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CORPORATE GOVERNANCE PRACTICES AND FINANCAL PERFORMANCE OF NIGERIAN COMPANIES

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ABSTRACT

The objective of this study was to investigate the impact of corporate governance practices on the financial performance of listed companies in Nigeria. The study encompassed three industries: manufacturing, finance, and oil and gas, spanning the years 2010 to 2020. Employing a content analysis approach, data were collected from corporate websites and the Securities and Exchange Commission website. A total of 33 businesses were selected for the study. The study's analysis revealed that a majority of the corporations disclosed the majority of their corporate governance policies. Notably, the banking industry exhibited the highest level of corporate governance disclosure compared to other sectors. This implies that a company's decision to publish its corporate governance information online in Nigeria might be influenced by the regulatory environment of the sector. However, intriguingly, the research did not establish a correlation between a company's corporate governance score and its financial performance. Nevertheless, there was notable variation in the extent of corporate governance reporting across different sectors. In light of these findings, the report recommends that the Securities and Exchange Commission's code of best practices should be made obligatory for all industries in Nigeria. Furthermore, the establishment of a compliance team is advised to ensure that businesses across all sectors in Nigeria adhere to the regulatory mandates outlined in the code of corporate governance.

1. INTRODUCTION

1.1 Background to the Study

Corporate governance plays a vital role in ensuring that businesses operate in the best interests of their owners, stakeholders, and the general public. This is particularly crucial in Nigeria, given the recent high-profile corporate failures and financial scandals. To address this, the Nigerian Code of Corporate Governance (NCCG) was adopted by the Nigerian Stock Exchange (NSE) in 2018, providing a framework for businesses to follow best practices in corporate governance and enhance standards in listed companies.

Corporate governance refers to the control of corporate policy through the power legally vested in a group or groups of people to chart a course of action to be followed by the organization in areas of fundamental importance to its survival, prosperity and proper functioning (Akintoye, 2010). It includes the mode of structure, the power that determines the right and responsibilities of the various groups involved in running the organization, the legitimate expectation of the business, the operating method and the overall accountability of management and of the directors and its subordinates also to other interested groups (Ajionkoye, 2014); Akinsulire, 2006).

The financial crisis around the world and the consequent collapse of major corporate institutions in both developed and developing economies which Nigeria is not exempted has brought to the fore the issue of corporate governance (Nwonye, et al, 2020). Today, corporate governance has attracted considerable attention of policy makers and academic researchers across the globe. Ebenezer and Omoneye (2014), emphasized on the need for the practice of good governance both at the public and private enterprises and this is due to the economic primacy/importance of publicly quoted firms in most economies. Corporate governances increasingly understood among policy makers as a value enhancing strategy in a competitive business environment and there is a growing consensus globally that corporate governance has a positive link to national growth and development (Onodugo, Anowor, Ukwueni & Ibiam, 2014).

Definitely, the need to ensure corporate structure that can sustain credibility in the management of stakeholders' resources, maintenance of effective communication, transparency and accountability is a crucial issue among corporate organizations around the world. This is mainly because corporate governance has over the years positioned the discourse of governance on the front line of corporate performance. Corporate governance is fundamental to corporate operations, because it is the binding glue between structural and fundamental wings that defines how an organization is being managed and directed towards optimality (Irine & Indah, 2017). Corporate governance connects to the composition of an organization in persons, ideology, business fundamentals and operation in the quest to ensure operational credibility, transparency and effective communication business ideals to stakeholders. Therefore, it is principally a mechanism put in place to help harmonize the interest of business stakeholder with the dynamics of business dealing (Ajala, Amuda, & Arulogun, 2012).

1.2 Statement of the Problem

The alarming rate of corporate failures as witnessed globally has been a source of worry to both the academic, stakeholders, shareholders, captains of industries, investors and indeed the general public; the failures have known no boundary as it cuts across both the very big organizations and the very small corporate entities especially financial industries. Many problems have affected corporate governance practice in developing countries, thus weak law enforcement, abuse of shareholders' rights, lack of responsibilities of the boards of directors, weakness of the regulatory framework, poor enforcement of set accounting standard such as GAAP, IFRS IAS among others to the quoted firms, lack of enforcement and monitoring systems, and lack of transparency and disclosure (Okpara, 2011).

Wanyama, Burton and Helliar (2009) asserts that the effects of several factors on corporate governance, including: political, legal, regulatory and enforcement frameworks; social and cultural factors; economic environment; accounting and auditing framework; corruption and business ethics; governmental and political climates. Furthermore, Kaur and Mishra (2010) posit the reasons for the failure of corporate governance by the company directors and other chief executives, which they attributed to be the following; lack of incentives, poor external monitoring systems, weak internal control and ineffective top leadership among others. In Nigeria perspective a study was carried by Sanda, and Mukaila and Garba, (2005) and Ogbechie (2006) all on corporate governance mechanisms and firms' performance and the story was the same on the problem of corporate governance. It analyzed the level of compliance of code of corporate governance in Nigerian banks with the Central Bank of Nigeria code of corporate governance. In a nutshell this study seeks to explore the influence of corporate governance practices on the financial performance of Nigerian companies listed between year 2010 and 2020.

1.3 Statement of Hypotheses

i. Board size has no significant effect on Return of Asset of firms in Nigeria
ii. Board composition does not have a significant effect on Return of Asset of firms in Nigeria
iii. Board Independence does not have a significant effect on Return of Asset of firms in Nigeria
iv. Audit Committee Independence has no significant effect on Return of Asset of firms in Nigeria

2. LITERATURE REVIEW

2.1 Concept of Corporate Governance

Two terms come to mind in the definition of Corporate Governance, to wit: Corporate and Governance. According to the Corporate Finance Institute (2022), a corporate entity is created by individuals or shareholders with the purpose of operating for profit. On the other hand, Governance in this context, 'encompasses the system by which an organization is controlled and operates, and the mechanisms by which it, and its people, are held to account. Ethics, risk management, compliance and administration are all elements of governance. Corporate Governance is the way in which a company is directed and controlled its business activities. This is to ensure that companies comply with the corporate governance code as amended by the Security Exchange commission September 2008 and thereafter 2014.

