

# 1 Linking Corporate Governance with Organizational Performance: 2 New Insights and Evidence from Nigeria

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## 7 **Abstract**

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

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20 **Index terms**— Corporate governance, Organizational performance, Ethics, Nigeria

## 21 **1 INTRODUCTION**

22 The bulk of evidence suggests a positive association between corporate governance and organizational performance  
23 ??Love, 2011). In this regard, sub-optimal or outright failure of governance systems can therefore be argued to  
24 be a major contributor to the collapse of many of the wellcelebrated organizations that have littered the world's  
25 corporate landscape. This failure, which translates into an inability of organizations to meet the expectations  
26 of their various stakeholders, has often been traced to weaknesses in the internal controls infrastructures and  
27 operating environments, and a lack of commitment to high ethical standards. These weaknesses are sometimes  
28 deliberately or intentionally induced by organizational designers and controllers, and at other times they may be  
29 a result of the naive assumption that managers will always act in a way that suggests or promotes enlightened  
30 self-interest, which should ultimately have positive implications for all stakeholders ( Donaldson & Preston,  
31 1995 ). However, evidence Author ?? : Business Management Department, University of Calabar, Nigeria. E-  
32 mail ? : joedukell@yahoo.com will always be discrepancies or misalignments between the various organizational  
33 stakeholders' interests. Therefore, managing these conflicting interests in a way that produces mutually satisfying  
34 outcomes for all stakeholders is at the core of the good corporate governance discussion. Expectedly, this problem  
35 has generated renewed interest in understanding the dimensions and ramifications of corporate governance, and  
36 its centrality to the wellbeing and survival of firms across sectors and geographic borders. Emphasis is not just  
37 on how well the organization succeeds in its profitability goal, but how well it is managed, run and internally  
38 regulated, both formally and informally (Parker, 2006). As has been demonstrated in the recent closure of News  
39 of The World in UK, corporate governance concerns clearly transcend just the financial wellbeing of firms.

40 Corporate governance is all about running an organization in a way that guarantees that its owners or  
41 stockholders receive a fair return on their investment, while the expectations of other stakeholders are also  
42 met ??Magdi & Nedareh, 2002). It addresses the need for organizational stewards or managers to act in the best  
43 interest of the firm's core stakeholders, particularly, minority shareholders or investors, by ensuring that only

### 3 THEORETICAL FRAMEWORK AND REVIEW OF LITERATURE

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44 actions that facilitate delivery of optimum returns and other favorable outcomes are taken at all times. This  
45 is typically facilitated by creating an operating milieu which promotes the observance of codes of conduct that  
46 espouse accountability, transparency, fairness, ethical behavior, responsibility and other values designed to act  
47 as safeguards against institutional corruption and the mismanagement of scarce organizational resources.

48 The policies, rules, processes, practices, programs and institutions used in administering, directing and  
49 controlling the operations and affairs of an organization generally constitute the elements and instruments of  
50 its corporate governance. Therefore, the elaborateness, clarity, formality and the degree of compliance with  
51 these elements and plans reflect the extent to which an organization is likely to experience December emerging  
52 from some of the recently collapsed firms, hitherto assumed to be run professionally or on sound principles,  
53 succinctly demonstrates the point that there good corporate governance. The main responsibility for corporate  
54 governance rests with the Board of Directors of a firm. The board is usually made up of executive (full time) and  
55 non-executive (part-time and independent) members. The board's responsibilities include setting the company's  
56 strategic goals, providing leadership towards putting the set goals into effect, supervising the management of the  
57 firm and reporting to shareholders on their stewardship. The board also sets financial policy and oversees its  
58 implementation, using financial controls systems. The board's actions are subject to laws, regulations and  
59 the shareholders' review at general meetings (Rathmell, Daman, O'Brien & Anhal, 2004). While the key  
60 facilitators and midwives of corporate governance are clearly members of the board, it is however apparent that  
61 other stakeholders, particularly management and employees, equally have significant roles to play in corporate  
62 governance, albeit in varying degrees. As the board needs to secure the active cooperation of managers in order  
63 to be effective in instituting and ensuring appropriate behavior, so do employees on their part need to offer  
64 support by insisting on, and complying with, only board-approved actions taken by managers. In this way, a  
65 cooperative relationship between these core of organizational stakeholders helps drive the corporate governance  
66 process in the right direction. Nevertheless, the paramount responsibility in corporate governance lies with the  
67 board. This argument is supported by an important finding in a McKinsey and Company (2000) study indicating  
68 that informed investors are always ready to pay a premium of as much as 20% on stock price on the back of their  
69 perception that the firm has a strong and effective board.

