CORPORATE GOVERNANCE AND PERFORMANCE OF NIGERIAN LISTED FIRMS: FURTHER EVIDENCE

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Abstract

This work, in an agency framework, adds to the few literatures on Nigeria by examining the impact of corporate governance on firm financial performance. Using a sample of 64 listed non-financial firms for the period 2002 to 2006, the study is able to capture the impact of the New Code of Corporate Governance released in 2003 on previous findings. Introductory investigations on the Nigerian capital market operations and regulations depict low, but improving, states. Empirically, Panel regression estimates show that board size, audit committee independence and ownership concentration aid performance. Higher independent directors and directors' portion of shares unexpectedly dampen performance, while firms vesting both the roles of CEOs and chairs in the same individual perform better.

Keywords: Agency Problem, Corporate Governance, Panel Regression, Tobin's Q

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1. Introduction and Problem Statement

The concept of corporate governance looks at the best approach to solve the problem of adverse selection and moral hazard attendant on principal-agent issues. According to Senbet and John (1998), "corporate governance involves how all stakeholders in the firm attempt to ensure that managers and other insiders adopt mechanisms that safeguard the interests of the stakeholders". In recent times, the term stakeholder has been accorded a broader perspective; it goes beyond its traditional treatment as shareholders to include employees, creditors, government and others, for instance, environmentalists.

Notionally, corporate governance practices are expected to: (a) focus board attention on optimizing the company's operating performance and returns to shareholders, (b) ensures that directors made accountable to shareholders and management accountable to directors (c) both corporate directors and management have a long-term strategic vision that, at its core emphasizes sustained shareholder value. Further, despite differing investment strategies and tactics, shareholders should encourage corporate management to resist short-term behaviours by supporting and rewarding long-term superior returns. In addition (e) information about companies must be readily transparent to permit accurate market comparisons (CalPERS, 2007).

Organisations like the World Bank, Organisation for Economic Cooperation and Development (OECD), Banks, Funds, Stock Exchanges of countries, Commonwealth and several others, are giving critical interests to the issue of corporate governance. This is evident in several releases of updated code of corporate governance documents and conferences especially, following scandals witnessed in Adelphia, Enron and WorldCom.

Generally, well-governed firms are expected to have higher profits, less bankruptcy risk, higher valuations and pay out more cash to their shareholders, while reverse holds for poorly-governed firms (Kyereboah-Coleman and Biekpe, 2006).

Several studies have established the importance of good corporate governance to enhanced firm performance (Sanda et al, 2005; Adenikinju and Ayonrinde, 2001, Adelegan, 2007; Magbagbeola, 2006; Brown and Caylor, 2005; Core and Rusticus, 2005, etc). Conversely, several others have established the impotency of some corporate governance precepts (Demsetz and Lehn, 1985, Core et al, 2005; Adenikinju, 2005 and Chidambaran et al., 2007), hence yielding conflicting observations. This notwithstanding, works on corporate governance are still few in Nigeria. They are limited to the works of Teriba et al (1977); Oyejide and Soyibo (2001), Adenikinju and Ayonrinde (2001); Sanda et al (2005); Adenikinju (2005), Magbagbeola, (2005); and Adelegan (2006; 2007).

This present work contributes to the literature by utilising a more recent data (2002–2006) than those employed by previous empirical studies in Nigeria. For example, Adenikinju (2005); Sanda et al. (2005) and Magbagbeola (2006) use the periods 1993-2002, 1996-1999 and 1999-2004 respectively. More importantly, this study covers the era of the new Code of Corporate Governance released in 2003, and therefore the impact of the code can easily be captured. Adenikinju (2005) only succeeded in

describing the provisions of the Code, however, due to her sample period (1993-2002), she was unable to empirically determine the effect of the Code on firm performance, which is part of the issues addressed in this paper.

The broad objective of this study is to establish the impact of corporate governance measures on financial performance of Nigerian listed firms. Specifically, the study gives an overview of structure and development in the Nigerian capital market, the state of corporate governance in Nigeria is discussed, industrial and temporal patterns of governance and performance indicators are examined, efforts are made at establishing the impact of corporate governance measures on the performance of Nigeria listed firms, and finally, some policy issues are articulated.

The rest of this paper is organised as follows; section two contains the background of the study, while section three presents the literature review. Section four is the theoretical framework and methodology while, section five presents the empirical results and analysis, and finally, section six concludes the paper.

2. Background of Study

The structural characteristics of the capital market and the historical developments of corporate governance in Nigeria are presented in this section.

2.1. The Nigerian Capital Market

Participants in the Nigerian capital market include the Nigerian Stock Exchange (NSE), Discount Houses, Development Banks, Investment Banks, Building Societies, Stock Broking Firms, Insurance and Pension Organizations, Quoted Companies, the Government, Individuals and the Nigerian Securities and Exchange Commission (SEC).

The Nigerian Stock Exchange (NSE) provides the essential facilities for companies and government to raise money for business expansion and development projects (through investors who own shares in the companies) for the ultimate economic benefit of the society. Like all stock exchanges, the NSE is made up of many markets, including a market for new issues (Primary Market), market for existing securities (Secondary Market) and markets for debt securities and equities. The Nigerian stock exchange (NSE) earlier called the Lagos Stock Exchange (LSE) was registered on 1st March 1959, incorporated on 15th, September 1960 and started business on 5th June 1961. In December 1977, its name was changed from the Lagos Stock Exchange to the Nigerian Stock Exchange (NSE) and additional branches have since then been opened in Kaduna, Port Harcourt, Kano, Ibadan, Onitsha and Abuja.

The Second-Tier Securities Market (SSM) was established on 30th April 1985 to assist small and medium-sized companies that are unable to meet the requirements of the first-tier market (NSE) in raising long-term capital. To encourage the development of the SSM, the stringent conditions for enlistment in the first-tier market were relaxed for indigenous enterprises seeking to raise funds through the SSM.

The major recent developments in the NSE include the following; the transition from the Call-over trading system to the Automated Trading System (ATS) on April 27, 1999, the commissioning of the Electronic Business (e-business) platform in July, 2003 and lastly, the trade alert information system launched in 2005 providing text messages on mobile phones of stockholders of any transactions in their stock within 24 hours. These developments are aimed at reducing the information asymmetry and transaction costs associated with stock trading; enhance transparency and curbing unethical practices in the Nigerian capital market Adelegan (2007a).

2.2. Features of the Nigerian Capital Market

We discuss the major features of the Nigerian capital market under the following indices: market size, market concentration, efficiency and liquidity

2.2.1. Market Size

Measures of market size considered are; the number of listed securities and their growth rates, the size of market capitalization and its growth rates, and the market capitalization ratio (i.e. the ratio of value of shares listed to GDP).

Table 1. Measures of Market Size of the Nigerian Capital Market

Year	Market Size		Market Capitalisation		Capitalisation Ratio (%)
	Number	Growth Rate (%)	Amount (₦'b)	Growth Rate (%)	
2002	258	-	763.9	-	11.94
2003	265	2.71	1359.0	77.90	21.73
2004	277	4.53	2112.0	55.41	31.69
2005	287	3.61	2900.0	37.31	19.85
2006	293	2.09	5120.0	76.55	28.33
Mean	276	3.24	2450.98	61.79	22.71

Source: Author's computations: underlying data are obtained from NSE Factbook (various issues).

Table 1 depicts that the number of listed securities on the NSE increased during the study period from 258 in 2002 to 287 in 2005, and despite the delisting of 28 securities, including 21 banks (NSE, 2006), the number of securities increased to 293 in 2006 with a growth rate ranging between 2.71% in 2003 to 2.09% in 2006. Also presented is a market capitalisation of ₦763.9 billion in 2002 which increased overtime to ₦5,120.0 billion in 2006. This represents a growth rate of 77.9% in 2003 and 76.55% in 2006. On the other hand, the capitalisation ratio increased from 11.94% in 2002 to 28.33% in 2006. The trends in the market capitalisation and the capitalisation ratio can be observed from figures 2.2 and 2.3. On the average, 276 firms are listed with period average growth rate of 3.24%. The average market capitalisation is ₦2,450.98b with 61.79% average growth rate. Finally, the average capitalisation ratio for the period is 22.71%.

2.2.2. Efficiency of the Nigerian Securities Market

In an efficient market, prices fully and correctly reflect all available and relevant information, and security prices adjust instantaneously to new information. Market efficiency operates at three levels, viz: weak market efficiency, semi-strong market efficiency and strong market efficiency (Anyanwu et al, 1997 and Adelegan, 2004).

There are few studies trying to test the market efficiency of the Nigerian capital market, most of these are tests of the weak form efficiency. Most studies have found the Nigerian capital market to be weakly efficient, while the fewer ones examining the Nigerian capital market efficiency at the semi-strong form found mixed evidence (Adelegan, 2004).

