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Linking Corporate Governance with Organizational Performance: New Insights and Evidence from Nigeria

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Linking Corporate Governance with Organizational Performance: New Insights and Evidence from Nigeria

Joe Duke II[α], Kechi Kankpang[Ω]

Abstract - Past studies on corporate governance among Nigerian firms have been limited to quoted companies, thereby excluding insights into the behavior of privately-owned firms that form the bulk of the existing formal business organizations. Using a balanced sample of quoted and unquoted firms, this study attempted to establish a nexus between corporate governance and organizational performance. Strong relationships were found between a number of corporate governance variables and firm performance measures. The study also found that there were no material differences between the reliability of financial reporting between quoted and unquoted firms. It recommended a combination of principles and rules-based approaches to dealing with governance infractions, mandatory self-reporting of the degree of compliance with governance codes in company annual reports and setting of high standards for selection of non-executive and independent board members.

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I. Introduction

The bulk of evidence suggests a positive association between corporate governance and organizational performance (Love, 2011). In this regard, sub-optimal or outright failure of governance systems can therefore be argued to be a major contributor to the collapse of many of the well-celebrated organizations that have littered the world's corporate landscape. This failure, which translates into an inability of organizations to meet the expectations of their various stakeholders, has often been traced to weaknesses in the internal controls infrastructures and operating environments, and a lack of commitment to high ethical standards. These weaknesses are sometimes deliberately or intentionally induced by organizational designers and controllers, and at other times they may be a result of the naive assumption that managers will always act in a way that suggests or promotes enlightened self-interest, which should ultimately have positive implications for all stakeholders (Donaldson & Preston, 1995). However, evidence emerging from some of the recently collapsed firms, hitherto assumed to be run professionally or on sound principles, succinctly demonstrates the point that there will always be discrepancies or misalignments between the various organizational stakeholders' interests. Therefore, managing these conflicting interests in a way that produces mutually satisfying outcomes for all stakeholders is at the core of the good corporate governance discussion. Expectedly, this problem has generated renewed interest in understanding the dimensions and ramifications of corporate governance, and its centrality to the wellbeing and survival of firms across sectors and geographic borders. Emphasis is not just on how well the organization succeeds in its profitability goal, but how well it is managed, run and internally regulated, both formally and informally (Parker, 2006). As has been demonstrated in the recent closure of News of The World in UK, corporate governance concerns clearly transcend just the financial wellbeing of firms.

Corporate governance is all about running an organization in a way that guarantees that its owners or stockholders receive a fair return on their investment, while the expectations of other stakeholders are also met (Magdi & Nedareh, 2002). It addresses the need for organizational stewards or managers to act in the best interest of the firm's core stakeholders, particularly, minority shareholders or investors, by ensuring that only actions that facilitate delivery of optimum returns and other favorable outcomes are taken at all times. This is typically facilitated by creating an operating milieu which promotes the observance of codes of conduct that espouse accountability, transparency, fairness, ethical behavior, responsibility and other values designed to act as safeguards against institutional corruption and the mismanagement of scarce organizational resources.

The policies, rules, processes, practices, programs and institutions used in administering, directing and controlling the operations and affairs of an organization generally constitute the elements and instruments of its corporate governance. Therefore, the elaborateness, clarity, formality and the degree of compliance with these elements and plans reflect the extent to which an organization is likely to experience good corporate governance. The main responsibility for corporate governance rests with the Board of Directors of a firm. The board is usually made up of executive (full time) and non-executive (part-time and independent) members. The board's responsibilities include setting

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the company's strategic goals, providing leadership towards putting the set goals into effect, supervising the management of the firm and reporting to shareholders on their stewardship. The board also sets financial policy and oversees its implementation, using financial controls systems. The board's actions are subject to laws, regulations and the shareholders' review at general meetings (Rathmell, Daman, O'Brien & Anhal, 2004). While the key facilitators and midwives of corporate governance are clearly members of the board, it is however apparent that other stakeholders, particularly management and employees, equally have significant roles to play in corporate governance, albeit in varying degrees. As the board needs to secure the active cooperation of managers in order to be effective in instituting and ensuring appropriate behavior, so do employees on their part need to offer support by insisting on, and complying with, only board-approved actions taken by managers. In this way, a cooperative relationship between these core of organizational stakeholders helps drive the corporate governance process in the right direction. Nevertheless, the paramount responsibility in corporate governance lies with the board. This argument is supported by an important finding in a McKinsey and Company (2000) study indicating that informed investors are always ready to pay a premium of as much as 20% on stock price on the back of their perception that the firm has a strong and effective board.