70 Studies carried out so far on the subject of corporate governance in Nigeria have concentrated exclusively on  
71 firms quoted on the Nigerian Stock Exchange (Adenikinju & Ayorinde, 2001; Babatunde & Olaniran, 2009; Kajola,  
72 2008; Sanda, Mikailu & Garba, 2005). Although the basis for this choice is understandable, it however creates  
73 a problem of exclusion, and forecloses a comprehension of the corporate governance behaviors and outcomes of  
74 private medium and large firms which make up the bulk of organizations across the various business sectors of  
75 Nigeria. This present research addresses the problem by studying a mix of publicly quoted firms and private  
76 companies in a cross-sectional survey. Also, the study uses profit margin and return on assets as proxies for  
77 corporate performance, rather than the popular market or share valuation, which may be relatively restrictive  
78 for immediate and accurate assessment of the performance of privately-owned firms. Instructively, this study  
79 captures two important corporate governance variables that have largely been ignored or left out in the narrative  
80 of the studies carried out in Nigeria on the subject: existence of code of corporate governance and was adopted  
81 only in 2002, and revised in 2009 (as cited in Olajide, 2010). While this may partly explain the relative infancy  
82 of corporate governance entrenchment in Nigerian firms, it however sharpens the need to examine the extent to  
83 which the adoption of governance codes contributes to recent firm performance. Reliability of financial reports  
84 of firms, on the other hand, has equally created concern for stakeholders in view of the revelations of misleading  
85 profits reported by Nigerian banks which were in fact tottering on the brink of collapse just before they were  
86 bailed-out in 2009 by the Central Bank of Nigeria (CBN). The key tactic used by corporate managers in masking  
87 the true health of the firms involved was falsification of financial reports. Therefore, reliability or accuracy  
88 of financial reporting is arguably an important corporate governance variable that demands sufficient research  
89 attention.

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

## 99 2 II.

## 100 3 THEORETICAL FRAMEWORK AND REVIEW OF LIT- 101 ERATURE

102 An understanding of corporate governance proceeds from an examination of a number of theories that attempt to  
103 explain the basis and rationale behind this management imperative. (Nwadioke, 2009). These welldocumented

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104 guidelines have provided the main instruments used in regulating the operations of firms. In spite of the  
105 soundness and widespread subscription to these corporate governance codes, financial scandals and prospects  
106 of organizational failure still continue to be of deep concern to stakeholders. The OECD provisions for instance is  
107 considered to be adequate in addressing issues of executive remuneration, risk management, board practices and  
108 exercise of shareholder rights. However, weakness in corporate governance appears to be a function of ineffective  
109 implementation of the codes (OECD, 2009). Pursuance of good corporate governance would therefore mainly  
110 stem from the political will of organizational managers to adhere to specified best-practices.

111 The rewards of good corporate governance include reduction of waste on non-productive activities such as  
112 shirking, excessive executive remuneration, perquisites, asset-stripping, tunneling, related-party transactions and  
113 other means of diverting the firm's assets and cash flows. It also results in lower agency costs arising from better  
114 shareholder protection, which in turn engenders a greater willingness to accept lower returns on their investment.  
115 The firm ultimately ends up enjoying higher profits as it incurs lower cost of capital. Importantly, firms become  
116 more attractive to external financiers in direct proportion to a rise in their corporate governance profile. Finally,  
117 managers become less susceptible to making risky investment decisions, and focus more on value-maximizing  
118 projects that generally facilitate organizational efficiency. The ultimate outcomes of these corporate governance  
119 benefits are Findings from past studies on the selected corporate governance variables in the literature are as  
120 follows; a) Reliability of financial reporting