Among studies that have found the Nigeria capital market to be weakly efficient are Samuel and Yacout (1981), Ayadi (1983, 1984), Omole (1997) and Olowe (1999). The following studies however contrast with the latter, Ekechi (1989) and Inanga and Asekome (1992).

In the semi-efficient form, Emenuga (1989), Oludoyi (1999), Adelegan (2001) and Adelegan (2007b) find that the Nigerian capital market is not efficient. However, tests on strong-form efficiency are yet to be performed on Nigerian data.

Recently, Adelegan (2004) validates the weak form Efficient Market Hypothesis (EMH) using serial correlation tests. However, the employed runs test invalidates this finding. These therefore made the author to conclude that we can neither accept nor reject the weak form EMH for the Nigerian Stock Exchange. Further, Adelegan, 2007b shows that board changes have information content which is reflected in share price behaviour thereby validating semi-strong inefficiency status of Nigerian Stock exchange.

2.2.3. The Liquidity of the NSE

The liquidity of a stock market can be defined as the ease with which shares are traded in the market. This can be measured by the two main indices: ratio of the securities traded to the GDP (total value traded-GDP ratio) and the turnover ratio (i.e. the percentage value of shares traded to market capitalization. These are shown in table 2.

Table 2. Measures of Liquidity

Year	Turnover (Value of Securities Traded) (₦'m)	Value Traded/GDP (%)	Turnover Ratio (%)
2002	60.3	0.94	7.89
2003	120.7	1.93	8.88
2004	225.8	3.39	10.69
2005	263.0	1.80	9.07
2006	470.3	2.60	9.19
Mean	228.02	2.13	9.14

Source: Author's computations: underlying data are obtained from NSE Factbook (various issues).

Table 2 shows an upward trend in the turnover of the NSE, rising from the lowest of ₦60.3 million in 2002 to the highest value of ₦470.3 million in 2006, with a period mean value of ₦228.02million. The value traded-GDP ratio, expressed as a percentage displayed a rising pattern, rising from a low of 0.94% in 2002 to 2.60% in 2006 cumulating to an average value of 2.13%. Equally, the turnover ratio exhibited an upward trend during the study period, rising from a low value of 7.89% in 2002 to a high of 9.19% in 2006 with an average value of 9.14%. These increasing indices provide evidence that the growth of trading activities in the NSE leads the growth of the stock market (capitalisation). Implying that there is an increasing liquidity of the NSE. Therefore, as shown by the total value traded/GDP ratio, the NSE shows low but increasing trading activities.

2.3. An Appraisal of Corporate Governance in Nigeria

Some efforts have been made at espousing corporate governance in Nigeria and each new one is directed at solving newly emerged problems of governance or existing ones that are inadequately addressed by preceding regulations. The Companies and Allied Matters Decree (CAMD) of 1990 as the basic company law lays more emphasis on provisions that

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engender financial transparency, which was seen as the most pressing need at that period.

Further, consequent on scandals observed in some large corporations like Enron, Aldephia and WorldCom, greater attention has been accorded governance issues to obviate reoccurrence across countries. Nigeria therefore, realizing the need to align with the international best practices identifies board composition and operations as the major weakness in the current corporate governance practice in Nigeria. Hence, the release in 2003 of the code of Corporate Governance in Nigeria by SEC and CAC and Code of Corporate Governance for Banks in Nigeria Post Consolidation in 2006 by CBN. Although previous corporate laws in Nigeria attempt at protecting the often-violated shareholders' right, the SEC release on the Conduct of Shareholders Association in Nigeria (2007), more than ever before, is designed to ensure that association members uphold high ethical standard and make positive contributions in ensuring that the affairs of public companies are run in an ethical and transparent manner and in compliance with the code of corporate governance for public companies.

In a survey of Nigeria by the Securities and Exchange Commission (SEC) reported in a publication in April 2003, it is shown that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, had recognised codes of corporate governance in place. This is aggravated, as most businesses in the formal sector are not publicly listed. DPC (1999), in a survey of enterprises in six randomly selected states found that only 13.3% of the enterprises are listed on the Nigerian Stock Exchange, while 48.5% are limited liability companies. Thus, close to 38% of companies operating in the formal sector operate outside the provisions of the company law and nearly 87% of formal sector businesses may be operating outside the legislation governing the capital market (Oyejide and Soyibo, 2001).

To evaluate the standard of Corporate Governance in Nigeria, Oyejide and Soyibo (2001) surveyed regulatory agency in Nigeria using the OECD scoring guide. They find out that largely the institutions and the legal framework for effective corporate governance appear to be in existence. However, compliance and/or enforcement appear to be weak or non-existent, this is in consonance with the position of Wilson (2006).

Adelegan (2007a) in her work on Corporate Governance in Nigeria, opines, "Corporate Governance in Nigeria can be viewed as satisfactory based on some measures, volume and turnover ratios are reasonable, the underlying regulations and the powers of the regulatory bodies are modelled on those of UK and the US Securities and Exchange Commission. Disclosure and accounting rules are strict and moderately enforced", she however noted that the market for corporate control is very weak in Nigeria.

The underdevelopment and emerging nature of the Nigeria capital market as characterised by thinness of trading, low market capitalisation, low percentage of turnover level and illiquidity of the market (Adelegan, 2004) notwithstanding, the Nigeria Security and Exchange Commission (SEC) along with other agencies like the Corporate Affairs Commission (CAC) and the Central Bank of Nigeria (CBN) are still meeting up to the task in their enactment of relevant policy that can foster good corporate governance.

3. Empirical Review

This section reviews past works that have tried to empirically validate the relationship that exist between measures of corporate governance and firm performance. Several mechanisms of corporate governance have been identified in literature as influencing firm performance. Given below are some of these mechanisms along with their direction of impact on firm performance. These are also summarised in Table 3.

Shareholders right and firm performance have been seen to be related. Shareholder rights reflect the balance of power between shareholders and management. According to Ashbaugh-Skaife and Collins (2005), "A key element of this dimension is whether the firm maintains a level playing field for corporate control and whether it is open to changes in management and ownership that provide increased shareholder value". Gompers, Ishii and Metrick (2003) compute a corporate governance index from 24 governance factors grouped into 5 and via this establish a positive association between stronger shareholder rights and higher firm value. Barber, Kang and long (2005) in a cross-sectional study of a large sample of widely-held U.S. Firms find that firms with significant restrictions against shareholder participation have greater propensity to commit accounting misstatement. Firms with weaker shareholder rights have also been found to exhibit significant operating underperformance (Core et al, 2005), higher expected returns (Chen et al, 2004),higher credit ratings (Ashbaugh-Skaife and Collins, 2005). Chidambaran et al (2007) however, find no significant relationship between shareholders right and firm performance.

Debt, corporate governance and performance have been linked together. For instance, debt owed to large creditors is expected to improve firm performance, since the creditors tend to see to it that the firm is well managed (Sanda et al, 2005). Sakai and Asaoka (2003) in a panel data of over 400 Japanese firms find that higher debt-asset ratio improves firm performance. This is consistent with Sanda et al (2005) in the case of Nigeria. Agrawal and Knoeber (1996) have however shown that the effect of leverage on firm performance can be technique-dependent. They find higher debt financing to be negatively related to firm performance in a single

mechanism OLS regression, but this effect disappears in simultaneous equation estimation.

Institutional shareholding are expected to influence the standard of corporate governance positively and thereby optimize stakeholder value (SEC-CAC, 2003; Gillan, 2001). Holmstrom and Kaplan (2005) note the doubling of large institutional investors' share of ownership of U.S. corporation, and according to them, "the large increase in the shareholding of institutional investors means that professional investors – who have strong incentives to generate greater stock returns and are presumably more sophisticated own an increasing large fraction of U.S. Corporation". This view is also confirmed in Chidambaran et al (2007) where a direct relationship is established between institutional shareholding and performance. However, Edwards and Hubbard (2005) find that despite the very substantial growth of institutional ownership of U.S. Corporations in the past 20 years, there is little evidence that they acquire the kind of concentrated ownership positions required to be able to play a dominant role in corporate governance process. In Nigeria institutional investors account for 17.4% of shareholding (Adelegan, 2007a)

A link between block holding/ownership concentration and firm performance has been established. Blockholding refers to the proportion of a firms shares owned by a given number of the largest shareholders. A satisfactory measure of ownership structure as a means of indicating control structure must reflect the distribution of both shareholding and shareholders (Teriba et al, 1977). And a high concentration shares tends to create more pressure on managers to behave in ways that are value-maximising (Sanda et al, 2005). A competing view in the literature suggests that concentrated ownership allows undue influence over management to secure benefits that are detrimental to minority stakeholders (Shleifer and Vishiny, 1997; and Teriba et al, 1977). Sakai and Asaoka (2003) document that an increase in the ratio of blockholders' shareholding improves firm performance in Japan for the period 1979-2001. Sanda et al (2005) also establish same in the Nigerian case. Other studies like Moustafa (2006) and Cremers and Nair (2003) have similar arguments. On the other hand, Ashbaugh-Skaife and Collins (2005) find firms credit ratings to be negatively associated with the number of blockholders that own at least 5% ownership in the firm, while Demsetz and Lehn (1985) find no relationship between ownership concentration and accounting profit rates. Ownership Concentration is high in Nigeria (Adenikinju and Ayonrinde, 2001), the largest shareholders own an average of 32.65% equity, and an average of 13.42% of equity is owned by directors (Sanda et al, 2005).