The history of corporate governance in Nigeria is not different from the rest of the world due to records of some misfortune, sharp practices of misappropriations either by the chief executives, auditors and accountants through window dressing and creative accounting (Ebe & Ubese, 2020). The collapses of notable industrial and financial giants such as Enron, Worldcom, Parmalat, among others as well as the rate of earnings restatements and claims of earnings manipulation by chief executives of failed corporations resulted in a number of Corporate Governance reforms and enactments all over the world. As a result of the witnessed collapse of some companies and industries relevant laws were enacted to prevent such ugly incidence, thus; the Blue-Ribbon Committee 1999 as amended; Sarbanes-Oxley Act, United State House of Representatives 2002; Securities and Exchange Commission 2002 as amended; Business Roundtable 2002; SAS No. 89, AICPA 1999; SAS No. 90, AICPA 1999 as amended to 2015).

In Nigeria, rules like the prudential guidelines of 1990, Corporate Governance Codes of SEC, 2003, CBN, 2006, Insurance code of 2009 and SEC Code 2011, were some of the efforts to checkmate and correct the governance activities and structure of corporate bodies in the country (see: Bello, 2011; Anowor, Ukwueni, Ezekwem & Ibiam, 2013). These codes and pronouncements/documents were enacted to give a lasting solution to the problems at hand and have been viewed as the antidote for the prevention of the reoccurrence of such problems experienced in the past. The Enron scandal, the World com collapse, collapse of 26 banks in Nigeria in the year 1997 as well as the Cadbury Nigeria Plc case of falsification of report in 2006 have been linked to misinformation on the part of the financial report preparers, accountants, auditors and the board of directors. This has been said to be as a result of unavailability of reliable accounting information (Adeyemi & Asaolu, 2013; Anowor, Uwakwe & Chikwendu, 2019). Corporate governance has been said to be a major issue of concern of all the pronouncements and codes and has received wide acceptance by all across the globe, with individual countries enacting country targeted codes of corporate governance to curb the reoccurrence of the past and ensuring adequate compliance of these laws. There are many provisions of the code. Some of them used in this work include; board composition, board size, Board independence and Audit committee independence and they are discussed hereunder.

One of the major hurdles organizations face in establishing effective corporate governance structures is efficiently communicating and engaging with stakeholders. It is imperative for organizations to communicate their values, objectives, and performance effectively to various stakeholders, including investors, customers, employees, and regulators. This demands a wellstructured approach to ensure clear, concise communication that reaches the intended audience in a timely and appropriate manner. Failure to communicate effectively can lead to misinterpretation, misunderstandings, and erosion of trust, undermining the success of the corporate governance structure. Additionally, meaningful engagement with stakeholders is essential, involving seeking feedback and input on crucial issues and decisions. This necessitates strong communication skills and the ability to cultivate and sustain relationships with diverse stakeholders. Organizations must also adapt to evolving circumstances and manage risks proficiently. This encompasses understanding and addressing emerging risks, such as cybersecurity threats, climate change, and geopolitical instability. It also requires a willingness to innovate and adopt new technologies and practices that can enhance organizational performance and sustainability.

Corporate governance, encompassing a set of laws, customs, and procedures that promote responsibility, transparency, and stakeholder involvement, is a crucial facet of modern business management. Organizations encounter various challenges in implementing effective governance structures, including managing conflicts of interest, communicating effectively with stakeholders, and adapting to changing conditions. By addressing these challenges and implementing effective governance structures, organizations can cultivate trust and credibility with stakeholders, bolster long-term sustainability, and realize their strategic objectives and aspirations.

Corporate Governance in Nigeria

It is generally agreed that weak corporate governance has been responsible for some recent corporate failures in Nigeria. In order to improve corporate governance, the Securities and Exchange Commission, in September 2008, inaugurated a National Committee chaired by Mahmoud for the Review of the 2003 and amended 2014 Code of Corporate Governance for Public Companies in Nigeria to address its weaknesses and to improve the mechanism for its enforceability. In particular, the Committee was given the mandate to identify weaknesses in, and constraints to, good corporate governance, and to examine and recommend ways of effecting greater compliance and to advice on other issues that are relevant to promoting good corporate governance practices by public companies in Nigeria, and for aligning it with international best practices. The Board of SEC therefore believes that this new code of corporate governance will ensure the highest standards of transparency, accountability and good corporate governance, without unduly inhibiting enterprise and innovation. DeZoort, and Salterio, (2001), Whilst the Code is limited to public companies, the Commission would like to encourage other companies not covered by the Code to use the principles set out in the Code, where appropriate, to guide them in the conduct of their affairs. Nigeria as a country has made significant strides in the areas of governance. However, governance needs to be further strengthened. With the view therefore, to further strengthen corporate governance in Nigeria, the Board of the SEC in 2014, made the corporate governance code of the SEC mandatory. In line with this mandate, the code has been further reviewed to replace optional language with mandatory language. Dechon,and Dichev, (2002). Gilson, and Kraakman, (2011), submitted that the responsibility for ensuring compliance with or observance of the principles and provisions of this code is primarily with the Board of Directors. However, shareholders, especially institutional shareholders, are expected to familiarize themselves with the letter and spirit of the code and encourage or whenever necessary, demand compliance from their companies.

Board Composition:

Among the set of corporate governance mechanisms, the board of directors is often considered the primary internal control mechanism to monitor top management and protect the shareholders' interest., Fama and Jensen (1980) in Moham (2015) argues that board of directors is a "market-induced institution, the ultimate internal monitor of the set of contracts called a firm, whose most important role is to scrutinize the highest decision makers within the firm". It has been argued that it is the responsibility of the directors to ensure that financial statements are prepared according to approved accounting standards. Salleh, Stewart, and Manson (2005); John and Senbert (2014) posits that since the applicability of accounting standards is very flexible, management may choose an acceptable accounting method or estimate that is appropriate for the need of the organization. In this respect, the compliance with the accounting standards may not necessarily mean that financial statements are free from manipulation. Thus, the compliance with accounting standards as required in the Companies and Allied Matters Act (CAMA), 1990 may reduce the propensity to manage earnings but may not eliminate the entire practice of earnings management, Sarkar, Sarkar, and Sen, (2006).