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

## 128 **4 b) Existence of code of corporate governance**

129 The growing concern about the need to institutionalize corporate governance mechanisms in firms has elicited the  
130 issuance of codes of governance by different regulatory agencies and voluntary industry associations. However,  
131 clear evidence of the exact extent to which Nigerian firms have adopted these codes or developed their own  
132 company-specific governance procedures is still unknown largely because of dearth of readily available data.  
133 Union Bank, Bank PHB, Spring Bank (in Nigeria), were found to be virtually on the threshold of failure just  
134 generally higher cash flows and superior performance for the firm (Love, 2011).

## 135 **5 Global**

136 Most of the studies on the link between corporate governance and firm performance confirm causality (Abor &  
137 Adjasi, 2007). However, the evidence indicates between a strong and very weak relationship. Black (2001), for  
138 instance found a strong correlation between corporate governance and firm performance, as represented by stock  
139 valuation. Love (2011, pp 50c) Audit committee Although results of Klein (2002) and Anderson, Mansi and  
140 Reeb (2004) showed a strong association between audit committee and firm performance, Kajola (2008) found  
141 no significant relationship between both variables. This lack of consensus presents scope for deeper research on  
142 the impact of this corporate governance variable.

## 143 **6 d) Board size**

144 There is a convergence of agreement on the argument that board size is associated with firm performance.  
145 However, conflicting results emerge on whether it is a large, rather than a small board, that is more effective.  
146 For instance, while Yermack (1996) had found that Tobin's Q declines with board size, and this finding was  
147 corroborated by those of Mak and Kusnadi (2005) and Sanda, Mikailu and Garba (2005) which showed that  
148 small boards were more positively associated with high firm performance. However, results of the study of  
149 Kyereboah-Coleman (2007) rather indicated that large boards enhanced shareholders' wealth more positively  
150 than smaller ones. e) Separation of office of board chair and CEO Separation of office of board chair from that of  
151 CEO generally seeks to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant  
152 relationship between performance and separation of the office of board chair and CEO. Yermack (1996) equally  
153 found that firms are more valuable when different persons occupy the offices of board chair and CEO. Kyereboah-  
154 Coleman (2007) proved that large and independent boards enhance firm value, and the fusion of the two offices  
155 negatively affects a firm's performance, as the firm has less access to debt finance. The results of the study  
156 of Klein (2002) suggest that boards that are structured to be more independent of the CEO are more effective  
157 in monitoring the corporate financial accounting process and therefore more valuable. Fosberg (2004) found  
158 that firms that separated the functions of board chair and CEO had smaller debt ratios (financial debt/equity  
159 capital). The amount of debt in a firms' capital structure had an inverse relationship with the percentage of the  
160 firm's common stock held by the CEO and other officers and directors. This finding was corroborated by Abor  
161 and Biekpe (2005), who demonstrated that duality of the both functions constitute a factor that influences the  
162 financing decisions of the firm. They found that firms with a structure separating these two functions are more

## 10 RESULTS AND DISCUSSION

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  $PM = X_0 + x_1 BSIZE + x_2 CEO + x_3 RFR + x_4 AUDCOM + x_5 CODC0RG0V + e$  t ???...(2)

167 Where:  $x_1 > 0$ ,  $x_2 > 0$ ,  $x_3 < > 0$  Organizational performance is measured by Return on Asset (ROA) and  
168 Profit Margin (PM). These are the dependent variables in the model. Corporate governance is represented  
169 by five measurement variables: Board Size (BSIZE), Board Chair/Chief Executive Status (CEOSTATUS),  
170 Reliability of Financial Reporting (RFR), Audit Committee (AUDCOM), and, Code of Corporate Governance  
171 (CODCORGOV) which are the independent variables in the model. These measures are observable characteristics  
172 that may have some influence on organizational performance. The error term,  $\epsilon_t$ , represents some residual  
173 contributions to organizational performance arising from errors in the measurement of the corporate governance  
174 variables.