The proportion of outside directors sitting on the board of a firm (board independence) has been proposed to aid firm value. This is based on the arguments that independence is the cornerstone of accountability (CalPERS, 2007), and directors who are independent of the management strive at maximizing firm performance (MacAroy and Millstein 2005). Scholars like Gillian (2001a) have argued contrarily. Their point is that high-powered executives may possess more information with which they influence the independent directors so as to create a systematic bias toward management. In Ashbaugh-Skaife and Collins (2005), board independence is positively related to firm credit ratings, Chidambaran et al (2007) also establish a direct relationship between the number of outsider on the board and firm performance, Lee et al (2005) find that board independence strengthens the positive association between firm performance and pay dispersion. Magbagbeola (2005) confirms a positive and significant relationship between non-executive director and Nigerian banks return on assets. Conversely, Sanda et al (2005) and Adenikinju (2005) establish an insignificant relationship between firm performance and board independence in Nigeria, while in Agrawal and Knoeber (1996), more outsiders on the board is negatively related to performance. Adelegan (2007a) shows that shareholders are adequately represented on the boards of Nigerian listed firms, since 79% of board members are outsiders.

Combining the roles of a firm chairman and CEO in one person (executive duality) is identified as an undue concentration of power which is likely to adversely affect proper decision making and firm performance (SEC-CAC, 2003; CBN, 2006). Sanda et al (2005) employing pooled Ordinary Least Squares regression analysis on panel data for the period of 1996 through 1999 for a sample of 93 firms listed on the Nigerian stock exchange find that separating the posts of CEO and Chair works in favour of the firm. Ashbaugh-Skaife and Collins (2005) assert that a reduction in the CEO power covary with firm credit ratings. These results are also confirmed in Moustafa (2006). For Nigeria, Adelegan (2007a) establishes that 92% of the boards of directors of quoted firms in Nigeria have chairman different from chief executive officer.

Board size and firm performance have been correlated. For instance, it has been found that the smaller the board size, the more efficient it is expected to be (Adelegan, 2007a). Some studies have been able to confirm the above thesis (Kyereboah-Coleman and Biekpe, 2004; Sanda et al, 2005; Moustafa, 2006) while others (Magbagbeola, 2005; and Chidambaran et al, 2007) refute it. Adelegan (2007a) has found the average board size of Nigerian listed firms to be nine; this is still within the range recommended by SEC-CAC (2003) and close to Sanda et al (2005) which recommend a 10-member board for Nigerian listed firms.

There is a relationship between directors' shareholding/compensation and firm performance. A well-designed compensation programme should serve to align the interests of executives and employees with those of shareholders (Gillan, 2001). In subjecting this to empirical validation, Brown and

Caylor (2004) find that executive and director compensation is highly associated with good performance, Ashbaugh-Skaife and Collins (2005) find directors shareholding as aiding firm credit ratings. Lee et al (2005) establish a positive relationship between executive pay dispersion and firm performance, while Fich and Shivdasan; (2004) using a fixed-effects model that accounts for self-selectivity bias, find that firms with outside director stock option plans have significantly higher market to book ratios and profitability metrics. However, director shareholding is found to be negatively related to performance in Sanda et al (2005) and Adenikinju et al (2005) in Nigeria.

Another relationship observed in the literature is Frequency of Board Meeting and Firm Performance. Frequent board meeting with sufficient notices is crucial in maintaining effective control over the company and monitoring the executive and management (SEC-CAC, 2003). Chidambaran et al (2007) however find firm performance to be independent of number of board meeting.

The last five rows of table 3 below summarise the few empirical studies in this area for the developing economy of Nigeria. A cursory look depicts conflicting evidence. In this present study therefore, we try to offer recent evidence for the Nigerian case.

Table 3. Preceding Researches on Corporate Governance

	Author(s)	Sample and Period	Dependent variable	Independent variable	Statistical methods	Main results
1	Demsetz and Lehn (1985)	511 firms from major sectors of the U.S. economy for the period 1980-81	Accounting profit rate	Ownership structure	OLS	Insignificant relationship between ownership structure and profit
2	Agrawal and Knoeber (1996)	383 US firms for 1980-1987	Tobin's Q (T.Q)	• Insider shareholding • Institutional shareholding • Blockholding • Board independence • CEO status • Leverage • Acquisition probability • Firm size	2SLS and OLS	Greater insider ownership positively related to performance, while more outsiders, debt financing and greater corporate activity were negatively related to performance.
3	Black (2001)	16 major Russian firms in fall 1999	Value ratio	Corporate governance rankings on 0 to 60 scale	OLS	Better governance induces better value ratio
4	Klapper and Love (2002)	374 firms from 14 emerging markets	T.Q and Return on assets (ROA)	Computed corporate governance index (Gov) from 57 qualitative, binary (Yes/No) questions	OLS	Good governance is positively correlated with market valuation& operating performance especially in countries with weaker legal systems
5	Cremers and Nair (2003)	A sample of US firms for the period 1990-2001	TQ, ROA, Return on equity (ROE) & Net profit margin	• Blockholding • Institutional shares • Anti-takeover provisions • Leverage • Size	Correlation, WLS and OLS	External and internal governance mechanisms are strong complements in being associated with long term abnormal returns and accounting measures of profitability
6	Gompers et al (2003)	1500 large US firms for 1990-1998	Book to market value (BM), Firm size, share price, T.Q. dividend yield	Governance index (G) which is the sum of one point for the existence of 24 unique provisions that restrict shareholders' rights	Correlation, OLS and Median Regression techniques	Firms with stronger shareholder rights had higher firm value, profit, sales growth, lower capital expenditure and made fewer corporate acquisitions
7	Sakai and Asaoka (2003)	468 Japanese firms for the fiscal 1979-2001	Productivity growth	• Firms mkt share • Blockholding • Leverage	OLS	Blockholding and Leverage positively influence productivity growth
8	Brown and Caylor (2004)	2327 U.S. firms using Institutional Shareholders Service (ISS) data as of Feb.1,2005	• Return on Equity(ROE) • Net profit margin • Tobin's Q(TQ) • Dividend yield Stock repurchase	A summary metric (Gov-score) computed from 51 corporate governance factors	Correlation and T-test	Firms with better governance have higher performance
9	Chen et al, (2004)	1,681 US firms for 1991-2002	Expected stock returns	A governance index (G-index) computed for 24 unique provision for each firm	OLS and correlation	Firms with better governance have lower expected returns.
10	Fich and Shivdasan; (2004)	774 US firms from 1997 to 1999	Asset turnover, Rate of sales growth, ROA	Elements of board characteristics and governance structure	• Wilconxon • Probit • OLS • Fixed effect	Firms with outside directors options plans have significantly hgher market to book ratios and profitability metrics
11	Kyereboah-Coleman and Biekpe (2004),	16 listed non-financial firms on Ghana Stock Exchange for the period 1999-2001	•TQ •ROA •Sales growth	• Board size • Board composition • Chair-CEO duality	OLS	Board size is positively related to TQ and ROA but negatively related to sales growth while the effects of Chair-CEO duality and board composition are insignificant on performance
12	Ashbaugh-Skaife and Collins (2005)	2000 U.S companies for the 2002 fiscal year	Credit rating	Elements of: • Ownership structure&influence • Financial stakeholder rights and relations • Financial transparency • Board structure and processes • Firm characteristics	Ordered Logit regression and OLS	Firm credit ratings are negatively related to CEO power, blockholding, but positive with weaker shareholders rights, overall board independence, board stock ownership&expetise
13	Core et al. 2005)	9917 firm-years data fro US firms for the 1990s	ROA	Governance index (G) which is the sum of one point for the existence of 24 unique provisions that restrict shareholders' rights	Correlation and OLS	Firms with weak shareholders rights exhibits significant operating underperformance
14	Johnson et al, (2005)	1500 large US firms for 1990-1998	T.Q and Long term abnormal returns	Governance index (G) which is the sum of one point for the existence of 24 unique provisions that restrict shareholders' rights	OLS	No significant long-term abnormal returns based on governance for the 1990s but good governance is valued by investors