Studies carried out so far on the subject of corporate governance in Nigeria have concentrated exclusively on firms quoted on the Nigerian Stock Exchange (Adenikinju & Ayorinde, 2001; Babatunde & Olaniran, 2009; Kajola, 2008; Sanda, Mikailu & Garba, 2005). Although the basis for this choice is understandable, it however creates a problem of exclusion, and forecloses a comprehension of the corporate governance behaviors and outcomes of private medium and large firms which make up the bulk of organizations across the various business sectors of Nigeria. This present research addresses the problem by studying a mix of publicly quoted firms and private companies in a cross-sectional survey. Also, the study uses profit margin and return on assets as proxies for corporate performance, rather than the popular market or share valuation, which may be relatively restrictive for immediate and accurate assessment of the performance of privately-owned firms. Instructively, this study captures two important corporate governance variables that have largely been ignored or left out in the narrative of the studies carried out in Nigeria on the subject: existence of code of corporate governance and reliability of financial reporting. As reported in a Nigerian Securities & Exchange Commission (2003) study, only about 40% of all quoted companies, including banks, had codes of corporate governance in place. The Code of Best Practices for Corporate Governance in Nigeria was adopted only in 2002, and revised in 2009 (as cited in Olajide, 2010). While this may partly explain the relative infancy of corporate governance entrenchment in Nigerian firms, it however sharpens the need to examine the extent to which the adoption of governance codes contributes to recent firm performance. Reliability of financial reports of firms, on the other hand, has equally created concern for stakeholders in view of the revelations of misleading profits reported by Nigerian banks which were in fact tottering on the brink of collapse just before they were bailed-out in 2009 by the Central Bank of Nigeria (CBN). The key tactic used by corporate managers in masking the true health of the firms involved was falsification of financial reports. Therefore, reliability or accuracy of financial reporting is arguably an important corporate governance variable that demands sufficient research attention.

Overall, the study examines the relationship between corporate governance and the performance of Nigerian firms, using reliability of financial reporting, existence of a code of corporate governance, effective audit committee, board size, and separation of office of board chair from CEO as the variables of corporate governance, while return on assets and profit margin serve as proxies for firm performance. A comparison of corporate governance regime of public and private firms is also carried out here. This study will therefore contribute new dimensions to the growing stock of literature on the subject, as it attempts to deliver on a more robust, yet simple understanding of the impact of corporate governance on the performance of Nigerian organizations using appropriate yardsticks that recognize the problem of paucity of reliable data in the study of the phenomenon in the Nigerian setting.

II. Theoretical Framework and Review of Literature

An understanding of corporate governance proceeds from an examination of a number of theories that attempt to explain the basis and rationale behind this management imperative. These theories principally include the Agency, Stakeholders, Stewardship, Resource-dependency, Transaction cost and Complexity theories. Each of the theories has received comprehensive treatment in previous studies including Abdullah and Valentine (2009), Mintz, (2004), Khanna and Ken (2008), Heath and Norman (2004), Hua and Zin (2007), Sanda, Mikailu and Garba (2005).

Over the last decade, the Asian financial crises, Enron, WorldCom, Tyco, Adelphia, Arthur Anderson, Lehman Brothers, Freddy Mac and Fanny Mae in the USA have come to represent the classic faces of failure attributable to corporate governance shortcomings. On account of the same problem, other important institutions, including Goldman Sachs (in USA); Marconi and Northern Rock (in UK); Parmalat (in Italy); Yukos (in Russia); and, Intercontinental Bank, Oceanic Bank,

Union Bank, Bank PHB, Spring Bank (in Nigeria), were found to be virtually on the threshold of failure just before their various national governments intervened to bail them out of imminent collapse. In the wake of these developments, corporate governance frameworks have been formulated by a variety of regulatory agencies and national governments over the last decades across different countries, including the USA - the Sarbanes-Oxley Act (2002); in the UK - the UK Companies' Act (2006) and similar policy guidelines issued by the Financial Reporting Council and the Financial Services Authorities; the UN's Bank of International Settlement's Basel Committee guidelines on Corporate Governance; the OECD Principles of Corporate Governance (1999 & 2004); in Nigeria the Securities and Exchange Commission (SEC) Code of Best Practices for Public Companies (2003), Code of Corporate Governance for Banks and Code of Corporate Governance for Licensed Pension Operators (Nwadioke, 2009). These well-documented guidelines have provided the main instruments used in regulating the operations of firms. In spite of the soundness and widespread subscription to these corporate governance codes, financial scandals and prospects of organizational failure still continue to be of deep concern to stakeholders. The OECD provisions for instance is considered to be adequate in addressing issues of executive remuneration, risk management, board practices and exercise of shareholder rights. However, weakness in corporate governance appears to be a function of ineffective implementation of the codes (OECD, 2009). Pursuance of good corporate governance would therefore mainly stem from the political will of organizational managers to adhere to specified best-practices.