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

189 that shareholders' returns are maximized when there is duality.

7 III.

## 8 MATERIALS AND METHODS

192 This study basically seeks to link corporate governance with firm performance and the model used in establishing  
 193 this relationship is expressed as follows:  $ROA = X_0 + x_1 BSIZE + x_2 CEO + x_3 RFR + x_4 AUDCOM + x_5$   
 194  $CODC0RG0V + e_t$  (1)

195 This study made use of cross-cutting sectoral data derived from a total of forty firms. Twenty of these firms  
196 were publicly quoted companies selected randomly from the Nigerian Stock Exchange (NSE) population frame.  
197 The bulk of information and data about them were obtained from their published annual reports and company  
198 sources spanning five years and informed company sources. Other details were sourced from NSE-licensed stock  
199 brokers. The remaining twenty firms were judgmentally selected from privately owned companies spread across  
200 ten industry sectors including banking, insurance, construction, manufacturing, hospitality, pharmaceutical,  
201 publishing, agroprocessing, food and rubber. A composite population frame for privately owned firms was built  
202 from information sourced from the Nigerian Federal Bureau of Statistics, Corporate Affairs Commission and  
203 various chambers of commerce and industry. The selected firms comprised those that had a minimum workforce  
204 of 100 and an asset base of N1billion (approximately US\$6.5million). Information on these companies was derived  
205 from their annual financial reports and company sources.

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.

## 9 b) Presentation of data

211 Results for the research variables are presented in Tables ??, 2

## 212 10 RESULTS AND DISCUSSION

213 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 Table ?? :Table 2 :

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

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219 **11 RESULTS AND DISCUSSION**

220 **12 a) Analysis of results**

221 The above tables present the descriptive statistics of the corporate governance variables for both the quoted and  
222 unquoted sample firms. The mean reliability of financial reporting (RFR) of the quoted firms is 4.6500 while the  
223 mean reliability of financial reporting (RFR) for unquoted firms is 4.6500. The above results indicate that the  
224 status of a firm, in terms of the form of ownership, has no significant effect on the reliability of firms' financial  
225 reporting. Put differently, privately-held firms observe roughly the same standards as public or quoted firms when  
226 it comes to financial reporting. The presence of corporate governance codes was found to have a mean of 3.8500  
227 for quoted firms and 4.3500 for unquoted firms. This indicates a relatively greater corporate governance codes  
228 existence and adherence in unquoted firms than in quoted firms. The mean audit 3.8500 for unquoted firms,  
229 signifying that audit committees were more effective in quoted companies than unquoted firms. The results also  
230 show that unquoted firms have audit committees just as the quoted firms. The average board size for quoted  
231 firms was found to be fifteen, while the board size of unquoted firms was seven. The entire quoted and unquoted  
232 firms in the study had separate persons occupying the positions of CEO and board chair. Overall, these results  
233 indicate very similar corporate governance behaviors between publicly quoted firms and privately-held firms.

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

242 The regression results for the second model showed a positive constant term which is also consistent with  
243 economic theory. The coefficients of the corporate governance variables of board size (BSIZE), audit committee  
244 (AUDCOM), and code of corporate These values of adjusted r 2 indicates that the regression line captures more  
245 than 64.5 percent and 62.3 percent of the total variation in ROA and PM respectively caused by variation in  
246 the explanatory variables specified in the model, with less than 35.5 percent and 37.7 percent accounting for the  
247 error terms.