Therefore, it is important that the board of directors carry out its monitoring role effectively in order to ensure that financial reporting provides quality information to users by reflecting proper underlying economic substance of the company transactions. The components within the board are essential ingredients for effective monitoring. The appointment of managers as directors (i.e., insiders) is important because they have more information about the organization compared to outside directors. However, domination by insiders may lead to transfer of wealth to managers at the expense of the stockholders (Beasley 1996; Fama 1980). Therefore, outside directors are appointed on the board mainly to obtain independent monitoring mechanism over the board process thereby reducing agency conflicts and improve performance (Craven & Wallace 2001). Consistent with this theory, results in prior studies suggest that outside directors are positively related to abnormal stock return (Rosenstein & Wyatt 1990) and performance (Dalton, Daily, Johnson, & Ell strand, 1999) and negatively related to fraudulent reporting (Beasley 1996).

Similarly, there is a negative relation between outside directors and earnings management (Klein 2002). However, there are critics on the role of non-executive directors on the board. Some believe that they perform little role in monitoring the board because lack of real independence, time, as well as enough information (Gilson & Kraakman 1991; Patton and Baker 1987). To be effective, independent nonexecutive directors should have both, strong incentives to monitor the board, and the capabilities to identify earnings management (Peasnell, Pope, and Young 2000). Boards dominated by outsiders are arguably in a better position to monitor and control managers (Dunn 1987). Outside directors are independent of the firm's managers, and in addition bring a greater breadth of experience to the firm (Firstenberg & Malkiel 1980; Vance 1983).

A number of studies have linked the proportion of outside directors to financial performance and shareholders' wealth (Brickley, Cole, and Terry 1994; Byrd & Hickman 1992; Subralimanyan and Susela,1997; Rosenstein and Wyatt 1990). Sakar, Sarkar, and Sen (2006) posit that firms with high quality governance mechanisms, such as independent board of directors are associated with low levels of earnings management. To the extent that independent outside directors monitor management more effectively than inside directors, this study hypothesizes that companies with a greater proportion of independent directors will be less likely to engage in earnings management than those whose boards are staffed primarily with inside directors.

Audit Committee Independence:

An audit committee is an operating committee of the Board of Directors charged with oversight and responsibilities of financial reporting and disclosure. Committee members are drawn from members of the company's board of directors, with a leader selected from among the committee members. The Companies and Allied Matters Act (CAMA), 1990 states that a public limited liability company should have an audit committee (maximum of six members of equal representation of three members each representing the management/ directors and shareholders) in place. The members are expected to be conversant with basic financial statements. The audit committee's function has evolved over the years. The primary objective of an Audit Committee is to increase the credibility of annual financial statements, assist directors in meeting their responsibilities and enhance audit independence (Bradbury, 1990).

Audit Committees have been involved in monitoring and protecting the interests of shareholders (Harrison, 1987; English (1994); Menon and Williams, (2004); DeZoort, Salterio, (2012); Gendron and Bedard,)2016). Researchers have also argued that financial reporting is more reliable and questionable corporate practices are reduced where an audit committee exists (Kolins, Cangemi and Tamasko (1991); Eichenseher and Shields, (1985); DeZoort, (1998); Carcello & Neal, 2013). Due to their responsibility for oversight of internal control and financial reporting, good governance dictates that audit committee members should possess a certain level of financial competencies. Thus, the Blue Ribbon Committee (1999) recommends that each member of the audit committee should be or become financially literate and that at least one member should have accounting or related financial management expertise, where 'experience' is defined as 'past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a CEO or other senior officer with financial oversight responsibilities.

This recommendation is supported by DeZoort and Salterio (2001). The scholars observed that the accounting experience of audit committee members as well as their knowledge of auditing is positively correlated with the likelihood that they will support the auditor in an auditor-corporate management dispute. These recommended best practices and research findings suggest that the financial competencies of audit committee members decrease the likelihood of earnings management. The audit committee has a very important role to play regarding fraud and overseeing fraud risk management. In this regard, audit committees play an important role in preventing, detecting and investigating fraud and earnings management. As far as fraud and earnings management is concerned, the audit committee should have zero tolerance, and all instances of such should be taken with all seriousness.

Accounting quality in terms of quality in financial reporting offers guidance for all areas of financial reporting, not just the contents of reports. It sheds new light on the importance of auditors' independence. Specifically, auditing financial reports add credibility to management's reports and reduce uncertainty, risk and the cost of capital. Quality financial reporting shows managers that they can create value by voluntarily increasing auditors' independence. The Blue-Ribbon Committee (1999) recommendations propose that audit committee publicly express their beliefs that financial reports are fair and conform to the Generally Accepted. Accounting Principles (GAAP) in all material respects Audit committee depends on company's management and outside auditor for a full range of information, based on both facts and judgment, on the financial reporting process. Poor quality financial reporting, can result from the failure of an audit committee to question management selection of accounting methods and they are not equipped to guarantee the accuracy and quality of a company's financial reports and accounting practices.

On account of this introduction, the audit committee as a sub-committee of the board of directors has oversight responsibility for the financial reporting process. The audit committee is expected to provide a formal communication between the boards, the internal monitoring system and the external auditor. Dye (1988) affirms that the audit committee's oversight responsibility for the firm's financial reporting process and its primary purpose is to enhance the credibility of audited financial statements. Wolnizer (1995) argued by asking whether Audit Committee Independence can significantly improve the financial reporting quality. He further said that it is unlikely, because current accounting practices allow wide discretion by management in the choice of accounting methods and estimates.

Section 359 of the Companies and Allied Matters Act (CAMA), (2004) requires companies to setup audit committee made up of maximum number of six members (equal number of directors and representatives of shareholders) with the oversight function for the firm's financial reporting process and ensuring the quality of audited financial reports. In this capacity the audit committee acts as an intermediary between management and auditors. To this end, audit committee composition should reflect a balance that sufficiently allows them liberty to carry out the functions provided by Sec359 of CAMA (2004) as amended. States those members should be more of non-executive, having the chairman as a non- executive; members should be numerate, able to read and professionally-situated, understand the basic financial statements, possess the quality of integrity, honesty, business and risks.