15	Lee et al (2005)	1855 US companies for the period 1992-2003 excluding utility and financial services firms	T.Q and ROA	• Mgt pay dispersion • Managerial equity ownership • Institutional investors • Non-exco directors • CEO-Duality • Board size	Correlation, T-test, OLS, 3SLS and SUR.	Pay dispersion of top management and board independence aid firms valuation, especially for firms with high agency costs related to managerial discretion
16	Moustafa (2006).	85 Egyptian non-financial firms in 2003 and 2004	ROA, TQ, MB	• Board size • CEO duality • Large shareholding • Firm size, and • Leverage	Stepwise regression	Large shareholding has positive effects while CEO duality and large board size have inverse relationship with performance
17	Bauer et al, (2007)	4950 to 5260 US firms in 2003-2005	• Tobin's Q(TQ) • Return on equity(ROE) • Return on asset(ROA) • Log of size • Leverage • Book-to-market (BM)value	Corporate governance quotient index computed from 61 different issues	Correlation and Median (Least Squares Deviation) regression model	Well-structured corporate governance leads to better operating performance and valuation. But not with already regulated industries
18	Chidambaran et al (2007)	6000 US firms for the period 1992-2002	• Stock Returns • ROA • Accounting profit	• Board size • No. of outsiders • Freq. of meeting • Stock options • Institutional shares • Insider shares	• T-test • Wilconxon rank-sum • OLS • Chi-square	Firms with good governance do not have better performance than firms with bad governance changes
19	Adenikinju and Ayonrinde (2001)	Non-financial Nigerian Listed firms	ROA and TQ	Measures of Ownership and insider concentrations	OLS	Ownership structure is not a major determinant of firms performance in Nigeria
20	Adenikinju (2005)	60 non-financial Nigerian firms (1993-2002)	ROA, TQ, Price of Equity	• Managerial characteristics • Board size&Composition • No.of Meeting/yr • Concn. Index • Ownership mix • Company size • Leverage	Correlation, fixed effect& random effect	CEO compensation& institutional shares have positive effects on firm performance while concentration ratio is negatively related
21	Magbagbeola (2005)	66 Nig. Banks from 1999-2004	ROA, ROE	• Board size • Outside directors • Exco. Tenure& succession	Panel regression	An inverse relationship between board size&bank financial performance, 10-man board&5-year term of CEO recommended
22	Sanda et al, 2005).	A sample of 93 firms quoted on the NSE (199699)	P-E-ratio, ROA, ROE, TQ	• Directors' shareholding • Board size • Outsiders on board • Ownership concn • Leverage • Firm size • CEO status	OLS	Separating the posts of CEOs&Chair, Leverage, Foreign CEO and 10-man board aid performance, but outside director is insignificant
23	Adelegan (2007b)	All companies listed on the 1st &2nd tiers securities mkt that made changes in their board composition during 1997-2005	Abnormal securities returns	• Type of board change	Test of means	Board changes have information content which is reflected in share price behaviour and this is proportional to the type of change of board of directors.

Source: Author's investigation and compilation

4. Theoretical Framework and Methodology

4.1. Theoretical Framework

Corporate governance encompasses several issues and dimensions of firms which makes applicable a number of theories and their variants. The neo-classical ***Theory of the Firm*** as the traditional theory is erected on the assumption of the firm as an operating unit set out to maximise profit subject to the constraints imposed by the costs. The theory postulates that once firms continue to substitute cheaper inputs for expensive ones until the ratios of their marginal productivities to their prices are equalised and the bordered Hessian determinant is greater than zero, a firm automatically satisfies its objective function of profit-maximisation, which according to this theory, is the sole objective firms seek to optimise. In the ***Stakeholders Theory***, authors like by Freeman (1984), Donaldson and Preston (1995), Frooman (1999), Hill and Jones (1992), and Phillips (2004) have proposed that the interest of other constituencies are equally important and therefore, managers should make decisions that take account of the interests of all the stakeholders in a firm.

In his effort to show that the stakeholder theory is never a legitimate contender to value maximisation, Jensen (2000, 2001) propounded the ***Enlightened Stakeholder Theory*** which argues that value maximization provide corporate managers with a single objective whereas stakeholder theory directs corporate managers to serve 'many masters'. Moreover, without the clarity of mission provided by a single-valued objectives function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency and perhaps even competitive failure.

The Agency Theory also known as the Principal-Agent problem deals with the conflict that ensue as a result of the arrangement called firm. It refers to the variety of ways in which agents, linked by contractual arrangements with a firm, influence its behaviour. These may include organizational and capital structure, remuneration policies, accounting techniques and attitudes toward risk-taking. Agency

costs are deemed the total cost of administering and enforcing these arrangements (Jensen and Meckling, 1976).

Agency theory explains how best to organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1985). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, the two agency problems of adverse selection and moral hazard arises. The ***Multi-Task Principal-Agent Model*** by Holmstrom and Milgrom (1991) builds on the traditional agency theory. The multitask Principal Agent theory utilizes a linear principal-agent model which shows that an increase in an agent's compensation in any one task will cause some reallocation of attention away from other tasks. Another principal-agency problem arises in the form of ***Free Cash Flow.*** This is cash flow in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital. The problem is how to motivate managers to disgorge the cash rather than investing it at below the cost of capital or wasting it on organisational inefficiencies (Jensen, 1986). This version premises on assumption that managers have incentives to cause their firms to grow beyond the optimal size, since this raise their power and compensation. It therefore tries to identify firms activities that are likely to reduce the agency costs associated with free cash flow. Aghion and Bolton (1992) in their seminal paper extended the agency theory to the area of capital structure based on transactions costs and contractual incompleteness – ***Incomplete Contract.*** The main concerns of the theories are, first, whether and how the initial contract can be structured in such a way as to bring about a perfect coincidence of objectives between the entrepreneur (manager) and the investor. Second, when the initial contract cannot achieve this coincidence of objectives, how the control right can be allocated.

Theoretically, this work premises on the Agency Theory as discussed above. The choice is based on the fact that this theory, more than any other one, highlights and attempts to solve the major conflicts that ensue as a result of the arrangement called firm. Further, its treatment of debt and equity financing makes it most suitable for studying quoted companies' governance and performance structures. The focal input of this theory is the formal proof that the less the fractional ownership of a manager is in a corporation, the more he tends to appropriate larger amounts of the corporation resources in the form of perquisites and the more desirable for the minority shareholders to expend more resources in monitoring his behaviour (see Jensen and Meckling, 1976). Hence, corporate governance advocates factors like high directors' shareholding and stock options as aids to the first point above, while optimum board size, blockholding, institutional shareholding, leveraging, independent directors and audit members and the separation of the position of chairman and CEO are factors that make possible effective monitoring.

4.2. Methodology of the study

4.2.1 Model Specifications

Compare to some previous studies that employ correlation analysis, t-test and simple regression analysis (such as the Ordinary Least Square-OLS and probit regression), we adopt Fich and Shivdasani (2004) model (which is a panel regression model) to relate firm performance with some indicators of corporate governance. According to Fich and Shivdasani (2004), the oindicators of governance will significantly influence firm performance if the market perceives them as effective in aligning the incentives of corporate stakeholders. Panel data analysis permits the combination of both time series and cross section variations in firm level performance and other indicators. The use of panel data yields more precise and robust results and reduces the problem of multicollinearity among the explanatory variables. The use of panel data analysis in this study would make possible valid inferences beyond what can be done using only a single firm data (Baltagi, 1995; Hsiao, 2003; and Adewuyi and Godwin, 2007).

Thus, implicitly we have;

$$y_{it} = \alpha_{it} + \beta_t x_{it} + e_{it} \qquad (1)$$

Where y_{it} is the dependent variable and x_{it} and β_t are non-constant regressors and parameters for $i = 1,2, \ldots, 18$ cross-sectional units (industries). Each cross-section is observed for dated period $t = 1,2, \ldots,5$. Equation (1) which is explicitly specified in equations (2) and (3) is therefore estimated for each of the measures of performance by ***fixed effect*** and ***random effect*** regression techniques.

Panel A and B of table 4 below depict the variables used in this study along with their definitions and measurements.

