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EFFECT OF CORPORATE GOVERNANCE ON THE PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT:

This study examined the effect of corporate governance on the performance of listed manufacturing companies in Nigeria with reference to board size and audit committee independence. The study covered the influence of board size and audit committee independence on performance variables such as net profit after-tax and return on capital employed. The secondary source of data collection was adopted which includes the use of data collated from listed manufacturing companies through the Nigerian Exchange Group (NGX) Fact Book (2023). Data collated was analyzed using the descriptive statistics and correlation matrix with the aid of STATA version 15. The results revealed that board size and audit committee independence has a significant positive impact on return on capital employed (ROCE) and net profit after-tax (NPAT). The study therefore recommended that manufacturing companies listed on stock exchanges should ensure their audit committees consist of independent directors with appropriate experience and knowledge in risk management, financial reporting, and auditing.

Keywords: *Audit Committee, Board Size, Corporate Governance, Net Profit After Tax, Return of Capital Employed*

1.0 INTRODUCTION

1.1 Background to the Study

Corporate governance seems to be the engine room through which operational activities of organizations are performed. According to World Bank cited in Pitambar (2017), it is the system by which an entity is regulated, operated, controlled and monitored for promoting the transparency, fairness, and accountability of firms. Attesting to this, Okafor (2011) posits that corporate governance connotes the procedures involved in the discharge of the mandate of governance in corporate entities. This underpins that corporate governance deals with policies, procedures, structures, policies being applied by business firms to achieve target objectives. It is the structure through which the firm's objectives are set and attained.

The lack of full compliance in corporate governance has arisen due to the increasing number of prominent corporate failures in recent times. These failures are often linked to deficient corporate governance practices within organizations that aim to create economic value. Implementing these best practices enhances managerial effectiveness, boosts investor confidence, and helps prevent situations that could diminish shareholder value, as well as reduce waste and inefficiency (Geraldine, Sunday, & John, 2017). The significant corporate losses and collapses experienced during the global financial crisis that began in 2008 underscore the importance of robust corporate governance in sustaining a healthy business environment and safeguarding stakeholders' interests. Given the profound impact of recent global corporate failures, there is a pressing need to prioritize the improvement of corporate governance practices to protect shareholders' interests, enhance national economic conditions, and reduce unemployment and crime rates.

The Organization for Economic Cooperation and Development (OECD) (2004) emphasizes that fairness, transparency, integrity, and managerial accountability are fundamental aspects of effective corporate governance. Unfortunately, corporate governance has often been criticized for becoming detached from its intended stakeholders, the company's owners and shareholders, and has distanced itself from other important stakeholders, such as consumers, employees, government, and local communities, all of whom have a vested interest in the company's operations. Therefore, the concept of "corporate governance" will inevitably receive significant attention going forward. The separation of ownership from control, a characteristic of capitalism, highlights the critical issue of corporate control within the corporate governance framework. Historically, the power vacuum between owners and managers has been exploited by management for corporate takeovers.

Corporate governance encompasses a system of controls, procedures, policies, guidelines, and practices established by a company's board and management to ensure smooth business operations, optimize shareholder value, and serve the interests of all stakeholders. According to Owolabi and Dada (2011), corporate governance comprises procedures, norms, laws, and regulations that influence how a corporation is managed. Recognizing corporate governance as a non-financial factor impacting a company's success, previous studies have advocated for increased disclosure of non-financial information in organizational reports, whether they are publicly listed or not. Narayanan, Pincus, Kelm, and Lander (2000) argue that prudent managers should reduce information asymmetry by encouraging voluntary disclosure, especially of non-financial (corporate governance) information.

1.2 Statement of the Problem

The Nigerian manufacturing sector has had its share of failed corporates and corporate governance issues indents which included institutions like Dunlop Nigeria Plc as well as Cadbury Nigeria Plc. These incidences have therefore called for research effort to establish how the corporate governance mechanisms affect the performance of the firms listed in the Nigerian stock exchange manufacturing sector. Thus, while filling this void, the study will offer empirical data that will be useful for policy purposes of enhancing manufacturing business governance standards in Nigeria. Global financial market and manufacturing industry has been highly threatened which hindered the economic growth because of the financial crisis and most unexpected corporate failures, losses, scandals and organizational destruction throughout the world. The present social crises in corporate governance practices have led to the demise of organizations of great importance including those from Nigeria. The problem has continuously seen extraordinary collapses and loss-making due to governance among the listed manufacturing firms forcing devastating system failures as well as scandals resulting from fraud and other unlawful conducts affecting the financial performance of most of the manufacturing firms.