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

252 **13 b) Test of hypotheses**

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

255 The first hypothesis sought to establish if a statistically significant relationship exists between reliability of  
256 financial reporting of company's transactions and organizational performance, as measured by ROA or PM. The  
257 results show a t-statistic of -0.238 and -2.317 respectively. This confirms that there is a negative relationship  
258 between the reliability of financial reporting and organizational performance measured by return on assets (ROA)  
259 and profit margin (PM). Therefore, the hypothesis is accepted at 5 percent December committee effectiveness  
260 for quoted firms was 4.000 and governance (CODCORG) are also positive, meaning that an increase in their  
261 performance will lead to an increase in the dependent variable, profit margin (PM). The estimated coefficient  
262 of chief executive officers' status (CEOSTATUS) and reliability of financial reporting (RFR) are negative. This  
263 indicates that there is relationship between these corporate governance variables (being the independent variables)  
264 and profit margin (the dependent variable). The implication of this result is that, a change in the performance  
265 of these explanatory variables will lead to a reduction in the performance of the independent variable, profit  
266 margin.

267 **14 Global**

268 The adjusted r 2 is 0.623 and 0.645. This means that 62.3 percent and 64.5 percent of the variation on  
269 the dependent variables, ROA and PM respectively, can be explained by the explanatory variables of BSIZE,  
270 CEOSTATUS, AUDCOM, and CODCORG for ROA and BSIZE, AUDCOM, and CODCORG for PM,  
271 while the remaining 37.7 percent and 35.5 percent can be explained by variables other than the corporate  
272 governance variables used in the model. The high values of the adjusted r 2 are an indication of a good relationship  
273 between the dependent and independent variables. against ROA and it is insignificant against PM at 10 percent.

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

276 In this hypothesis, we attempted to establish the existence of a statistically significant relationship between  
277 the existence of corporate governance codes and organizational performance. The result shows that the estimated

## 17 C) DISCUSSION OF FINDINGS

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278 t-values for independent variable in the equation are 2.119 and 0.430 respectively. This indicates a significant  
279 relationship between CODCORGIV and ROA, and an insignificant relationship between CODCORGIV and  
280 PM. The hypothesis is accepted when measured against ROA at both 5 and 10% and rejected when measured  
281 against PM at 5%.

### 282 15 HA3

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

285 For the third hypothesis, we sought to determine if a statistically significant relationship exists between an  
286 effective audit committee and organizational performance. The estimated t-values of the equation are 0.989 and  
287 3.604 respectively. The result shows that there is no significant relationship between the existence of an effective  
288 audit committee and organizational performance measured by profit margin. However, there is a significant  
289 relationship between the existence of an effective audit committee and organizational performance as measured  
290 by return on assets.

### 291 16 HA4

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

293 The fourth hypothesis sought to establish the existence of a statistically significant relationship between board  
294 size (BSIZE) and organizational performance as measured by ROA and PROFITMARG. The results show that  
295 the estimated t-values for the equation are 3.916 and 3.972 respectively. The above result shows that there is a  
296 significant relationship between board size and organizational performance as measured by PM and ROA. HA5  
297 : Separation of the office of board chair and CEO significantly affects organizational performance.

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

### 303 17 c) Discussion of findings

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

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

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

327 There is a positive relationship between Board size (BSIZE), CEO status (CEOSTATUS) and corporate  
328 governance (CODCORGIV) and it is significant at 1% and 5% respectively for profit margin, just as a positive  
329 relationship exists between Board Size (BSIZE) and Audit Committee (AUDCOMM), which is also significant at  
330 1% for ROA.

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

334 The implication of the positive relationship between the existence of effective audit committee and the  
335 performance proxies, PM and ROA, is that AUDCOMM is significantly and positively related to ROA, while  
336 AUDCOMM is positively, but insignificantly related to PM. This means that, a unit change in the effectiveness

337 of audit committee will lead to an increase in ROA at 5% level of significance, while there is no significant  
338 relationship between PM and AUDCOM. The above result is in conformity with the earlier findings of Klein  
339 (2002) and Anderson, Mansi and Reeb (2004), which all showed a strong association between audit committee  
340 and firm performance. Kajola (2008) however, found no significant relationship between both variables.