Board Size:

The CBN code 2014 has no minimum number of directors a firm should have in its board of directors but have a maximum number of 20 directors. Similarly, PENCOM code of 2008 has no limit as to the number of directors in the board of companies licensed as pension operators, just like the SEC code of 2011 and other similar codes of corporate governance both in Nigeria and other countries of the world. NAICOM code 2009 provides for not less than 7 directors in the board of insurance, reinsurance and loss adjusting companies, likewise in other industrial firms and allied companies. The SEC code 2003 clearly specified a maximum of 15 directors in board in board of directors in the board of directors but the reviewed code in 2011 remove the limit and place a minimum of five (5) directors in a board. The reviewed codes have received and are capable of making it. An independent chair must be able to look his or her CEO in the eye and say "this is my board and I do not agree with you and your management on this issue".

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards. Jensen (1993) and Lipton and Lorsch (1992) argued that large boards are less effective and are easier for a CEO to control. When a board gets too big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision-making process. Empirical research supports this. Thus, Yermack (1996) documented that for large firm large U.S industrial corporations, the market values firm with smaller boards more highly. Eisenberg, Sundgren and Wells. (1998) also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms.

In Ghana, it has been identified that small 5 board sizes enhance the performance of MFIs, Kyereboah- Coleman and Biekpe, (2005). Mak and Yuanto (2003) echo the above findings in firm listed in Singapore and Malaysia when they found that firm valuation is highest when board has five directors, a number considered relatively small in those markets. Nigerian study, Sanda et al (2003) found that, firm performance is positively related with small, as opposed to large boards. Board composition refers to the combination of executive directors (including the chief executive officer) and non-executive directors in the board. Sometimes non-executive directors are appointed from outside and they may not have any material interest into the firm also known as independent directors. They are appointed due to huge qualifications, expertise and experience and they may effectively influence the board's decision and ultimately add value to the firm (Fields and Keys, 2003).

Independent directors can play a useful role in relation to strategic planning risk management (Farrar, 2005). The board of directors is charged with oversight of management on behalf of shareholders Agency theorists argue that in order to protect the interests of shareholders, the board of directors must assume an effective oversight function. It is assumed that board performance of its monitoring duties is influenced by the effectiveness of the board, which in turn is influenced by factors such as board composition and quality, size of board, duality of chief executive officer, board diversity, information asymmetries and board culture (Brennan, 2006). Ozawa (2006) stated that outside directors can resolve the problem of information asymmetry. Many researchers, such as Musila (2007), in his study on Leadership structure: separating the CEO and chairman of board" have agreed that the erosion of investor confidence in Kenya has been brought about by companies' board composition standards and a lack of transparency in the financial system.

Board Independence:

Board Independence: The combination of executive and non-executive directors constituting a firm's board is very vital for its performance and in achieving the objective of the firm for better result. The proportion of the non-directors would to a large extent determine the quality of decisions taken since objectivity would play a crucial role and whether the board can actually monitor and control the management in ensuring efficiency in its dealings. A board is seen to be more independent if it has more non-executive directors (John & Senbet, 2014). Executive directors are more familiar with the activities of the organisation and therefore in a better position to monitor top management particularly if they perceived the opportunity to be promoted to positions occupied by incompetent executives. Similarly, non-executive directors may act as "professional referees" to ensure that competition among executive directors stimulates actions consistent with shareholders' value maximization (Fama, 2013).

Indeed, evidence from studies (Byrd and Hickman, 1992; Brickley, Coles and Terry, 1994) strongly agreed to the crucial role of non-executive directors in monitoring management performance, offering invaluable advice to shareholders and protecting the interest of shareholders. According to Abdaullahi, Francis, Ajaiye and Edogbo (2016); Rosenstein & Wyatt (1990) financial markets usually respond positively to the announcement of the appointment of non-executive directors by showing an appreciable level of improvement in the performance of the company's shares. Though, other studies from other scholars thus Abduallih et al (2016) in (Hermalin and Weisbach, 1991; Agrawal and Knoeber, (1996) could not establish any significant relationship between non-executive directors and firm performance, it is generally accepted that the effective performance of the board depends on having the right proportion of executive and non-executive directors on the board (Baysinger and Hoskinsson, 1990; Pearce and Zhara, (1992).

2.2 Firm Performance

Ebe, Nwoha and Duru (2018) in Amidu and Abor (2006) the work described ways of measuring firm performance to include; profitability, cash flow, sales growth and market to book value. The portion of earnings not paid out to investors is ideally reinvested back to the company in order to provide for future earnings growth and means of increasing working capital without payment of loan interest. Investors are very keen in finding out how much of the earnings are issued out to investors as either the debenture or shareholders warranty or how much is kept back to the company. Earnings kept from the investors is known as retained earnings, which ideally should be reinvested to provide for future earnings growth. They hope that the firms will use their retained earnings to either maximize their current operations or invest it to recoup higher profits.

Firm performance is a subjective measure of how well a firm can use its assets from its primary mode of business to generate higher revenues. All organizations have financial performance measures as part of their performance management, although there is debate as to the relative importance of financial and non-financial indicators. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Growth is generally seen as a sign of success, provided it results in improvements in financial performance (Brealy, Myers & Marcus, 2007).

Financial performance can be measured in many ways. These include: Profitability which describe how much wealthy a company is making after paying for all the expenses and other charges incurred. It is sufficed to say that, the higher the profit of a firm the better the firm’s performance evaluation among others. Financial performance can also be measured using; Cash flow which is the difference between the amount of cash at the end of the period and the amount of cash at the beginning of the same period. Positive cash flows indicate a positive financial performance while a negative one indicates poor performance. Ross, Westerfield and Jaffe (1999) defined cash flow as cash generated by the firm and paid to creditors and shareholders. It can also be measured by the Balance sheet strength. This is the company’s assets relative to its liabilities at a specific point in time. More assets and fewer liabilities result in a stronger balance sheet. A strong balance sheet is highly preferred. Several ratios can be calculated from the balance to measure financial performance e.g.; Return on Assets, Return on Investments, Return on Equity, etc (Brealy, Myers and Marcus, 2007).