Table 4. Variables, Definitions and Measurements

PANEL	VARIABLE	DEFINITION	MEASUREMENT
PANEL A: DEPENDENT VARIABLE	TQ	Tobin's Q	Market value of common equity plus book value of liabilities, divided by the book value of total assets.
	ROA	Returns on Assets	Net profit as a percent of total assets
	P-E	Price-Earning Ratio	Ratio of share price to earning per share

	ROE	Returns on Equity	Net profit as a percent of equity value.
PANEL B: INDEPENDENT VARIABLE			
	BS	Board Size	Number of directors on the board
	BOUT	Number of outside Directors on Board	Percent of non-executive directors
	DRS	Directors' Shareholding	Percent of total shares owned by the directors
	CONC.	Ownership concentration	Percent of shares held by the largest 5% shareholders
	AUD	Independence of the Audit Committee	Percent of independent members on audit committee
	CEO	CEO/Chairman	A dummy variable taking 1 if CEO is the chairman and 0 otherwise
	DEBT	Leverage	The ratio of debt to share capital.
	SIZE	Firm size	Total assets owned
	AGE	Years of incorporation	Years of incorporation till date

Source: Author's investigation and compilation

Preceding the explicit specifications, three important factors from the literatures are considered, these are;

i. Cross-sectional effects: There arises the need to take heterogeneity explicitly into account by allowing for industry-specific variables since the degree of influence of corporate governance may vary across industries (Gujarati, 2003; Adeninkinju, 2005; Fich and Shivdasani, 2004).

ii. Control variables: Usually in studies of this nature, the variable firm size is controlled for (Sanda, et al, 2005; Adenikinju, 2005; Magbagbeola, 2005; Lee et al, 2005 and Fich and Shivdasani, 2004). We also control for the years of incorporation of the firms.

iii. Non-linearities effect: Some corporate governance indicators like directors shareholdings, ownership concentration and board size have been shown to have non-linear impact on performance (Sanda, et al, 2005; Magbagbeola, 2005 and Lee et al 2005). Thus, we consider this in our specifications and estimations.

Fixed-effect Regression

$$perf = \gamma_1 bs + \gamma_2 out + \gamma_3 drs + \gamma_4 conc + \gamma_5 aud + \gamma_6 age + \gamma_7 ceo + \gamma_8 debt + \gamma_9 size + \gamma_{10} bs^2 + \gamma_{11} drs^2 + \gamma_{12} conc^2 + \sum_{1}^{17} \gamma_{13} Dum + u \quad (2)$$

Random effect Regression

$$perf = \theta_0 + \theta_1 bs + \theta_2 out + \theta_3 drs + \theta_4 conc + \theta_5 aud + \theta_6 age + \theta_7 ceo + \theta_8 debt + \theta_9 size + \theta_{10} bs^2 + \theta_{11} drs^2 + \theta_{12} conc^2 + \omega \quad (3)$$

See the sub-section on method of analysis below on why error term u changes to ω under the random effect specification. The above specifications are estimated for each of our four measures of performance, thus, in all we have eight different estimations.

4.2.2 Method of Analysis/Estimation

The descriptive analyses in terms of trends and structures of corporate governance and performances of the sample are first presented for the study period. Since industrial specific effect is expected, equations (2) and (3) are estimated in panel data models (the fixed and random effects models) while the better of the two is decided upon by the Hausman specification tests, heteroscedasticity-consistent estimators are also provided. The ***Fixed-effect*** estimator allows α_{it} in (1) to differ across industrial units by estimating different constant for each industry. This is done by subtracting the "within" mean from each variable and estimating OLS using transformed data.

$$y_t - \bar{y}_t = \beta((x_t - \bar{x}_t)' + (e_t - \bar{e}_t) \quad (4)$$

$$Where\ \bar{y}_t = \sum_{t=1}^{T} \frac{y_{it}}{T}; \bar{x}_t = \sum_{t=1}^{T} \frac{x_{it}}{T}; \bar{e}_t = \sum_{t=1}^{T} \frac{e_{it}}{T};$$

Note that equations 2, and 3 are only specified to capture the industrial fixed-effect, the time fixed-effect is not considered here for two reasons. First, corporate governance indicators have been shown to be time invariant (GIM, 2003; Core et al, 2005 and Johnson et al, 2005). The ***Random effect*** on the other hand, assumes that the term α_{it} is the sum of a common constant α and time-invariant variable u_t that is uncorrelated with the residual e_{it}. Therefore, instead of treating α_{it} as fixed, we assume that it is a random variable with a mean value of α_t. And the intercept value for an individual industry can be expressed as

$$\alpha_{it} = \alpha_t + \varepsilon_i \qquad i = 1,2, \ldots,17 \quad (5)$$

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Where ε_i is a random error term with a mean value of zero and variance of σ_ε^2

Substituting (5.5) into (5.1), we obtain;

$$y_{it} = \alpha_t + \beta_t x_{it} + \varepsilon_i + e_{it}$$

$$= \alpha_t + \beta_t x_{it} + \omega_{it} \quad (6)$$

$$\omega_{it} = \varepsilon_i + e \quad (7)$$

It is *a priori* expected that variables like the number of outsiders on the board, independence of audit members, firm size and separation of the roles of CEO and chairman positively correlate with performance (Sanda et al, 2005; Adenikinju, 2005; CPZ, 2007). However, other variables like board size, directors' shareholding, and ownership concentration have been shown in the literature to influence performance in a non-linear manner, that is, they increase performance to an certain extent, above which they start impacting negatively (see, Sanda et al, 2005; Magbagbeola, 2005).

4.2.3 Study Scope and Data sources

This study utilises data from 64 firms listed on the First-tier Securities Market of the Nigerian Stock Exchange, since this set of firms are under obligations to publish some essential information in their Annual Reports and Accounts. Excluded are the financial firms based on their different debt structure that are not comparable to that of other sectors (Adenikinju and Ayonrinde, 2001, Kyereboah-Coleman Biekpe, 2006). Another reason aiding their exclusion is the critical re-structuring the sector is currently undergoing. The study covers the period 2002 to 2006 (five financial years), which encompasses the years before and after the release in 2003 of the Code of Corporate Governance in Nigeria by Securities and Exchange Commission and Corporate Affairs Commission, thus allowing us to compare corporate governance and firm performance of Nigerian listed firms for the two periods.

5. Empirical Analysis

This section presents descriptive statistics both on indicators of corporate performance and governance. Also examined are the correlations between corporate performance and governance indicators. Thereafter, the analysis on the impact of corporate governance on performance is carried out.

5.1. Measures of Corporate Performance

Table 5.1 below summarizes the trend profiles of corporate performance of Nigerian listed firms over the period 2002-2006.The mean (median) values of the measures of performance by industry over the period 2002-2006 are presented. The mean (median) Tobin's Q of Nigerian Listed firms is 1.49 (1.10), Return on Assets is ₦6.31 (₦6.20), Price-Earning ratio has a mean (median) value of ₦12.06 (₦8.73), while the mean (median) Return on Equity is ₦1.03 (₦9.24). Looking within the industries, the petroleum and breweries sectors have the highest value (Tobin's Q) of 3.12 (2.84) and 2.95 (2.42) respectively, while the commercial services and machinery are observed to have the least value of 0.60 (0.51) and 0.63 (0.65) respectively (note that their small sample size may have implications on these values). In terms of Return on Assets, the top performers are the breweries, ₦12.67 (₦12.75) and Food, beverage and Tobacco, ₦10.27 (₦8.03). However, during this study period, industries like computer and construction recorded negative (least) return on assets, which amounted to a mean (median) of - ₦8.94 (-₦0.79) and, - ₦4.42 (N1.26) respectively.

Average Price-earning ratio for listed firms is ₦12.06 (₦8.73). The petroleum sector ranks highest with mean (median) value of ₦29.82 (₦25.27) closely followed by breweries and Food, Beverage and Tobacco, with ₦20.82 (₦19.19) and ₦20.25 (₦13.09) respectively. The machinery sector recorded the least mean (median) price-earning ratio of ₦7.96 (₦6.08).