The rewards of good corporate governance include reduction of waste on non-productive activities such as shirking, excessive executive remuneration, perquisites, asset-stripping, tunneling, related-party transactions and other means of diverting the firm's assets and cash flows. It also results in lower agency costs arising from better shareholder protection, which in turn engenders a greater willingness to accept lower returns on their investment. The firm ultimately ends up enjoying higher profits as it incurs lower cost of capital. Importantly, firms become more attractive to external financiers in direct proportion to a rise in their corporate governance profile. Finally, managers become less susceptible to making risky investment decisions, and focus more on value-maximizing projects that generally facilitate organizational efficiency. The ultimate outcomes of these corporate governance benefits are generally higher cash flows and superior performance for the firm (Love, 2011).

Most of the studies on the link between corporate governance and firm performance confirm causality (Abor & Adjasi, 2007). However, the evidence indicates between a strong and very weak relationship. Black (2001), for instance found a strong correlation between corporate governance and firm performance, as represented by stock valuation. Love (2011, pp 50-58) documented several other studies that have demonstrated these varying positive relationships to include Bebchuk, Cohen and Ferrell (2006), Black and Khana (2007), Brown and Caylor (2009), Bruno and Claessens (2007), Chhaochharia and Laeven (2007), El Mehdi (2007), Gompers, Ishii and Metrick (2003), Klapper and Love (2004), Kyereboah-Coleman (2007), Larcker, Richardson and Tuna (2007), Nevona (2005) and Wahab, How and Verhoeven (2007). Some other studies have however argued against a positive relationship between corporate governance and firm performance (Ferreira & Laux, 2007; Gillan, Hartzell & Starks, 2006; Pham, Suchard & Zein, 2007). This lack of unanimity continues to render the discussion inconclusive.

Findings from past studies on the selected corporate governance variables in the literature are as follows;

a) Reliability of financial reporting

The accuracy and reliability of the financial reports issued by management affects the perception of the firm by all other stakeholders and prospective investors. In spite of the experience at Enron and WorldCom, the financial reporting of publicly quoted firms are generally perceived to be more transparent and credible, because they are usually subjected to stiffer or more rigorous scrutiny, than what obtains in private firms. And, this therefore makes the financial reporting component of corporate governance even more difficult to assure in privately held firms. Audit committees and external auditors are the main instruments available for ensuring this corporate governance variable. There is however scant evidence of empirical research findings around this particular variable.

b) Existence of code of corporate governance

The growing concern about the need to institutionalize corporate governance mechanisms in firms has elicited the issuance of codes of governance by different regulatory agencies and voluntary industry associations. However, clear evidence of the exact extent to which Nigerian firms have adopted these codes or developed their own company-specific governance procedures is still unknown largely because of dearth of readily available data.

c) Audit committee

Although results of Klein (2002) and Anderson, Mansi and Reeb (2004) showed a strong association between audit committee and firm performance, Kajola (2008) found no significant relationship between both variables. This lack of consensus presents scope for deeper research on the impact of this corporate governance variable.

d) Board size

There is a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting results emerge on whether it is a large, rather than a small board, that is more effective. For instance, while Yermack (1996) had found that Tobin's Q declines with board size, and this finding was corroborated by those of Mak and Kusnadi (2005) and Sanda, Mikailu and Garba (2005) which showed that small boards were more positively associated with high firm performance. However, results of the study of Kyereboah-Coleman (2007) rather indicated that large boards enhanced shareholders' wealth more positively than smaller ones.