2.3 Theoretical Framework

Agency theory is a widely-used framework for analyzing the dynamics between principals and agents in decision-making scenarios. This dynamic arises when a principal delegates decisionmaking authority to an agent, who acts on the principal's behalf. However, due to the separation of ownership and control, conflicts of interest can emerge between the two parties. Agents might prioritize their personal interests, potentially conflicting with the principal's objectives. To mitigate this, mechanisms such as rewards and oversight are employed to align their interests (Jensen & Meckling, 1976).

In essence, principals can incentivize agents to act in their best interests and supervise their actions to prevent any exploitation. By employing these strategies, principals ensure that agents prioritize the organization's welfare, thus reducing the chances of conflicts of interest. Incentives are a common tool utilized to harmonize these interests, achieved through rewarding agents for meeting performance targets or exhibiting behavior aligned with the principal's goals. A prevalent form of incentive is financial compensation, including bonuses, stock options, and profit-sharing schemes (Fama & Jensen, 1983). This approach invests agents in the organization's prosperity, motivating them to uphold the principal's interests.

Monitoring constitutes another mechanism aimed at deterring opportunistic conduct (Eisenhardt, 1989). This involves vigilant observation of agent actions to confirm their alignment with the principal's objectives. Performance assessments and both internal and external audits are standard methods of monitoring. By heightening the perceived likelihood of detection and subsequent consequences, monitoring serves as a deterrent to opportunistic behavior. Nonetheless, both incentives and monitoring have associated costs and might not always yield desired results. Incentive costs encompass scheme design, administration, and the risk of unintended outcomes— like agents prioritizing short-term performance goals over the organization's sustained success (Shleifer & Vishny, 1997). Similarly, monitoring expenses involve system establishment, execution, and the potential for incorrect identifications, where behavior congruent with the principal's interests is mistakenly labeled as opportunistic (Hermalin & Weisbach, 2012).

2.4 Empirical Review

Guglielmo Maria and Caporale (2020) conducted a comprehensive meta-analysis to explore the interrelation between corporate governance and the financial performance of organizations. They examined 70 studies published from 2000 to 2020, encompassing a total of 1,219 observations. The aim was to dissect the impact of various factors like board size, board independence, CEO duality, and ownership structure on financial success. The results revealed a positive correlation between corporate governance and financial performance. Board independence demonstrated a constructive influence, while board size and CEO duality displayed adverse effects. The influence of ownership structure on financial performance was found to be inconsistent, potentially influenced by factors such as ownership type and sector. The study recommended companies to bolster their corporate governance practices, enhancing board independence and minimizing CEO duality (Guglielmo Maria & Caporale, 2020). Nonetheless, given the intricate nature of the relationship between ownership structure and financial performance, further investigation might be warranted. Overall, this study underscores the pivotal role of corporate governance in shaping financial performance and provides valuable insights into the ramifications of specific elements on business efficacy.

In a study by Mollah, Sabur, and Quoreshi (2015), a sample of 61 companies listed on the Dhaka Stock Exchange during 2009-2012 was utilized to investigate the nexus between corporate governance and financial performance. Through regression analysis, the authors ascertained that institutional ownership, board size, board independence, CEO duality, and other governance measures positively impacted financial performance. The findings emphasized the importance of enhancing these governance aspects to bolster financial success (Mollah, Sabur, & Quoreshi, 2015). Hence, it is recommended that companies fortify their corporate governance practices to enhance their financial outcomes.

Fatimah, Shahzad, and Akbar (2017) emphasized the pivotal role of corporate governance in a company's financial performance. Employing regression analysis and data from 60 companies listed on the PSE between 2011 and 2015, the authors found substantial enhancements in financial performance linked to institutional ownership, board size, board independence, CEO duality, and other governance mechanisms.

Similarly, a separate study (Gillan & Starks, 2000) unearthed a favorable connection between corporate governance and financial performance. This underscores the significance of adhering to corporate governance standards for achieving financial success. Notably, both studies highlighted pivotal variables like board size, board independence, CEO duality, and institutional ownership. Businesses should thus intensify their corporate governance practices in these domains to boost financial performance. This approach fosters a more accountable, transparent, and efficient organizational structure, attracting investors and augmenting profitability (OECD, 2015).

Examining businesses across diverse nations, two distinct research papers explored the interplay between corporate governance and financial performance. Wang, Cao, and Pan (2018) analyzed a sample of 190 Chinese companies listed on the Shanghai Stock Exchange from 2012 to 2015. The study determined that institutional ownership, board size, board independence, CEO duality, and board composition significantly influenced financial performance. The authors advised Chinese businesses to bolster their corporate governance practices, particularly in these aspects.

Likewise, Al-Tamimi, Jawad, and Hassan (2019) evaluated the financial performance of 84 UAE companies listed on the Abu Dhabi Securities Exchange between 2012 and 2016. The findings indicated that institutional ownership, board size, board independence, CEO duality, and corporate governance all played pivotal roles in enhancing financial performance. The authors recommended UAE businesses to reinforce their corporate governance strategies, particularly focusing on these specific categories.

3. METHODOLOGY

Out of over 200 listed companies on the Nigerian Stock Exchange (NSE), 33 were selected for this study using the judgmental sampling technique, based on their online presence and accessibility of audited annual reports from 2010 to 2020 within the NSE's domain. The primary objective was to determine the extent of corporate governance disclosure among Nigerian listed companies. The research employed a descriptive content analysis method to extract information from the annual reports of the chosen companies. According to Beattie and Thomson (2007), content analysis has become a prevalent research approach for evaluating financial reporting and corporate governance performance. The core inquiries in content analysis revolve around "who communicates what, to whom, why, to what extent, and with what outcomes?" (Foladi and Farhadi, 2011).

To assess a company's commitment to social standards, corporate documents and annual reports underwent content analysis (Cook & Deakin, 1999). The coding process involved thoroughly reviewing the annual reports of each selected company and categorizing the data based on predetermined corporate governance indicators, which are presented in a table. The aim of the coding process was to identify trends in the presentation and communication of information.