A large part of this problem is blamed on the issue of size and composition of Boards of Directors. Pressed to increase board diversity, several proposals suggest that quotas should be set to have more women directors, and in order to reformulate boards, one must admit that directors' performance and their conduct may well reflect their background. A good number of these companies operate with all-male or family-related boards thus violating the Nigerian Code of Corporate Governance 2018 and, therefore, are potential threats to the existence of corporate entities in Nigeria. Thus, the work of the audit committee crucially depends on the specialists in accounting and auditing being part of the committee, whereas the members of these committees are often friends and relatives with no professional background, which results in company failures. These issues, therefore, affects the performance of Nigerian manufacturing companies in a rather considerable manner. Therefore, this research has aimed at establishing the impacts of corporate governances on the performance of selected manufacturing companies in Nigeria bearing particular emphasis on the following important issues.

1.3 Objectives of the Study

The general objective of this study is to ascertain the impact of corporate governance on the performance of Nigerian listed firms. The specific objectives of the study are as follows:

1) To examine the impact of board size on the net profit after taxes of listed manufacturing companies in Nigeria.
2) To investigate the impact of audit committee independence on the return on capital employed by listed firms in Nigeria.

1.4 Statement of the Hypotheses

The study tested the following null hypotheses:

1) Ho1: The size of the board does not have a significant impact on the net profit after tax of listed manufacturing companies in Nigeria.
2) Ho2: The independence of the audit committee does not have a significant impact on the return on capital employed by Nigerian listed businesses.

2.0 LITERATURE REVIEW

2.1 Concept of Corporate Governance

Corporate governance, as defined by the Organization for Economic Cooperation and Development (OECD, 2004), encompasses the framework that governs the management and direction of commercial businesses. This structure establishes rules and processes for decision-making in corporate affairs, delineates the rights and responsibilities of key participants such as shareholders, managers, the board, and other stakeholders, and provides the framework for setting organizational goals, defining methods to achieve them, and monitoring performance.

Agyeman et al (2013) refer to corporate governance as the way in which companies are governed and described this as ‘the system by which companies are directed and controlled in the interest of shareholders and other stakeholders.’ To them, a company should be governed in the best interests of its stakeholders, and particularly of its shareholders. They further opined that ‘a company that embarks on good corporate governance practice offers essential information to its equity holders and other stakeholders, thus minimizing information asymmetry’, which is a situation where the different market players (microstructure) have significantly varying degrees of information about a firm, with those better-informed manipulating the process of price formation to the detriment of the lesser-informed. They further argued that the capability of a firm to induce or attract potential investors is subject to the effectiveness of its corporate governance practice because investors anchor their hope on the expectation that they are investing in a credible company which would safeguard their investments to enable them earn appropriate returns.

According to Ammar, Saeed, and Abid (2013), corporate governance is a process used by management to take appropriate actions that safeguard stakeholders' interests. It also serves as a framework for regulating relationships, systems, processes, and norms (Osundina et al., 2016). Implementing corporate governance involves adhering to established norms, rules, and regulations, which in turn fosters stability and effective management. Good corporate governance enhances stakeholder confidence and improves a company's efficiency and value in the capital market rather than diminishing it.

Board Size

The total number of directors sitting per time on the board of an organization is referred to as board size. It includes executive and non-executive directors and this composition of internal (executive) and external (non-executive) directors has been interpreted by scholars as reflecting the extent management dominates the board.

Herman (2001) posited that board size mirrors directors' expertise such that a large board size with internal and external directors would lead to a significant positive performance by the company. Bacon (2003) shares this view and added that larger boards have pooled together a diversity of skills and backgrounds necessary for improved performance. Moreover, larger board sizes effectively make it difficult for dominance by the Chief Executive Officer, which is essential for protecting minority interest of shareholders.

To enhance stronger corporate governance within the organization, board size should consider an appropriate blend of expertise and skill sets to avoid a biased composition of skills and experience. Board size refers to the total number of directors, including executive and non-executive members, and may vary depending on the country and culture (Zabri, Ahmad, & Wah, 2016). Consequently, there is no standard board size.