e) Separation of office of board chair and CEO

Separation of office of board chair from that of CEO generally seeks to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant relationship between performance and separation of the office of board chair and CEO. Yermack (1996) equally found that firms are more valuable when different persons occupy the offices of board chair and CEO. Kyereboah-Coleman (2007) proved that large and independent boards enhance firm value, and the fusion of the two offices negatively affects a firm's performance, as the firm has less access to debt finance. The results of the study of Klein (2002) suggest that boards that are structured to be more independent of the CEO are more effective in monitoring the corporate financial accounting process and therefore more valuable. Fosberg (2004) found that firms that separated the functions of board chair and CEO had smaller debt ratios (financial debt/equity capital). The amount of debt in a firms' capital structure had an inverse relationship with the percentage of the firm's common stock held by the CEO and other officers and directors. This finding was corroborated by Abor and Biekpe (2005), who demonstrated that duality of the both functions constitute a factor that influences the financing decisions of the firm. They found that firms with a structure separating these two functions are more able to maintain the optimal amount of debt in their capital structure than firms with duality. Accordingly, they argued that a positive relationship exists between the duality of these two functions and financial leverage. Separation of these two offices is however sharply challenged by Donaldson and Davis (1991), who found that shareholders' returns are maximized when there is duality.

III. Materials and Methods

This study basically seeks to link corporate governance with firm performance and the model used in establishing this relationship is expressed as follows:

$$ROA = X_0 + x_1BSIZE + x_2CEO + x_3RFR + x_4AUDCOM + x_5CODC0RG0V + e_t \ldots\ldots\ldots\ldots \quad (1)$$

$$PM = X_0 + x_1BSIZE + x_2CEO + x_3RFR + x_4AUDCOM + x_5CODC0RG0V + e_t \ldots\ldots\ldots\ldots \quad (2)$$

Where: $x_{1>0}, x_{2>0}, x_{3<>0}$

Organizational performance is measured by Return on Asset (ROA) and Profit Margin (PM). These are the dependent variables in the model. Corporate governance is represented by five measurement variables: Board Size (BSIZE), Board Chair/Chief Executive Status (CEOSTATUS), Reliability of Financial Reporting (RFR), Audit Committee (AUDCOM), and, Code of Corporate Governance (CODCORGOV) which are the independent variables in the model. These measures are observable characteristics that may have some influence on organizational performance. The error term, et, represents some residual contributions to organizational performance arising from errors in the measurement of the corporate governance variables.

Although, Love (2011) has concluded, based on meta-analysis, that there appears to be a relatively stronger link between firm performance and market valuation than firm performance and operating performance, the recent dramatic crash of the value of stocks of quoted companies on the Nigerian Stock Exchange and other difficulties attending private firms' equity and debt valuation make it compelling for us to rely more on operating indicators in measuring firm performance than on stock valuation. Besides, OECD (2009) cautions against the use of company stock price as a single measure of performance as this does not allow for the benchmarking of a specific firm's performance against the industry or market average. Unlike in other studies that concentrate on stock returns as the key performance variable (Gompers, Ishil & Metrick, 2003; Suchard, Pham & Zein, 2007), we have adopted ROA and PM as the more pragmatic variables for use as proxies for firm performance in Nigeria than stock values. This is especially as the sample of firms used for the study is a mix of both publicly quoted companies and private firms (whose changes in stocks' valuation is relatively more difficult to monitor). The Tobin's Q is equally problematic for application here because of the weakness of data on the market valuation for the equity and debt issued by privately-held Nigerian firms. Therefore, ROA and PM remain preferred measures which should provide reliable results for analysis.

This study made use of cross-cutting sectoral data derived from a total of forty firms. Twenty of these firms were publicly quoted companies selected randomly from the Nigerian Stock Exchange (NSE) population frame. The bulk of information and data about them were obtained from their published annual reports and company sources spanning five years and informed company sources. Other details were sourced from NSE-licensed stock brokers. The remaining twenty firms were judgmentally selected from privately owned

companies spread across ten industry sectors including banking, insurance, construction, manufacturing, hospitality, pharmaceutical, publishing, agro-processing, food and rubber. A composite population frame for privately owned firms was built from information sourced from the Nigerian Federal Bureau of Statistics, Corporate Affairs Commission and various chambers of commerce and industry. The selected firms comprised those that had a minimum workforce of 100 and an asset base of N1billion (approximately US$6.5million). Information on these companies was derived from their annual financial reports and company sources.

IV. Results and Discussion

a) Method of analysis

The ordinary least square (OLS) regression method, Pearson's product moment coefficient of correlation and descriptive statistical tools were used in testing the degree of relationship between the various variables in the study. In the analyses, the estimated Pearson correlation coefficient, standard errors, t-value and coefficient of determination were present for each of the corporate governance category variables using the selected corporate performance measures of ROA and Profit Margin separately. The t-value was tested using two-tail test. The statistical significance was determined at 5% level. This translates to a 95 percent confidence level that the results are not attributable to chance.