Table 5. Measures of Corporate Performance (2002-2006)

SECTOR	No. of Firms	Firm-Year	TQ	ROA (₦)	P-E (₦)	ROE (₦)
Agriculture	3	15	1.75 (1.59)	8.21 (7.93)	9.75 (11.29)	8.08 (7.76)
Automobile and Tyre	4	20	1.25 (0.94)	7.68 (5.59)	6.68 (3.42)	14.98 (9.70)
Breweries	3	15	2.95 (2.42)	12.67 (12.75)	20.82 (19.19)	4.38 (2.87)
Building materials	6	30	1.51 (1.13)	4.23 (4.36)	13.47 (7.79)	2.09 (8.18)
Chemical Paint	5	25	1.28 (1.05)	10.04 (7.85)	8.21 (7.89)	16.63 (13.27)
Commercial Services	1	5	0.60 (0.51)	5.81 (0.01)	8.60 (9.50)	21.08 (10.85)
Computer	3	15	1.20 (1.19)	-8.94 (0.79)	1.00 (2.25)	7.43 (4.64)
Conglomerates	5	25	1.51 (1.18)	7.80 (8.24)	13.05 (8.45)	20.92 (9.87)
Construction	3	15	1.02 (1.06)	-4.42 (1.26)	7.07 (6.94)	-318 (6.88)
Food, Beverages and Tobacco	6	30	1.81 (1.47)	10.27 (8.03)	20.25 (13.09)	9.54 (5.44)

Health Care	4	20	1.07 (0.94)	6.08 (5.43)	11.74 (10.5)	12.11 (11.59)
Industrial and Domestic	5	25	1.16 (1.02)	7.49 (6.40)	3.69 (5.98)	16.60 (12.19)
Machinery	1	5	0.68 (0.63)	2.98 (0.57)	-7.96 (6.08)	12.93 (7.18)
Packaging	3	15	0.66 (0.65)	6.03 (2.52)	5.60 (4.51)	12.99 (13.31)
Petroleum	6	30	3.12 (2.84)	9.30 (9.13)	29.82 (25.77)	4.89 (3.99)
Publishing	3	15	0.12 (0.94)	7.21 (7.10)	7.81 (6.29)	13.60 (13.30)
Real estate	1	5	0.85 (0.65)	3.29 (3.17)	13.88 (11.36)	8.22 (9.73)
Textile	2	10	0.90 (0.63)	6.79 (1.79)	6.47 (7.79)	17.09 (13.02)
AVERAGE TOTAL	64	320	1.49 (1.10)	6.31 (6.20)	12.06 (8.73)	11.03 (9.24)

Note: median values in parentheses.

Source: Author's computations: underlying data are obtained from Companies' Annual Reports and NSE Factbook (various issues).

The commercial services and conglomerates sectors record the highest Return on Equity, ₦21.08 (₦10.85) and ₦20.92 (₦9.87) respectively, while construction, ₦3.18 (₦6.88) and building materials, ₦2.09 (₦8.18) paid least per equity.

5.2. Measures of Corporate Governance

Table 6 depicts Nigerian listed firms as having a 9-member board on the average. The mean (median) outsider on board is 38% (37.5%), director shareholding is 9.79% (1.29%), and ownership concentration has a mean (median) value of 55.19% (50.00%). Also depicted is that firms are levered to the tune of 4.83% (1.63%) of their share capital. Majority (97.3%) of CEOs are not the chairs of their firms while the average size of firms is ₦14.3b with a median of ₦3.24b.

By industry, the mean (median) board size is least in the computer sector (6 members) and highest in breweries (12 members). The machinery, textiles, petroleum and breweries have the highest percentages of independent directors of 77.78% (77.78%), 58.78% (60.00%), 56.91% (54.70%) and 52.27% (56.09%) respectively, while commercial services and real estate score the least percentage of 6.44% (10%) and 9.52% (14.29%) respectively. Directors' shareholding is highest in commercial services, 38.55% (50.93%) and least in the real estate sector, 0.34% (0.32%). Ownership concentration on the other hand, primes in the real estate, 98% (98%) and lowest in the publishing industry, 18.43% (11.22%).

The percentages of independent audit members among the industries cluster around 50%, with textile having the highest of 62.38% (66.67%) and Automobile and Tyre having the least value of 45.21% (50%). The most levered industry is breweries 14.99% (13.25%) and publishing is the least levered, 0.65% (0.54%). In terms of size, the breweries sector has the largest mean (median) value of ₦86.2b (₦54.9b) and machinery least, ₦0.598b (₦0.544b).

Table 6. Measures of Corporate Governance (2002-2006)

SECTOR	No. of Firms	Firm-Year	Board Size	Outsider on Board (%)	Director Shareholding (%)	Ownership Concentration (%)	Audit Independence (%)	Leverage (%)	CEO Status (%)	Size (₦'b)
Agriculture	3	15	9.27 (10)	44.08 (50.00)	5.99 (5.35)	74.14 (67.00)	48.22 (50.00)	3.68 (4.39)	100	3.93 (4.10)
Automobile and Tyre	4	20	7.94 (8.00)	44.41 (50.00)	10.85 (2.02)	68.09 (61.44)	45.21 (50.00)	8.04 (5.30)	100	3.74 (1.96)
Breweries	3	15	12.40 (13.00)	52.27 (56.09)	2.50 (0.11)	57.31 (53.95)	50.00 (50.00)	14.99 (13.25)	100	86.2 (54.9)
Building materials	6	30	9.40 (13.00)	52.27 (56.09)	2.50 (0.11)	57.46 (63.73)	53.53 (50.00)	6.69 (2.44)	100	13.7 (6.32)
Chemical Paint	5	25	7.95 (8.00)	24.40 (18.33)	3.76 (1.27)	42.67 (48.40)	49.50 (50.00)	1.00 (0.77)	100	1.31 (1.18)
Commercial Services	1	5	9.00 (9.00)	6.44 (10.00)	38.55 (50.93)	32.97 (38.58)	50.00 (50.00)	9.20 (9.20)	100	1.51 (1.56)
Computer	3	15	6.36 (6.00)	25.93 (25.00)	11.35 (1.41)	-	50.91 (50.00)	1.65 (1.28)	81.8	0.947 (0.394)
Conglomerates	5	25	9.65 (9.50)	33.77 (36.67)	0.71 (0.63)	44.10 (50.00)	48.79 (50.00)	1.92 (1.02)	100	2.47 (1.51)
Construction	3	15	9.21 (10.00)	38.73 (41.67)	4.25 (4.60)	61.57 (66.48)	50.00 950.00)	6.68 (6.40)	100	18.4 (32.6)
Food, Beverages and Tobacco	6	30	10.85 (11.50)	44.94 (41.67)	3.82 (0.15)	59.70 (61.49)	51.67 (50.00)	5.96 (4.73)	100	20.5 (21.8)
Health Care	4	20	8.60 (8.50)	20.04 (16.67)	27.73 (15.22)	39.16 (37.92)	50.00 (50.00)	4.49 (1.12)	100	2.27 (1.62)
Industrial and Domestic	5	25	7.35 (7.00)	37.86 (33.33)	8.83 (1.29)	57.18 (60.00)	55.50 (50.00)	0.80 (0.64)	100	1.60 (1.1)

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Machinery	1	5	9.00 (9.00)	77.78 (77.78)	4.30 (4.28)	69.00 (69.00)	50.00 (50.00)	2.43 (0.27)	100	0.598 (0.544)
Packaging	3	15	8.77 (7.00)	44.75 (50.00)	17.95 (2.29)	55.77 (74.00)	50.00 (50.00)	9.18 (7.41)	79.2	3.97 (2.62)
Petroleum	6	30	9.83 (10.00)	56.99 (54.70)	0.10 (0.05)	68.21 (69.84)	50.42 (50.00)	9.18 (7.41)	79.2	19.7 (18.0)
Publishing	3	15	8.85 (9.00)	14.77 (11.11)	32.73 (26.41)	18.43 (11.22)	50.00 (50.00)	0.65 (0.54)	100	0.651 (0.592)
Real estate	1	5	7.33 (7.00)	9.52 (14.29)	0.34 (0.32)	98.00 (98.00)	50.00 (50.00)	7.68 (10.66)	100	23 (25.2)
Textile	2	10	12.57 (15.00)	58.78 (60.00)	10.63 (5.99)	60.62 (57.00)	62.38 (66.67)	4.11 (4.21)	100	11.2 (12.0)
AVERAGE TOTAL	64	320	9.10 (9.00)	38.00 (37.5)	9.79 (1.29)	55.19 (60)	50.79 (50.00)	1.83 (1.63)	97.3	14.3 (3.24)

Note: median values in parentheses.
Source: Author's computations: underlying data are obtained from Companies' Annual Reports and NSE Factbook (various issues).

From the foregoing, two important points are worth noting. First, most firms that do well in their governance issues can also be associated with high performance measures, in this class are the Breweries and Petroleum sectors thereby suggesting sectoral fixed-effect of governance on performance. However, in the second case, the trend patterns of most governance indicators are haphazard and inconsistent across sectors as there is absence of synchronization of governance issues. Thus, the question arises whether Nigerian listed firms strive at accomplishing the provisions of any code in the immediate years following the release of such a code.

6.3. Correlation Analysis

A preliminary analysis of the relationship between governance and performance indicators was conducted using the results of the Pearson Product Moment Correlation (PPMC) presented in Table 7 below.