Content analysis has been a widely used technique in prior studies to evaluate corporate governance practices. It involves gauging the degree to which companies adhere to corporate governance and financial reporting standards. These aspects are covered in two fundamental sections. Content analysis serves as a method to assess a company's adherence to corporate governance principles and the transparency of its financial reporting. Various analytical techniques, including sentence counts, word usage, page lengths, average line counts, and a binary Yes-or-No approach, have been employed. The Yes-or-No approach involves assigning a score of 0 or 1 to specific evaluation items. A score of 1 indicates that the information is partially included in the report, while 0 indicates a lack of meaningful information on that aspect. This method is deemed more objective and accurate when scrutinizing annual reports to evaluate corporate governance processes. It is suitable for assessing both financial performance and corporate governance metrics, as these are straightforward reporting elements that do not necessitate extensive justifications from companies.

The study conducted by Zolotareva, Ananiev, and Leontyev (2020) concluded that content analysis is a valuable technique for assessing a company's adherence to corporate governance principles and the clarity of its financial reporting. This method can be applied to analyze the information disclosed in annual reports, unveiling patterns and trends in extensive datasets. The Yes-or-No approach, according to the researchers, is particularly effective in evaluating the comprehensiveness and transparency of material within annual reports.

Table 1: Checklist of Listed Firms in the Nigerian Stock Exchange

S/N	Corporation Governance Pointers:
1.	Size Of Board
2.	Board Composition
3.	Division Between Chairman and CEO
4.	Information About Independent Director
5.	Role and Functions of Board
6.	Changes in Board Structure
7.	Composition of the Committee
8.	Function of the Committee
9.	Audit Committee Report
	Financial Pointers:
11.	Financial and Operational Result
12.	Critical Accounting Fractions
13.	Critical Accounting Policies
14.	Corporate Reporting Framework (Segment Reporting)
15.	Risks and Estimates in Preparing and Presenting Financial Statements
16.	Information Regarding Future Plan
17.	Dividend
	Timing And Means Of Corporate Governance Discovery
18.	Separate Corporate Governance Statement
19.	Annual Report through the Internet
20.	Frequency of Board Meetings

Source: Uwuigbe 2013; Samala, Dahaway, Hussainey, Stapleton 2010; SEC 2010

In previous research, a prevalent approach to assess corporate governance policies was through content analysis. This method involved scrutinizing the extent to which companies adhered to the code of conduct governing their financial performance and corporate governance. The analysis could take various forms, including tallying sentences or words, gauging the proportion of pages or lines, and adopting a binary Yes or No approach. The latter was considered the most dependable and unbiased way to scrutinize annual reports for governance practices. It entailed assigning specific items a score of either 0 or 1: 1 denoting the presence of relevant information in the report to some degree, and 0 indicating the absence of pertinent information. This method was applied to both financial performance and corporate governance indicators due to their simplicity in measurement and the limited need for lengthy explanations from businesses. In conclusion, content analysis emerged as a valuable method to ascertain a business's adherence to sound corporate governance principles and to ensure transparency in financial reporting.

Following the methodology introduced by Uwuigbe (2013), the study focused on the corporate governance aspect of each organization. The foundation for the devised disclosure index was laid using the OECD code and documents prepared by the UN Secretariat for the 19th and 20th sessions of ISAR. This index was crafted based on the CBN post consolidation code of best practices. The applicable criteria were computed using a specific formula, yielding a Corporate Governance Index (CGI) that was employed to rate the corporate governance procedures of each entity.

4. DATA ANALYSIS

In the study, the companies were analyzed and categorized into three sectors. The distribution of these companies is presented in Table 1.

Table 2: Sector-level classification of the sampled firms

S/N	**Segment**	**Firms' no**	**(%)**
1.	Manufacturing	14	42.4
2.	Oil and Gas	4	12.1
3.	Financial	15	45.5
	Total	**33**	**100**

Table 2 above shows that the total number of companies included in the analysis was 33. The financial industry was represented by 15 businesses, including eight commercial banks and seven insurance providers. 14 businesses were from the manufacturing industry, while the final four were from the oil and gas industry.

Figure 1: Supply of Firm by Sector

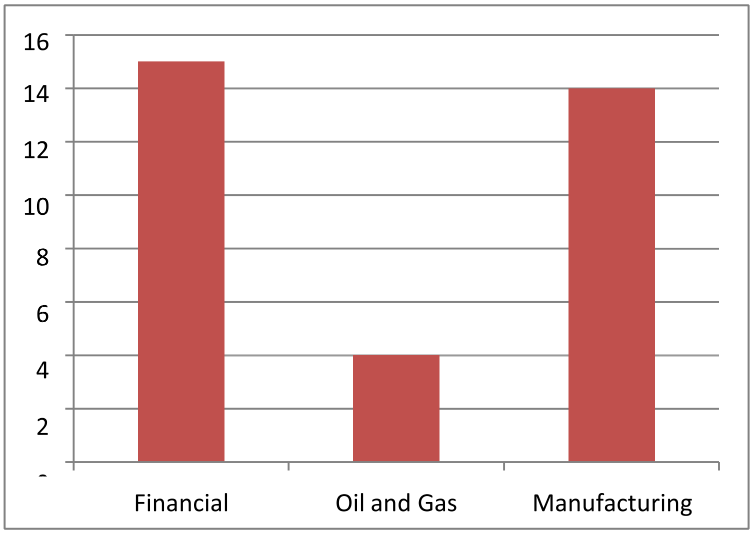
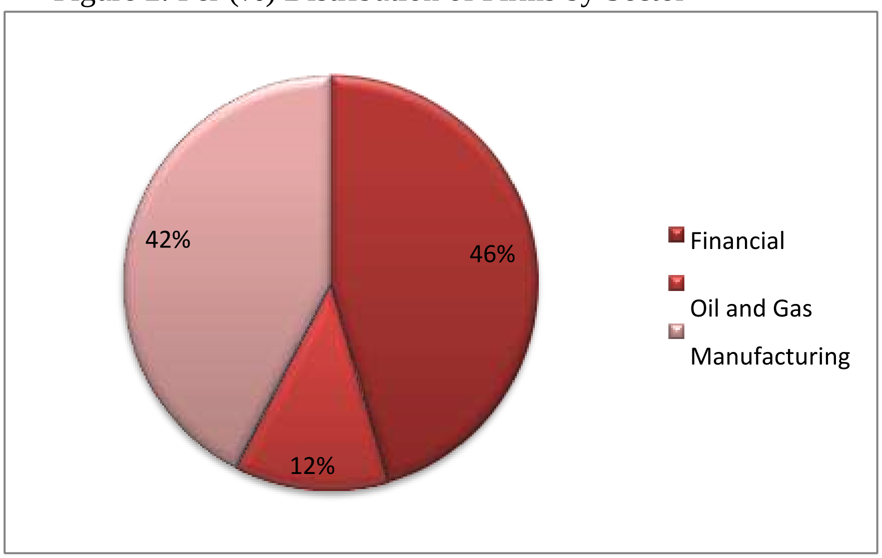