Other necessary statistics are equally presented, namely the coefficient of determination (r^2), the adjusted r^2 and the F-statistic.

b) Presentation of data

Results for the research variables are presented in Tables 1, 2, 3, 4 and 5.

Table 1 : **Descriptive Statistics for Quoted Firms**

		RFR	CODCORGOV	AUDCOM	BSIZE	CEOSTATUS
N	Valid	20	20	20	20	20
	Missing	0	0	0	0	0
Mean		4.6500	3.8500	4.0000	14.5500	2.0000
Median		5.0000	4.5000	4.0000	14.5000	2.0000
Mode		5.00	5.00	5.00	12.00[a]	2.00
Std. Deviation		.58714	1.38697	1.07606	3.61976	.00000
Variance		.345	1.924	1.158	13.103	.000

Table 2 : **Descriptive Statistics for Unquoted Firms**

		UNRFR	UNCODCOR	UNAUDCOM	UNBSIZE	UNCEOSTAU
N	Valid	20	20	20	20	20
	Missing	0	0	0	0	0
Mean		4.6500	4.3500	3.8500	7.4000	2.0000
Median		5.0000	5.0000	5.0000	7.5000	2.0000
Mode		5.00	5.00	5.00	4.00[a]	2.00
Std. Deviation		1.08942	.98809	1.53125	2.85436	.00000
Variance		1.187	.976	2.345	8.147	.000

Table 3 : Least Squares Regression Results – Corporate Governance Variables and Profit Margin as Firm Performance Proxy

Variables	Estimated coefficient	Standards error	t- value	Sig.
Constant Term	1.751	.831	2.106	.036
BSIZE	.314	.080	3.916	.000
CEOSTATUS	.210	.062	3.378	.001
RFR	-.016	.068	-.238	.812
AUDCOM	.072	.073	.989	.324
CODCORGOV	.147	.142	2.119	.035
R	.817			
R^2	.667			
Adjusted r^2	.623			
F-Statistic	28.151			

a. predictors (Constant), CODCORGOV, RFR, BSIZE, AUDCOM, CEOSTATUS
b. Dependent Variable: PROFITMARGIN

Source: Researcher's Estimates 2011 (See SPSS Results)

Table 4 : Least Squares Regression Results – Corporate Governance Variables and Return on Assets

Variables	Estimated coefficient	Standard error	t- value	Sig.
Constant Term	4.155	.913	4.549	.000
BSIZE	.354	.089	3.972	.000
CEOSTATUS	-.133	.069	-1.920	.056
RFR	-.174	.075	-2.317	.022
AUDCOM	.291	.081	3.604	.000
CODCORGOV	.033	.077	.430	.668
R	.827			
R^2	.684			
Adjusted r^2	.645			
F-Statistic	26.658			

a. Predictors (Constant), CODCORGOV, RFR, BSIZE, AUDCOM, CEOSTATUS
b. Dependent Variable: ROA

Source: Researcher's Estimates 2011 (See SPSS Results)

V. Results and Discussion

a) Analysis of results

The above tables present the descriptive statistics of the corporate governance variables for both the quoted and unquoted sample firms. The mean reliability of financial reporting (RFR) of the quoted firms is 4.6500 while the mean reliability of financial reporting (RFR) for unquoted firms is 4.6500. The above results indicate that the status of a firm, in terms of the form of ownership, has no significant effect on the reliability of firms' financial reporting. Put differently, privately-held firms observe roughly the same standards as public or quoted firms when it comes to financial reporting. The presence of corporate governance codes was found to have a mean of 3.8500 for quoted firms and 4.3500 for unquoted firms. This indicates a relatively greater corporate governance codes existence and adherence in unquoted firms than in quoted firms. The mean audit

committee effectiveness for quoted firms was 4.000 and 3.8500 for unquoted firms, signifying that audit committees were more effective in quoted companies than unquoted firms. The results also show that unquoted firms have audit committees just as the quoted firms. The average board size for quoted firms was found to be fifteen, while the board size of unquoted firms was seven. The entire quoted and unquoted firms in the study had separate persons occupying the positions of CEO and board chair. Overall, these results indicate very similar corporate governance behaviors between publicly quoted firms and privately-held firms.