While some companies advocate for a larger board size to enhance decision-making quality, others prefer a smaller board size for more effective and efficient monitoring. Ahmed and Hamdan (2015) suggested that a board with 12 members would be beneficial, while Effiok, Effiong, and Usoro (2012) found that having 12 members was not statistically significant. Xavier, Shukla, Oduor, and Mbabazize (2015) recommended a board size of nine members, and Odiwo, Chukwuma, and Kifordu (2013) concluded that a larger board would lead to better performance.

Audit Committee

This is a committee of the board of directors of a company saddled with the oversight responsibility of supporting the board with internal and external audit functions and ethical accountability. According to the Sarbanes-Oxley Act 2002, audit committee is established by the board of directors to oversee the processes involved in accounting and auditing of company financials. Dabor and Dabor (2013) described the audit committee as assisting the board of directors to fulfil its corporate governance responsibilities in relation to an entity's financial reporting, internal control system and risk management system as well as its internal and external audit functions. The audit committee is considered as a very essential component of good corporate governance because it firms up the accountability, responsibility and sensitivity disposition to the various interests and to create the needed safeguard for the firm's financial stability.

The audit committee discharges very critical internal control function that runs to the root of organizational preservation and proper functioning. Bryan and Lilen (2005) in their study on public perception of firms with weaknesses in internal control observed that such firms are generally smaller and riskier and are classifiable as non-highflier companies. Other scholars (Ashbaugh-Skaife et al. (2008) found that internal control weaknesses cause markets to respond negatively to such firms.

In developed economies of the world, such as the United States of America, voluntary private-sector organizations committed to enforcing compliance with extant law, actively engage executive management and governance authorities of public quoted firms in their operations. The Committee on Sponsoring Organizations of the Treadway Commission (COSO) is one of such bodies in the US. This body was formed in 1985 with the goal of sponsoring National Commission on Fraudulent Financial Reporting in public listed entities as its way of underscoring the importance of disclosure of internal control information.

COSO contends that internal control has five critical components, namely control environment; risk assessment; control activities; information and communication; monitoring and that effective internal control can help an organization to achieve its performance and profitability targets and, thus, prevent loss of resources [COSO (1992)].

Under the delegated authority of the board, the audit committee is in charge of financial reporting and disclosure, encompassing the entire financial reporting process, internal control structure, risk management systems, external auditor selection as well as receipt of audit results. This committee is expected to have outside (independent) board members versed in finance and accounting.

Size and qualification of audit committee membership for public limited companies are expressly stated in the Companies and Allied Matters Act (CAMA 2020). The Act stipulates a five-member audit committee, comprising three (3) shareholders and two (2) non-executive directors, one of whom must be a member of a professional accounting body in Nigeria. This proviso is in consonance with the Nigerian Code of Corporate Governance 2018 which stipulates that 'at least, one member of the audit committee should be a financial expert with current knowledge in accounting, financial management and be able to interpret financial statements.'

It should be noted that Nigerian Code of Corporate Governance seeks to institutionalize active compliance with financial and non-financial disclosure requirements as a means of strengthening the accountability, transparency, fairness, responsibility and risk management frontiers of public liability or quoted businesses in Nigeria.

The Audit Committee is to be composed of at least three members who should be financially literate with at least one financial expert responsible for financial reporting and disclosure processes. This committee is required to ascertain the integrity of the financial statements of the company, assess the independence and receive reports from the external auditor, supervise and recommend the internal audit system for policy framework attention of the board.

The Corporate Finance Institute summarized the audit committee duties as follows:

i. Administration of the financial reporting system of a company, including related risks, internal controls, compliances and ethics;

ii. Coordination of financial reporting that complies with accounting principles and policies;

iii. Selection, appointment and evaluation of external auditor as well as receiving the report, evaluating the performance and recommendation of compensation for the auditor;

iv. Liaison with management to coordinate with other committees to understand the risks and responsibilities and the effect on financial reporting.

These responsibilities are succinctly summarized as providing vital oversight of the company's financial reporting process, internal control and independence, serving as a check and balance over the company's financial reporting practices and granting a forum for discussing financial concerns candidly and objectively. Thus, independent oversight, enhanced financial reporting, risk management and internal control, compliance with ethical standards and objective relationship building with external auditors encompass the responsibilities of the audit committee to deepen corporate governance mechanisms of the board.