Figure 2: Per (%) Distribution of Firms by Sector



Distinctions between Sectors

Table 2 presents statistical information regarding corporate governance quotients for all companies. The data were collected by analyzing the annual reports of firms and assigning scores based on 17 different corporate governance indicators. There were 15 companies in the financial sector, including eight commercial banks and seven insurance companies. The remaining four companies came from the oil and gas sector, while 14 companies were in the manufacturing sector.

Several companies, including four from the manufacturing sector, two from the financial sector, and one from the oil and gas sector, had corporate governance quotients ranging from 59% to 65%, according to a report. These businesses received poor ratings for corporate governance as they did not disclose specifics about their boards of directors, management teams, the frequency of board meetings, dividend payments to shareholders, and lacked a robust corporate reporting system. Furthermore, they failed to meet the board member composition ratio of 60:40. In contrast, companies with disclosure scores of 71% and 88% had effective corporate governance procedures. They provided full disclosure regarding their board of directors, management teams, number of board meetings, dividend payments to shareholders, and corporate reporting framework. Additionally, these businesses complied with the board member composition ratio of 60:40. The survey also highlighted that 25 businesses from all industries earned corporate governance scores of 88% or higher. These businesses provided even more comprehensive information, including analyses of organizational structure, risk factors, and financial statement preparation projections. Moreover, they dedicated a specific section to reporting on corporate governance. It's noteworthy that only First Bank (100%) and Continental Insurance (94%) among the financial sector's businesses achieved this high quality.

Table 3: Corporate Governance Quotient of Case Study Firms

S/N	SECTOR/FIRMS	Total CGV	S/N	SECTOR/FIRMS	Total CGV
1.	NEM Insurance	59%	18.	Unilever Nigeria	88%
2.	Oasis Insurance	59%	19.	Eterna Plc	65%
3.	Consolidated Hallmark Insurance	76%	20.	Japaul oil and Maritime Service	65%
4.	Cornerstone Insurance	82%	21.	Oando Nigeria Plc	82%
5.	Continental Reinsurance	94%	22.	Total Nigeria Plc	82%
6.	Nigerian Breweries	71%	23.	Con Oil	72%
7.	PZ Cussons	71%			
8.	Guarantee Trust Bank	88%	24.	Honey Wells Flour Mills	71%
9.	ECO Bank Nigeria	88%	25.	Guinness Nigeria Plc	71%
10.	First City Monument Bank	88%	26.	Beta Glass Plc	71%
11.	Sterling Bank	88%	27.	Dangote Cement Plc	76%
12.	United Bank for Africa	88%	28.	First Aluminium	65%
13.	Royal Exchange	76%	29.	Lafarge Wapco Plc	76%
14.	Mansard Insurance	82%	30.	Paints & Coatings MFG Nig. Plc	65%
15.	Access Bank	88%	31.	Nestle Nigeria	71%
16.	Diamond Bank	88%	32.	Dangote Flour Mills	65%
17.	First Bank	100%	33.	National Salt Company (Nigeria)	71%

Source: Researchers' Calculation based on CGV formula

In comparison to other sectors, the banking industry boasts the highest average score of 82.93 concerning the disclosure of corporate governance information. This achievement has been realized due to the mandatory reporting of at least one piece of information by all banks, in line with the corporate governance code issued in 2006 by the Central Bank of Nigeria (CBN). In terms of disclosure, First Bank and Continental Insurance stand out with the highest ratings among the companies within the banking sector.

Table 4: Mean Disclosure Scores according to Sector

S/ N	**Sector**	**Total Number of Directorship in the Sector**	**Number of firms in Sectors**	**Minimum**	**Maximum**	**Mean**
1	Financial	186	15	59%	100%	82.9 3
3	Oil and Gas	39	4	65%	72%	71.2 1
4	Manufacturing	127	14	65%	88%	75.2 5
Total		**352**	**33**			**10.6**

Source: Author's Calculation based on content Analysis

With an average disclosure score of 75.25%, the financial sector showed the greatest degree of transparency, closely followed by the oil and gas industry. The disclosure score for the manufacturing industries was 71.21%. Tables 4 and 5 show descriptive statistics for the board size to give further context.

Table 5: Average Size of Board of Directors according to Sector for 2010

S/N	**Sector**	**Number of Directorship in the Sector**	**Firms' Number in Sector 2010**	**Minimum**	**Maximum**	**Mean**
1.	Manufacturing	127	14	9	10	9.07
2.	Oil and Gas	39	4	5	15	9.75
3.	Financial	186	15	6	20	12.4
Total		**352**	**33**			**10.6**

Source: Authors' Calculation based on content Analysis

Table 6: Average Size of Board of Directors According to Sector for 2011

S/N	**Sector**	**Number of Directorship in the Sector**	**firms' Number in Sector 2011**	**Minimum**	**Maximum**	**Mean**

1.	Manufacturing	134	14	9	10	9.57
2.	Financial	185	15	6	19	12.3
3.	Oil and Gas	39	4	5	15	9.75
	Total	**358**	**33**			**10.85**

Source: Authors' Calculation based on content Analysis

The information presented in tables 4 and 5 indicates that the analyzed companies exhibit a range of board sizes, spanning from 5 to 20 members. Most of these companies maintain a consistent number of directors over the studied period. The average board size remains relatively stable across the years, with an average of 10 members. Notably, United Bank for Africa stands out with a peak of 20 directors in 2010. It is interesting to observe variations in board size among different sectors. The financial sector boasts the highest average board size of 20, whereas the oil and gas sector boasts the smallest average board size of 5 (as detailed in Table 4). These findings align with the recommendations from the Security and Exchange Commission's (2003) Code of Corporate Governance, which suggests that corporate boards should ideally comprise 5 to 15 members.