The regression results showed a positive sign for the constant term in the first model, which is consistent with economic theory. The implication of these results is that the dependent variable, return on assets (ROA), is positively affected by the corporate governance variables of board size (BSIZE), chief executive officers status (CEOSTATUS), audit committee (AUDCOM) and code of corporate governance (CCG), while it is negatively affected by the reliability of financial reporting (RFR). This means that an increase in the performance of these independent variables with positive sign will lead to an increase in the dependent variable, ROA, while an increased in the reliability of financial reporting will also lead to some degree of increase in the dependent variable.

The regression results for the second model showed a positive constant term which is also consistent with economic theory. The coefficients of the corporate governance variables of board size (BSIZE), audit committee (AUDCOM), and code of corporate governance (CODCORGOV) are also positive, meaning that an increase in their performance will lead to an increase in the dependent variable, profit margin (PM). The estimated coefficient of chief executive officers' status (CEOSTATUS) and reliability of financial reporting (RFR) are negative. This indicates that there is relationship between these corporate governance variables (being the independent variables) and profit margin (the dependent variable). The implication of this result is that, a change in the performance of these explanatory variables will lead to a reduction in the performance of the independent variable, profit margin.

The adjusted r^2 is 0.623 and 0.645. This means that 62.3 percent and 64.5 percent of the variation on the dependent variables, ROA and PM respectively, can be explained by the explanatory variables of BSIZE, CEOSTATUS, AUDCOM, and CODCORGOV for ROA and BSIZE, AUDCOM, and CODCORGOV for PM, while the remaining 37.7 percent and 35.5 percent can be explained by variables other than the corporate governance variables used in the model. The high values of the adjusted r^2 are an indication of a good relationship between the dependent and independent variables.

These values of adjusted r^2 indicates that the regression line captures more than 64.5 percent and 62.3 percent of the total variation in ROA and PM respectively caused by variation in the explanatory variables specified in the model, with less than 35.5 percent and 37.7 percent accounting for the error terms.

The F-Statistic is 26.658 and 28.151. This is very high and statistically significant at 0.05 levels. This is higher than its theoretical values. The F-Statistic confirms that ROA is statistically related to the independent variables (BSIZE, CEOSTATUS and CODCORGOV) in the model, while PM is statistically related to the independent variables (BSIZE, CEOSTATUS, RFR and AUDCOM).

b) Test of hypotheses

HA1 : There is a significant relationship between reliability of financial reporting of company's transactions and organizational performance.

The first hypothesis sought to establish if a statistically significant relationship exists between reliability of financial reporting of company's transactions and organizational performance, as measured by ROA or PM. The results show a t-statistic of -0.238 and -2.317 respectively. This confirms that there is a negative relationship between the reliability of financial reporting and organizational performance measured by return on assets (ROA) and profit margin (PM). Therefore, the hypothesis is accepted at 5 percent against ROA and it is insignificant against PM at 10 percent.

HA2 : There is a significant relationship between the existence of corporate governance codes and organizational performance.

In this hypothesis, we attempted to establish the existence of a statistically significant relationship between the existence of corporate governance codes and organizational performance. The result shows that the estimated t-values for independent variable in the equation are 2.119 and 0.430 respectively. This indicates a significant relationship between CODCORGOV and ROA, and an insignificant relationship between CODCORGOV and PM. The hypothesis is accepted when measured against ROA at both 5 and 10% and rejected when measured against PM at 5%.

HA3 : There is a significant relationship between the existence of an effective audit committee and organizational performance.

For the third hypothesis, we sought to determine if a statistically significant relationship exists between an effective audit committee and organizational performance. The estimated t–values of the equation are 0.989 and 3.604 respectively. The result shows that there is no significant relationship between the existence of an effective audit committee and organizational performance measured by profit margin. However, there is a significant relationship between the existence of an

effective audit committee and organizational performance as measured by return on assets.

HA4 : There is a significant relationship between board size and organizational performance.

The fourth hypothesis sought to establish the existence of a statistically significant relationship between board size (BSIZE) and organizational performance as measured by ROA and PROFITMARG. The results show that the estimated t-values for the equation are 3.916 and 3.972 respectively. The above result shows that there is a significant relationship between board size and organizational performance as measured by PM and ROA.

HA5 : Separation of the office of board chair and CEO significantly affects organizational performance.