Board size is noted to be positively related with all performance indicators, however, significant association are found only in the case with Price-Earning Ratio. A priori, increase in board size at low level is expected to have a positive relationship with performance while at large board size level, a rise in the board size is expected to inversely associate with performance. Increasing board size has the tendency of diversifying the board for better performance. However, the negative and significant relationship of board size with adjusted TQ (by adjusted, we mean firm's performance minus industry median performance value) points to the fact that adjusting for some firms differentials may change the direction of relationship. The regression analyses in later sections would provide a clearer picture.

Table 7. Correlation between Measures of Governance and Performance

		CORPORATE GOVERNANCE						
		BS	OUT	DRS	CONC	AUD	DEBT	SIZE
CORPORATE PERFORMANCE	TQ	0.028 (-0.117*)	0.219*** (0.068)	-0.250*** (-0.120)	0.196*** (0.113*)	-0.026 (-0.001)	0.020 (0.178***)	0.101 (-0.028)
	ROA	0.072 (0.018)	-0.009 (-0.039)	-0.029 (0.015)	0.014 (0.023)	-0.060 (-0.047)	0.056 (0.004)	0.021 (-0.029)
	P-E	0.196*** (0.086)	0.120* (0.021)	-0.138** (-0.071)	0.046 (-0.001)	0.146** (0.156**)	0.055 (-0.092)	0.147** (0.045)
	ROE	0.022 (0.066)	-0.159** (-0.099)	0.039 (-0.023)	-0.119* (-0.0061)	0.012 (-0.002)	-0.013 (0.048)	-0.088 (-0.36)

Note: Pearson r for adjusted values in parentheses and *, **, *** indicates significance at the 0.1, 0.05 and 0.01 respectively.
Source: Author's computations: underlying data are obtained from Companies' Annual Reports and NSE Factbook (various issues).

Percentage of outsiders on board co-vary significantly with TQ and P-E but negatively with ROE and ROA, though insignificantly with the latter. Outsiders on board are expected to support unprejudiced decisions that are value-raising. Directors shareholding possess an inverse relationship with performance measures, this relationship is significant with TQ and P-E. This may be expected at some low level of directors' shareholding; however at higher levels of directors' shareholding, a direct relationship is expected. Therefore, a non-linear association is expected between Directors' shareholding and performance, this also holds for Board Size and ownership concentration.

Concentration is observed to positively associate with performance, except for the case of ROE. The relationship with TQ are significant. Higher concentration of ownership is expected to aid performance as large holders pay close attention to the management of their high stakes Percentage of independent audit membership positively correlate with P–E, and ROE. Only the relationship with P – E is significant at 5% level. The relationship is negative (though insignificant) with other performance indicators as well as for almost all the adjusted values. Leverage significantly and positively correlate with performance indicators except ROE. Relationships with adjusted T-Q are significant at 1%. Higher gearing ratio is theoretically expected to enhance

performance as creditors attempt to see to the shrewd utilization of advanced credits. Lastly, firm size is positively related with TQ, ROA and P–E , but negatively related with ROE and Adjusted values of TQ, ROA and ROE. However, of significance to note is that larger firms are more productive and they have higher price earning ratio.

5.4. Regression Analysis

To verify the impact of the industrial levels of corporate governance on firms' performance, Table 8 below presents the estimation results of equations (2) and (3).

F-ratios of the eight different estimations as shown in Table 8 below indicate their significant prediction respectively. However, the TQ and PE models are noted to fit better than the other two, judging from the adj-R^2. In addition, the Hausman specification test indicates the superiority of fixed effect modelling of the ROE models. However, for the TQ, ROA and P-E models, both the fixed & random effects specifications are statistically indifferent.

Table 8. Regression Results of the Effect of Corporate Governance on Firm Performance

REGRESSORS	TQ		ROA		P-E		ROE	
	FIXED EFFECTS	RANDOM EFFECTS	FIXED EFFECTS	RANDOM EFFECTS	FIXED EFFECTS	RANDOM EFFECTS	FIXED EFFECTS	RANDOM EFFECTS
INTERCEPT	-	2.568198**	-	-13.90827	-	-16.10747	-	-22.51373
BS	-0.169995	-0.152637	2.746112	2.783754*	1.642061	1.761070	5.979471*	5.361988**
OUT	0.000537	0.001598	-0.076018*	-0.074827**	-0.049824*	-0.045765	-0.160617**	-0.159580***
DRS	-0.021834**	-0.023759**	0.132406	0.130805	0.073137	0.037622	-0.117941	-0.115658
CONC	0.010433	0.015606	0.284520**	0.288909**	0.085110	0.115207	0.023798	0.001557
AUD	-0.008757	-0.009725	-0.036930	-0.038823	0.275507***	0.265280**	0.176362	0.172185
CEO	0.779601	0.995201***	7.372308**	7.210613*	1.466701	3.207511	2.712415	1.356691
DEBT	-0.040617***	-0.033798***	0.097950	0.093105	-0.171402	-0.145869	0.349682**	0.244892
SIZE	$3.00x10^{-06}$	$5.14x10^{-06}$	$-3.96x10^{-06}$	$-7.50x10^{-06}$	0.000206***	0.000206***	-0.000113*	-0.000120*
AGE	0.005126	0.004027	0.013424	0.020886	0.048062	0.050405	0.058874	0.084994
BS^2	0.005577	0.005493	-0.125563	-0.126150*	-0.074429	-0.075609	-0.268093	-0.241049*
DRS^2	0.000264**	0.000278*	-0.002352*	-0.002323	-0.000505	-0.000137	0.000985	0.001319
$CONC^2$	-0.000114	-0.000146	-0.001899*	-0.001933*	-0.000949	-0.001126	0.000627	0.000533
$\overline{R}^2$	0.403054	0.430229	0.193024	0.248262	0.383108	0.421244	0.108633	0.157174
F-RATIO(WALD χ^2)	6.960317***	(37.5300***)	3.111508***	(17.75000*)	6.482198***	(27.1000***)	2.075843***	(23.21000**)
HAUSMAN TEST (χ^2)	12.57		0.21		-10.83		57.32***	

Note: *, **, *** indicates significance at the 0.1, 0.05 and 0.01 respectively.
Source: Estimations: underlying data are obtained from Companies' Annual Reports and NSE Factbook (various issues).

In terms of significant impacts, directors shareholding is observed to exert a non-linear effects of the TQ model as the negative impact of directors' shareholding at lower level is reversed when it becomes substantial. Thereby suggesting more efficient monitoring roles of directors at their high stake of holdings. Highly levered firms exhibit lower TQ. This is unexpected as credit-giving institutions are supposed to aid performance through supervision of project and credit management. It is likely that the credit institutions in Nigeria fail in their effective monitoring and or such monitoring levels are too low to reflect in firm value. Although combining the roles of a firm chairman & CEO in one person is discouraged by the SEC and CBN codes on the basis that it is likely to adversely affect proper decision making, our findings differ as CEOs who are also the chairs of their firms report higher TQ. A probable explanation is that such CEOs effectively monitor the firms activities especially when they are significant shareholders.

Using ROA as a measure of performance, the effect of board size meets our a priori expectation, as initial increase in the number of persons on the board of Nigerian companies raises ROA, however, beyond a certain point, increases in board size adversely impact on ROA. This is in consonance with Ncube (2006) observation that the larger the board, the more diversified is its capacity for effective monitoring, however, at a certain high level, a large board may distort the flow of quality communication, as also established by Sanda et al (2005) for Nigeria case. Further, the negative impact of outsiders on board may support Gillan (2001a) view that high-powered executives may influence part-time directors into creating a systematic bias towards the management.

Increasing ownership concentration initially raises ROA but later reduces it. A likely explanation is that initially at higher concentration shares, pressures are mounted on managers in ways that are value-maximizing (Sanda et al, 2005). However, at some high level of ownership concentration, undue influence may be created over management to secure

benefits that are detrimental to the firm value (Shleifer and Vishiny, 1997; and Teriba et al, 1977). CEOs doubling as chairs aid performance, as already established under TQ models.

In the P-E models, the effect of independent directors as given under ROA is still established. In addition, independent audit membership significantly aid P-E as the independent members of the audit committee have the tendency to aid in value-maximising monitoring. The effect of these on P-E is size also observed to be size dependent.

On ROE, board size exerts a non-linear effect on performance as already discussed under ROA, independent directors exert a negative impact and finally, debt is observed to boost ROE. This may that large creditors usually see to it that their funds are appropriately channelled. Moreover, firm, with the knowledge that they may still approach the creditors in the future, strive at prudence. This is consistent with the findings of Sakai and Asaoka (2003) and Sanda et al (2005).

