use these indicators on corporate governance; Leadership Ethics, the composition of the board and the board independence, stakeholders engagement, transparency and reporting, executive compensation, and finally obedience of the law and order to achieve a good corporate governance, corporate governance improvement is as crucial as improving financial performances of firms.

(2). Corporate entities should ensure that they obey all legal and regulatory instructions as this helps improve or ensures greater financial performance of firm, this will lead to increase in the Return on Equity which will in turn lead to a very significant positive impact on the firm's performance.

(3). Embark on cost-saving composition of board size and structure as well as proactive strategies in order to reverse the negative effects of no operational performance.

(4). Companies should ensure that they seriously obey the set rules and regulations, and also make sure they comply with board composition and its very active practices in order to ensure that there is a significant positive effect on the performance of corporate governance practices in the sector.

(5). Companies should endeavor to expand its knowledge and practices of corporate governance and ensure that they incorporate other corporate governance practices into their management policies either in their internal or external business environment.

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APPENDIX

Realiability test

Case processing summary.

Cases	N	%
Valid	51	100.0
Excluded[a]	0	0
Total	51	100.0

a. List wise deletion based on all variables in the procedure.

Reliability statistics

Cronbach's Alpha	N of Items
0.546	4