The fifth hypothesis sought to establish the extent to which separation of office of Board chair from that of the CEO affects the performance of an organization. The result indicates that the t-values are 3.378 and -1.920 respectively. The implication of this result is that, there is a significant relationship between the dependent and independent variable at 1% and 10% respectively for PM and ROA. In the light of the foregoing, the hypothesis is accepted.

c) Discussion of findings

Analysis of results show that the corporate governance variables of BSIZE, CEOSTATUS, AUDCOMM and CODCORGOV have a positive correlation with firm's PROFITMARG, thus confirming the fact that these performance variables are positively influenced by the independent variables in the model, while BSIZE, AUDCOM and CODCORGOV are positively related to return on assets (ROA). Furthermore, the positive sign in the variables' coefficient for the constant term, BSIZE, CEOSTATUS, AUDCOM and CODCORGOV indicates a positive relationship between these corporate governance variables and firm performance measured by ROA and PROFITMARG. The coefficient for RFR was negative indicating that, at a combined level, there is a negative relationship between reliability of financial reporting of firm's transactions as a measure of corporate governance and ROA and PROFITMARG as measures of organizational efficiency.

There is a positive relationship between Board size (BSIZE), CEO status (CEOSTATUS) and corporate governance (CODCORGOV) and it is significant at 1% and 5% respectively for profit margin, just as a positive relationship exists between Board Size (BSIZE) and Audit Committee (AUDCOM), which is also significant at 1% for ROA.

It is clear from the above that there is a positive and significant relationship between board size and the two performance proxies, PM and ROA. This result is in agreement with previous empirical studies (Kyereboah-Coleman, 2007; Liang and Li, 1999; Yemack, 1996).

The relationship between CEO status and profit margin was positive and significant at 5% level, while the relationship between CEO status and ROA was negative, but significant at 1% level. The result of CEO status and PM is in conformity with Kajola (2008), who found a positive and statistically significant relationship between separation of the office of chair of board and CEO. Yermack (1996) equally found that firms are more valuable when different persons occupy the offices of board chair and CEO. The negative relationship between CEO status and ROA is supported by Kyereboah-Coleman (2007), who proved that large and independent boards enhance firm value, and the fusion of the two offices negatively affects a firm's performance, as the firm has less access to debt finance.

The result of the relationship between reliability of financial reporting (RFR) is clear with the two performance proxies – negative and insignificant relationship with PM while the relationship with ROA is significant at 5%. The implication of this result is that, there is an insignificant negative relationship between RFR and PM, while there is a significant negative relationship between RFR and ROA at 5% level of significance. It means that, all things being equal, a unit change in the reliability of financial reporting will lead to a significant change in ROA of the firm.

The implication of the positive relationship between the existence of effective audit committee and the performance proxies, PM and ROA, is that AUDCOM is significantly and positively related to ROA, while AUDCOM is positively, but insignificantly related to PM. This means that, a unit change in the effectiveness of audit committee will lead to an increase in ROA at 5% level of significance, while there is no significant relationship between PM and AUDCOM. The above result is in conformity with the earlier findings of Klein (2002) and Anderson, Mansi and Reeb (2004), which all showed a strong association between audit committee and firm performance. Kajola (2008) however, found no significant relationship between both variables.

The existence of a code of corporate governance (CODCORGOV) was found to be positively related with the performance proxies, PM and ROA. It was significantly positive for PM and insignificant for ROA. The implication of this is that, a unit change in the existence of code of corporate governance will lead to an increase in the profit margin (PM) for the firm.

VI. Conclusion and Recommendations

a) Conclusion

This study examined the relationship between a number of corporate governance variables and organizational performance. It was found that all five corporate governance variables used for the study had positive association with performance. Specifically, it

was established that accurate and reliable financial reporting enhances organizational performance, as good operating results, more than any other factor, strongly motivates managers, just as poor performance alerts all stakeholders on the need to pay closer attention to the operations of the firm. This all-stakeholder attention ultimately translates into positive outcomes for all. However, the burden of ensuring transparency in financial reporting rests with organizational managers, who have better information and knowledge about the firm's operations.

The existence of a company-specific code of conduct built around the contemporary corporate governance principles, which management and employees identify and relate with, helps in strengthening and facilitating the institutionalization of corporate governance. This in turn translates into self-regulating internal controls that induce lowered operating and agency-related costs. The study found that approximately 60% of the firms surveyed had their own home-grown corporate governance codes which were widely used in the firms. It was also found that the firms that had such codes enjoyed relatively higher ROA and PM than those that were yet to institute this in their system.