5.5 Comparison of Findings of this current study and Previous Related Studies on Nigeria

An attempt to see the value added of this study (in terms of its methodological approach and scope) is to compare the findings with those of previous related studies. Table 9 below summarises the findings of this present work vis-à-vis related studies in Nigeria for easy comparisons. An important point to note is that our results are most comparable with those of Sanda et al (2005) as Adenikinju (2005) does not consider the non-linearity effects of some governance mechanisms, which is a likely explanation for some differences in the results of these two previous studies. The major area of divergence between this study and Sanda et al (2005) is the effect of CEO status on performance. They found the process of separating the roles of CEO and Chair as value-enhancing. However, in the current study, our finding is contrary. A likely explanation is that in the immediate years after the release of the Code, firms which have their CEO also doubling as the chair of their boards, employ such status in effective monitoring, thereby leading to enhanced performance. Thus, it seems that the scope of the study, which covers some of the period of the release of the new code, is responsible for the difference observed between this current study and the previous.

Table 9. Summary of findings of this current study Vis-à-vis Related Studies

	Author(s)	Sample and Period	Dependent variable	Independent variable	Statistical methods	Main results
1	Adenikinju and Ayonrinde (2001)	Non-financial Nigerian Listed firms	▪ ROA ▪ TQ	Measures of Ownership and insider concentrations	OLS	Ownership structure is not a major determinant of firms performance in Nigeria
2	Adenikinju (2005)	60 non-financial Nigerian firms (1993-2002)	ROA, TQ, Price of Equity	•Managerial characteristics •Board size&Composition •No.of Meeting/yr •Concn. Index •Ownership mix •Company size •Leverage	Correlation, fixed effect& random effect	CEO compensation& institutional shares have positive effects on firm performance while concentration ratio is negatively related
3	Magbagbeola (2005)	66 Nig. Banks from 1999-2004	ROA, ROE	•Board size •Outside directors •Exco. Tenure& succession	Panel regression	An inverse relationship between board size&bank financial performance, 10-man board&5-year term of CEO recommended
4	Sanda et al, 2005).	A sample of 93 firms quoted on the NSE (199699)	P-E-ratio, ROA, ROE, TQ	• Directors' shareholding • Board size • Outsiders on board • Ownership concn • Leverage • Firm size • CEO status	OLS	Separating the posts of CEOs&Chair, Leverage, Foreign CEO and 10-man board aid performance, but outside director is insignificant
5	Adelegan (2007b)	All companies listed on the 1st &2nd tiers securities mkt that made changes in their board composition during 1997-2005	Abnormal securities returns	• Type of board change	Test of means	Board changes have information content which is reflected in share price behaviour and this is proportional to the type of change of board of directors.
6	Current Study (2008)	64 non-financial Nigerian listed firms for the period 2002 to 2006	TQ, ROA, P-E, ROE and Labour Productivity	• Board size • Outsiders on board • Directors' shareholding • Blockholding	Panel regression, Correlation and Tests of Means	Generally, the size of boards sitting on Nigerian firms and ownership concentration impact on their performance in an expected non-linear mode. Higher independent directors and directors' portion of shares unexpectedly dampen performance,

				• CEO-Chairman duality • Independence of audit membership • Debt		independent audit membership aid only the price earning ratio, while firms vesting both the roles of CEOs and chairs in the same individual perform better. Leverage is noted to boost return on equity but dampen firms Tobin's Q

Source: Author's investigation and computation

6. Summary of findings, conclusion and policy lessons

Firm governance has both been theoretically and empirically proven to aid performance. This work therefore joins others to verify this using recent data on Nigeria encompassing the era of the newly released code of corporate governance in the country. Our findings show that corporate governance issues are still rudimentary in Nigeria. However, despite a weakly-efficient capital market and regulatory bodies, several commendable efforts have been made at rejuvenating corporate governance.

Our empirical findings on the other hand, show that elements of corporate governance, as used in works of this nature and also stated in the Code of Corporate Governance (2003) for Nigeria, somewhat impact on firm performance, though some in unexpected directions. Results also differ according to the measure of performance employed. Nonetheless, generally, the size of boards sitting on Nigerian firms and ownership concentration impact on their performance in an expected non-linear mode. Higher independent directors and directors' portion of shares unexpectedly dampen performance, independent audit membership aid only the price earning ratio, while firms vesting both the roles of CEOs and chairs in the same individual perform better. Leverage is noted to boost return on equity but dampen firms Tobin's Q. Further, our results are not dependent on the number of years a firm has been listed, however, the firms' sizes in some cases affect the nature of relationships between governance and performance.

Having established the relevance of governance variables of governance variables to firm performance, we recommend the following.

The optimization of board size and composition is desirable for performance especially in a setting like Nigeria with weak takeover market. This should be determined such that decision management and decision control are separated unless decision makers have a significant ownership stake in corporate cash flows. The board size of companies should be big enough to display a good spread of monitoring skills of the board and enhance its effectiveness. However, it should be small enough to allow quality communication within the board. In composition, independent board membership should be encouraged, as this enables directors to act without relying solely on initiatives from a management. Further, there should be periodic meetings, without management, of the independent directors and formal rules or guidelines establishing an independent relationship between the board and management enacted

Appropriate incentive scheme tied to performance should be made to increase firm value through value-adding efforts. We suggest that:

- Boards can require that CEOs become substantial owners of company stocks.
- Salaries, bonuses and stock options can be designed to provide big rewards for superior performance and big penalties for poor performance.
- The threat of dismissal for poor performance can be made real. But this should be done carefully, lest the public lose confidence in the company.

On the part of the managers, efforts should be concentrated on developing and executing a solid long-term business strategy, rather than slavishly focusing on accounting earnings.

However, in designing such an incentive scheme, as pointed out in the literature, it should not be tied to near-term earnings growth since this encourages excessive risk taking as well as business decisions geared towards propping up earnings. Any system in which managers participate in annual profits but not losses can encourage excessive risk taking.

Board members should equally be incentivized; however, such incentives should not make seemingly independent directors support risky investments that are likely to push up share prices, as this may be counterproductive. Lastly, shareholders should have a say in stock-option plans that have the potential to dilute their voting power and wealth.

The mechanism of debt should be exploited by firms desirous of expansion as this aids monitoring process. Though debt also has its own costs, firms need determine their optimal debt-equity ratio in order to maximize returns from such activities. Firms should strive at incorporating governance measures that are value-enhancing. However, noting the diverse availability and direction of impacts of these measures, it is pertinent to harmonise them. For instance the benefits derivable from a good governance measure like increase in directors' shareholding can easily be lost to an indiscriminate expansion of board size.

The regulatory authorities enact and see to the compliance of rules and regulations governing corporations. No doubt, relevant rules are enacted; however, this may not guarantee adoption. Thus, regulatory bodies should ensure that the current organizational architecture of the Nigerian listed companies engenders proper governance. We notice

from our regression results that a sizeable number of estimations depict negative influence of board and audit membership independence on performance, this is unexpected, and we therefore urge the authorities to ensure that the boards of Nigerian firms are not expanded for political or other reasons.

In line with the findings of CPZ (2007), our findings show that the relationship between governance, observable and unobservable firms characteristics and corporate performance, is intricate and may not be amenable to a sort on any single governance measure or firm characteristics. Therefore, the same policy prescription on corporate governance is likely to be sub-optimal. Finally, if not in regulation, perhaps in suasion, Nigerian firms should be made to disclose more governance issues in their annual reports for adequate evaluation by current and prospective investors and researchers.

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Appendix

List of firms

AGRICULTURE	Livestock feeds, Okomu, Presco
AUTOMOBILE & TYRE	BEWAC, Briscoe, Dunlop, INCAR
BREWERIES	Guinness, International Breweries, Nigeria Breweries
BUILDING MATERIALS	Ashaka Cement, Benue Cement, Cement of Northern Nigeria, Nigeria Ropes, NWC, W/A Portland Cement
CHEMICAL PAINT	Berger, CAP, DN Meyer, IPWA, NGC
COMMERCIAL SERVICES	Trans N.E
COMPUTER	NCR, Thomas Wyatt, Triple Gee
CONGLOMERATE	John Holt, P.Z, Scoa Nig, UAC, Unilever
CONSTRUCTION	CAPPA & D'ALBERTO, Costain, J. Berger
FOOD, BEVERAGE & TOBACCO	Cadbury, Flour mill of Nig., NBC, Nestle Nig, Northern Nig., Flour, Union Dicon salt
HEALTH CARE	Evans, May & Baker, Morison, GSK
INDUSTRIAL& DOMESTIC	BOC Gases, First Aluminium, Nig. Enamelware, Vitafoam, Vono
MACHINERY	BHN
PACKAGING	Avon, Beta Glass, Van Leer
PETROLEUM	A.P, Conoil, Mobil, Oando, Texaco, Total
PUBLISHING	Academy Press, Longman, University Press
REAL ESTATE	UACN Property
TEXTILE	Afprint, United Nigeria Textiles