Diligent Corporation (2024) clearly defined ways by which the Audit Committee plays its role in corporate governance. The audit committee holds board accountable in every area relating to internal and external audits to financial and risk management and ensures that financial reporting processes are accurate and effective as well as maintaining compliance with laws and regulations relating to financial reporting to generate trust and reliability. In addition, the audit committee regularly assesses to ascertain whether the controls put in place are reasonably reliable and sufficient to manage evolving risks following trend changes and technology deployment to cope with new demands of doing business.

These enormous responsibilities make the audit committee to act as key safeguard to insolvency, forced acquisition, avoidable litigations and ensure integrity, accountability and transparency of the company's financial operations and reporting.

2.2 Concept of Performance

The term "performance" in corporate governance refers to the effectiveness of collaboration between a company's management team and board of directors in achieving organizational goals while considering the interests of various stakeholders. It encompasses risk management, operational efficiency, financial performance, and adherence to ethical principles. Corporate governance performance is crucial as it directly impacts the company's reputation, competitiveness, and ability to thrive in the market.

Financial performance, specifically a company's ability to generate profits, maintain liquidity, and achieve sustainable long-term growth, is a key aspect of corporate governance performance. Strong governance frameworks ensure accountability and transparency in financial reporting, enabling stakeholders and investors to assess the company's financial standing accurately. Operational performance is another critical component of corporate governance, focusing on the efficiency and effectiveness of business operations, resource allocation processes, strategic decision-making, and performance evaluation. Strong governance frameworks establish clear roles, responsibilities, and monitoring systems, contributing to improved operational performance in businesses (Alzahrani et al., 2020). Enhanced operational performance allows companies to increase productivity, reduce costs, and enhance overall competitiveness.

Net Profit After Tax (NPAT) is a critical financial indicator that reflects a company's profitability after deducting all costs, including taxes. NPAT represents the portion of earnings available to shareholders after taxes are deducted from the company's pre-tax profit. It is a key metric used by analysts and investors to assess a company's profitability and capacity to generate returns. Research by Li et al. (2018) and Chen et al. (2019) underscores the significance of NPAT in evaluating business profitability and shareholder value creation.

Return on Capital Employed (ROCE) is another financial metric used to evaluate how efficiently a company generates profits from its capital investments. It measures the return on both debt and equity financing relative to the profitability of business activities. ROCE is an important indicator of a company's financial health and ability to generate returns for investors. Studies by Zhou et al. (2019) and Arif et al. (2018) emphasize the significance of ROCE in evaluating operational effectiveness and capital utilization, with higher ROCE suggesting superior profitability and capital consumption in comparison to industry peers.

In summary, corporate governance performance encompasses various aspects including financial performance, operational efficiency, risk management, and key financial metrics like NPAT and ROCE. Strong governance frameworks contribute to improved organizational performance, resilience, and sustainable growth, enhancing stakeholder confidence and value creation for shareholders.

2.3 Theoretical Review

This study is underpinned by agency theory, which was elaborated by Jensen and Meckling in 1976 following the pioneering work by Alchian and Demsetz (1972) in the corporate governance literature. Agency theory addresses issues that arise in agency relationships due to misaligned goals or differing levels of risk aversion. In the financial sector, a common agency relationship exists between a principal (shareholder) and multiple agents (business executives). This relationship often leads to conflicts identified as agency conflicts or conflicts of interest between principals and agents.

Agency theory explains the challenges that arise from differences in objectives between the principal and the agent. Such situations can occur when owners lack knowledge of managers' actions or face constraints in accessing information. It is also possible that managers pursue personal objectives that may not align with shareholders' goals of achieving strong capital growth. According to Okpolosa (2018), a critical aspect is the extent to which managers of commercial organizations use management resources to reduce costs in the best interests of shareholders. Shareholders may also be concerned about hiring competent managers and ensuring that decisions are made with shareholder interests in mind. All these factors contribute to agency costs, which refer to the expenses incurred by owners to ensure that managers are motivated to maximize shareholder profit rather than pursuing personal gain.