Strong audit committees were found to have very significant impact on attainment of corporate governance objectives of firms. In particular, boards of firms that had functional and effective audit committees appeared to be better informed about the major financial transactions of the firm, and managers generally were found to comply with board directives more closely. The evidence confirms that audit committees, when constituted mostly of independent or non-executive directors, have a restraining effect on unauthorized actions of executive managers. However, it could not be ascertained whether this conditioning effect impacted negatively on the entrepreneurial role of managers as firms' opportunity seekers.

The number of directors on the board is important in the performance of the oversight function on executive management. The complexity of the firm's business determines to a large extent the size that is appropriate for its operations. Firms in the banking sector statutorily have a specified mix of independent and executive directors. However, except for family controlled ones, most private firms' boards in Nigeria were composed largely of non-executive members. And, since most of the board members simultaneously sit on boards of other firms or are also full-time executive managers of other organizations, the level of commitment or attention payable by each director is somewhat limited. Therefore, the larger the board size, the greater the number of directors available to make up membership of sub-committees, particularly audit and compensation. This facilitates good corporate governance and impacts positively on overall firm performance. Evidence does not therefore support the argument of Kajola (2008) that an appropriate board size should be less than thirteen. It also does not agree with the suggestion of Sanda, Mikailu and Garba (2005) of ten members as being the right size. These numbers are arbitrary, and may even be counter-productive in the light of the foregoing revelation, and particularly in the cultural context of size in Nigeria.

Separation of the offices of board chair and CEO has a number of positive attributes, particularly in large financial services firms. Monitoring is particularly difficult when there is duality, as the CEO, who has the greatest knowledge of the firm can effectively withhold information of the financial transactions from non-executive board members. The office holders can also effectively divide the board and factionalize it, thereby opening up opportunities for their own unilateral action. Separation promotes checks and balances, and opens the space for objective assessment of all major investment and policy choices of the firm. Critically, it was found that firms with separate offices generally had a higher-than-study average ROA and PM.

b) Recommendations

Arising from the foregoing conclusions, we recommend that financial reporting breaches should attract a combination of both loss of job and criminal prosecution. This will provide a stronger incentive for compliance by corporate managers, and it is likely to be more effective than the principles-based UK approach which merely emphasizes loss of job or the US approach that is rules-based and focuses mainly on prosecution.

The regulatory agency for companies should develop a checklist with which firms can scores themselves on the aspect of compliance with corporate governance codes. This score should become an inherent component of every firm's (public and private) annual financial report. To ensure adherence to the rules of scoring, there should be routine and sentinel auditing of the scoring by the regulatory agency concerned.

It is important to ensure deeper investor engagement and involvement in the affairs of the companies. To facilitate this, firms should set fairly high or competitive standards in the selection of non-executive and independent directors for board committee duties. This is critical if such committees are to have strong impact on governance of the firm.

Board size should be relative to the firm's business needs, scope and complexity. Since no two firms are exactly alike in all ramifications, it is important that an appropriate size be understood to be a function of each firm's circumstances. Setting arbitrary board size benchmarks may therefore be counterproductive.

Separation of office should be the rule for firms, irrespective of the sector, given the consistent positive result this particular corporate governance variable has enjoyed in the literature and has been confirmed in this study. In addition to separation, a distinct office should

be created for a company Risk Auditor. The office holder should report directly to the board chair.

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Appendix : List of Sample Companies

Public/Quoted firms	Private/Unquoted firms
First Bank Plc	Ganapla Nigeria Ltd
Adswitch Plc	Fagma (Bata) Co. Nig. Ltd
University press plc	Posh Industries Nig Ltd
Conoil	Addstar Industries Ltd
Union Bank Plc	Hallcreate Industries Ltd
Intercontinental Bank Plc	Polo Industries Ltd
Guinness Plc	Geeta Plastic
Nigerian Breweries Plc	KLM Manufacturing Co. Ltd
Oando Plc	Berger Paints Ltd
Stanbic IBTC	Monalpex Nig Ltd
Diamond Bank Plc	Pamol Nig. Ltd
Unilever Plc	Niger Mills Ltd
PZ Cussons Plc	United Cement Company Ltd
Julius Berger Plc	Addax Petroleum Ltd
UAC Plc	Golden Guinea Breweries Ltd
Finbank Plc	Champion Breweries Ltd
Dangote Sugar Plc	International Equitable Association Ltd
Oceanic Bank Plc	Nigerian – German Chemical Ltd
Fidelity Bank Plc	Dufil Prima Foods Ltd
Union Dicon Salt Plc	Eleganza Industries Ltd

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