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

## 345 18 VI.

## 346 19 CONCLUSION AND RECOMMENDATIONS a) Conclusion

348 This study examined the relationship between a number of corporate governance variables and organizational  
349 performance. It was found that all five corporate governance variables used for the study had positive association  
350 with performance. Specifically, it was established that accurate and reliable financial reporting enhances  
351 organizational performance, as good operating results, more than any other factor, strongly motivates managers,  
352 just as poor performance alerts all stakeholders on the need to pay closer attention to the operations of the  
353 firm. This allstakeholder attention ultimately translates into positive outcomes for all. However, the burden of  
354 ensuring transparency in financial reporting rests with organizational managers, who have better information  
355 and knowledge about the firm's operations.

356 The existence of a company-specific code of conduct built around the contemporary corporate governance  
357 principles, which management and employees identify and relate with, helps in strengthening and facilitating  
358 the institutionalization of corporate governance. This in turn translates into selfregulating internal controls  
359 that induce lowered operating and agency-related costs. The study found that approximately 60% of the firms  
360 surveyed had their own home-grown corporate governance codes which were widely used in the firms. It was  
361 also found that the firms that had such codes enjoyed relatively higher ROA and PM than those that were yet  
362 to institute this in their system. argument of Kajola (2008) that an appropriate board size should be less than  
363 thirteen. It also does not agree with the suggestion of Sanda, Mikailu and Garba (2005) of ten members as being  
364 the right size. These numbers are arbitrary, and may even be counter-productive in the light of the foregoing  
365 revelation, and particularly in the cultural context of size in Nigeria.

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

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

380 The number of directors on the board is important in the performance of the oversight function on executive  
381 management. The complexity of the firm's business determines to a large extent the size that is appropriate  
382 for its operations. Firms in the banking sector statutorily have a specified mix of independent and executive  
383 directors. However, except for family controlled ones, most private firms' boards in Nigeria were composed largely  
384 of non-executive members. And, since most of the board members simultaneously sit on boards of other firms  
385 or are also full-time executive managers of other organizations, the level of commitment or attention payable  
386 by each director is somewhat limited. Therefore, the larger the board size, the greater the number of directors  
387 available to make up membership of sub-committees, particularly audit and compensation. This facilitates good  
388 corporate governance and impacts positively on overall firm performance. Evidence does not therefore support  
389 the b) Recommendations Arising from the foregoing conclusions, we recommend that financial reporting breaches  
390 should attract a combination of both loss of job and criminal prosecution. This will provide a stronger incentive  
391 for compliance by corporate managers, and it is likely to be more effective than the principles-based UK approach  
392 which merely emphasizes loss of job or the US approach that is rules-based and focuses mainly on prosecution.

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

## 19 CONCLUSION AND RECOMMENDATIONS A) CONCLUSION

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

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

404 Separation of office should be the rule for firms, irrespective of the sector, given the consistent positive result

405 this particular corporate governance variable has enjoyed in the literature and has been confirmed in this study.

406 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. 1 2 3 4 5 6



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Figure 1: T 47 Global

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<sup>5</sup>Decembergovernance as change agent for banks. The Guardian. 43.

<sup>6</sup>December

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

IV.

Descriptive Statistics for Quoted Firms CODCORG0V AUDCOM BSIZE 20 20 20 0 0 0 3.8500 4.0000 14.5

Std. Deviation	1.08988053125436
Variance	1.187762.345147

Figure 2:

3

Variables	Estimated coefficient	Firm Performance Proxy	
		Standards error t-value	Sig.
Constant Term	1.751	.831	.036
BSIZE	.314	.080	.000
CEOSTATUS	.210	.062	.001
RFR	-.016	.068	.812
AUDCOM	.072	.073	.324
CODCORG0V	.147	.142	.035
R	.817		
R 2	.667		
Adjusted r 2	.623		
F-Statistic	28.151		

a. predictors (Constant), CODCORG0V, RFR, BSIZE, AUDCOM, CEOSTATUS  
b. Dependent Variable: PROFITMARGIN

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

Figure 3: Table 3 :

**4**

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XII

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 <sup>2</sup>	.684			
Adjusted r <sup>2</sup>	.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.

Figure 4: Table 4 :

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