2.4 Empirical Review

In their study, Babatunde and Folorunsho (2020) looked at the impact of board size and independence on the performance of listed firms in Nigeria. Additionally, it investigated how the FP of listed firms in Nigeria was affected by board diligence and board diversity. These were done in order to investigate the connection between BC and FP of Nigerian traded companies. The study, which spanned the years 2009 to 2018, used secondary data from published annual reports and accounts of 35 specifically chosen listed companies on the NSE. In order to analyse the data, the regression techniques of Pooled OLS and Generalized Least Squares were used. The study's findings revealed that earnings per share and board independence do not significantly correlate, but that earnings per share and board size do significantly correlate negatively with a coefficient of -0.33 and a p-value of 0.0095 (>0.01), and between earnings per share and board diligence, with coefficients of -0.43 and -0.48 and p-values of 0.02 (>0.05) and 0.0095 (>0.01), respectively. The study came to the conclusion that while board independence and gender diversity have no bearing on the success of quoted companies in Nigeria, board size and diligence do. It was suggested that boards be small, with members having a range of educational backgrounds and experiences, and holding regular meetings to discuss issues pertaining to business performance.

Anandasayanan and Velnampy (2018) conducted a study on the corporate profitability and governance of listed diversified holding firms in Sri Lanka. The research aimed to investigate the effect of corporate governance on the profitability of companies listed under the Diversified Holdings category on the Colombo Stock Exchange. Secondary data were utilized for the study, focusing on 17 out of 20 selected organizations based on data accessibility during the research period. Independent variables such as CEO duality, board size, and board composition were examined, with return on assets (ROA) serving as the profitability metric. Additional factors, including debt-to-equity ratio and company size, were considered as control variables. The study employed Panel Least Square regression analysis to test hypotheses and utilized descriptive statistics to outline key attributes of the research variables. The results indicated that while business size and debt-to-equity ratio had minimal impact on corporate profitability, corporate governance significantly influenced profitability. Notably, the study focused solely on return on assets and debt-to-equity ratio as performance variables, excluding consideration of additional performance characteristics influenced by corporate governance.

Herdjiono and Sari (2017) explored the effect of corporate governance on company performance using empirical data from Indonesia. The study aimed to examine how financial performance of manufacturing companies listed on the Indonesia Stock Exchange was affected by audit committee size, board size, institutional ownership, and management ownership. Linear regression analysis was applied to 156 Indonesian listed companies. Results showed that institutional ownership, management ownership, and audit committee size did not impact financial performance significantly, whereas board size had a positive effect. Simultaneous testing indicated that financial performance was influenced by audit committee size, institutional ownership, management ownership, and board size. The study focused on the manufacturing sector and internal corporate governance mechanisms within Indonesian enterprises, suggesting the use of corporate governance as an external predictive variable. The research contributes to understanding corporate governance and company performance in developing nations, emphasizing that managerial, institutional, and audit committee ownership do not necessarily enhance business performance. Notably, the study recommended an audit committee size equivalent to that of a board of directors for improved financial success, acknowledging the limitation of excluding performance variables beyond financial success.

Jaradat (2015) investigated capital structure and corporate governance procedures, specifically focusing on board size, gender diversity, outside director duality, and CEO duality. Findings indicated a strong correlation between leverage and board size, diversity in board culture, and outside directors, while no meaningful correlation was observed between leverage and CEO dualism. Firm size demonstrated a positive correlation with leverage, whereas managerial ownership, profitability, and return on assets showed significant negative correlations. The study primarily used leverage as a performance measure, omitting consideration of other variables.

Abdul (2012) explored the impact of capital structure choices on Pakistani company performance. The study found that financial leverage significantly reduced company performance, as indicated by return on assets (ROA), gross margin (GM), and Tobin's Q. Although financial leverage and return on equity (ROE) displayed a negative relationship, it was not statistically significant. The study's selection of ROE, growth, and ROA as performance indicators provided a comprehensive assessment.

Ajala, Amuda and Arulogun (2012) evaluate the effect of corporate governance on Nigerian banking sector using Pearson correlation and regression analysis. The study revealed that a negative but significant relationship subsisted between board size and the financial performance of these banks, while a positive and significant relationship was also observed between directors' equity interest, level of corporate governance disclosure index and performance of the sampled banks. The study outlined that efforts to improve corporate governance should focus on the value of the stock ownership of board members and that steps should be taken for mandatory compliance with the code of corporate governance.

Adegbami, Donald and Ismail (2013) examine Corporate Governance and bank performance: A pooled study of selected banks in Nigeria. The study made use panel regression analysis. The findings revealed that corporate governance had been on the low side and had impacted negatively on bank performance. The study suggested that strategic training for board members and senior bank managers should, be embarked or improved upon, especially on courses that promote corporate governance and banking ethics.