4.1 Discussion

Based on the information presented in table 4.7, figures 4 and 5, it appears that the performance of companies with high and low Corporate Governance (CGV) scores did not differ significantly. Unexpectedly, while having the highest CGV ratings, the banking industry had lower Return on Equity (ROE) and Return on Assets (ROA) values than the manufacturing and oil and gas industries. As an illustration, First Bank and Continental Insurance, who received the highest CGV ratings of 100% and 94%, respectively, recorded ROE and ROA values of 1.25 and 0.22% for First Bank in 2010 (with a loss in 2011), and 10.59% and 6.55% for Continental Insurance in 2010. The highest ROE and ROA values were attained by Nestle Plc, which had a CGV score of 65% and a comparatively low CGV score. These values were 84.78% and 20.78%, respectively.

Recognizing that while Corporate Governance Value (CGV) scores are important, they might not independently determine a company's financial success is key. The examples of NEM Insurance and Oasis Insurance, which had the lowest CGV scores in 2010 and 2011, yet performed better than First Bank and Continental Insurance, serve as proof of this. The Return on Equity (ROE) and Return on Assets (ROA) numbers for NEM Insurance were 14.75% and 11.86%, respectively, in 2010 and 20.08% and 16.14%, respectively, in 2011. The ROE and ROA figures for Oasis Insurance, on the other hand, were 2.45% and 2.17% in 2010 and 2.99% and 2.59% in 2011. This implies that variables other than CGV scores can have a bigger influence on a company's financial performance. This conclusion is supported by empirical research done in Nigeria.

Although there are conflicting results in the literature, corporate governance mechanisms are thought to have a significant impact on the financial performance of firms. Okhalumeh, Ohiokha, and Ohiokha (2011) used a sample of 38 listed firms to conduct research on the effect of board composition on the economic performance of firms in Nigeria. They discovered no connection between the makeup of the board and other performance indicators, including return on equity, return on capital employed, return on assets, earnings per share, and dividend per share. Eyenubo (2013) also investigated, for Nigerian companies listed on the stock exchange between 2001 and 2010, the connection between board size and financial success metrics. According to the study, the firm's net profit after taxes was significantly impacted negatively by a higher board size. Similar research was done by Uwuigbe (2013) for 15 listed companies in the banking and manufacturing sectors of the Nigerian Stock Exchange. Their findings showed a weak but negative correlation between share price and the ownership structure of corporate governance processes.

A positive association between corporate governance practices and firm financial performance, however, has been suggested by various studies. For instance, Adams and Mehran (2003) and Brown and Caylor (2009) employed ANOVA and regression analysis to show that corporate governance practices and financial success are highly correlated. While some studies have found no correlation or only a negligible one between corporate governance practices and financial performance, other studies have suggested one. One such conclusion is that the share price is negatively impacted by the number of stockholders on the board (Eyenubo, 2013). In general, the connection between corporate governance practices and financial success is intricate and necessitates more study.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The objective of this study was to examine the correlation between corporate governance practices and the financial performance of Nigerian publicly traded companies during a two-year period, specifically in 2010 and 2011. By utilizing the SEC's corporate governance code and the CBN's post-consolidation best practices for cost assessment, the researchers devised a disclosure index to gauge the extent of corporate governance disclosure. The corporate governance disclosures were categorized into four main groups: adherence to corporate governance best practices, financial disclosure, corporate governance indicators, and the timing and manner of corporate governance disclosures. Descriptive analysis was conducted using means, tables, graphs, and percentages. The report indicates that Nigerian listed companies typically maintained boards with an average of 11 members, aligning with the recommendations of the SEC's best practices. However, the ratio of non-executive board members to executive members was skewed, with non-executive members comprising 48% compared to the recommended 52% by the SEC's code of corporate governance. The composition of the board in terms of the percentage of outside directors averaged at 48%.

The study investigated the relationship between corporate governance and financial performance through a content analysis of companies' annual reports. The results revealed no discernible disparity in performance between organizations with low and high corporate governance scores.

This suggests that corporate governance might not significantly impact financial profitability. The study implies that factors such as technology, capital output, and sales volume might play a more substantial role in determining profitability rather than corporate governance. Consequently, the financial success of Nigerian companies cannot be predominantly attributed to their corporate governance ratings. It is essential to consider additional factors that could potentially influence their financial performance.

5.2 Recommendations

According to a research done in Nigeria, the majority of businesses there don't disclose their financial information online, and many of those that do don't have a reporting framework for corporate governance. As a result, the survey did not include these companies. It is advised that the Nigerian regulatory authority make the SEC code of best practices a requirement for all industries in the nation based on the study's findings. In addition, a team should be established to monitor compliance with the regulatory body's requirements as stated in the code of corporate governance for 2014–15 by all businesses operating in various sectors.

1. Regulatory authorities could establish an auditing team to meticulously inspect and reevaluate the financial accounts provided by various organizations involved in company activities. This step aims to address the issue of fraudulent financial statements.
2. It is crucial to note that the study only assessed a subset of the 220 companies listed on the Nigerian stock exchange. Although the 33 selected companies may be representative of the overall population, the study underscores the necessity for a larger sample size. This becomes especially pertinent given the introduction of the requirement for businesses to disclose financial information starting in 2013. To promote adherence to the SEC code of best practices and enhance transparency, it is recommended to enforce compliance measures, set up an auditing team to rigorously examine submitted financial accounts, and conduct a more comprehensive study to gain an in-depth understanding of firms' disclosure practices in Nigeria.

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