Adekunle and Aghedo (2014) investigated the impact of corporate governance on the financial performance of selected listed firm in Nigeria with Return on Assets (ROA) and Profit Margin (PM) as dependent variables and composition of board membership, board size, CEO status and ownership concentration as independent variables. The study made use of multiple regression analysis. The analysis showed that there was a positive and significant relationship between composition of board member and board size and firm performance. However, a negative relationship was established between ownership concentration and Return on Assets.

Vakilifard et al. (2011) analyzed the effect of corporate governance on capital structure in Iranian listed firms. Findings suggested that companies are more likely to use debt when CEO and chairman roles are separate, but no discernible connection was found between capital structure and the proportion of outside directors. However, the study focused solely on capital structure as the dependent variable, which may limit understanding of how corporate governance influences this variable.

3.0 METHODOLOGY

A quantitative research approach was selected for this study. The study utilized an ex-post-facto research design within the quantitative method, which relies on existing data as the study is secondary in nature and focuses on events that have already occurred. The population of the study consisted of nine (9) manufacturing firms listed on the Nigerian Exchange Group (NGX) (2023), representing sectors such as agriculture, conglomerates, consumer products, healthcare/pharmaceuticals, industrial goods, and natural resources. The included manufacturing companies were Nestle Nigeria Plc., PZ Cussons, Cadbury, Unilever, Lafarge, Berger Paints Plc., Pharma Decko, Glaxo Smith Kline (GSK), and Presco Plc.

Secondary data were collected for the study. Given its quantitative design, the study primarily utilized panel (cross-sectional and time series) secondary data sourced from various relevant publications. The secondary data were obtained from annual reports and accounts of the companies. Generalized Least Square Methods (GLS) were employed to estimate the panel data in this study, analyzing panel-cross sectional and time series secondary data. The aim of panel data analysis is to quantify fixed and random effects within the model and adjust for them. The analysis aimed to assess how manufacturing companies' capacity utilization from the previous year could return to equilibrium in the current year.

Model Specification

The model specification for this study was adapted from Adekunle's (2022) investigation on the effect of corporate governance on the financial performance of listed multinational companies in Nigeria. The adopted model was modified to incorporate new financial reform indicators before being applied to test hypotheses.

Dependent Variable

Y = Performance (P_{ER}) therefore, P_{ER} = f(NPAT, ROCE)

Independent Variable

X = Corporate governance (CG)CG = f(BS, ACI)

The functional form of the econometric model is therefore given as:

$Y = f(X_1, X_2, X_3 \cdots Xn)$

Net Profit After-Tax = f(BS, ACI);

Return on Capital Employed = f(BS, ACI)

Where, Y is Performance (P_{ER}) (Dependent variable)

X_1 to Xn are proxies of the independent variable or explanatory variables.

F = represents the functional notation.

The explicit forms of the models for the two hypotheses are stated thus:

$ROCE_{it} = \alpha_0 + \alpha_1 BS_{it} + \alpha_2 ACI_{it} + U_t$ …………………………………………………………. (i)

$NPAT_{it} = \alpha_0 + \alpha_1 BS_{it} + \alpha_2 ACI_{it} + U_t$ …………………………………………………………. (ii)

Where:

BS = Board size

ACI = Audit Committee Independence

α_0 = Regression Constant

$\lambda_{1\text{-}2}$ = Coefficients of Explanatory Variables

U_t = Error Term.

4.0 ANALYSIS AND FINDINGS

4.1 Descriptive Analysis

Table 1: Corporate governance and Performance of Manufacturing companies in Nigeria.

Dependent Variable	**ROCE**		**NPAT**		
	B	**p-value**	**B**	**p-value**	
Independent Variable	BS	0.071	0.000	4.226	0.000
	ACI	0.131	0.000	22.936	0.000
	_cons	22.504	0.000	1308.532	0.000

Dependent variable: ROCE, NPAT. Note: show significance at 1%, 5% and 10% respectively. Source: Author's Computation, 2024 (STATA 15).

Table 1 presents the results of the Generalized Least Square Methods (LSM) used to estimate panel data. The table displays the outcomes of the Hausman test, which combined fixed and random effect models.

Based on the decision rule, the p-values of the Hausman test for the fixed and random effect models were found to be greater than the 0.05 (5%) level of significance, indicating the adoption of the random effect model

4.2 Discussion of Findings

Hypothesis One tested whether board size (BS) has a significant impact on the performance metrics (Return on Capital Employed, Net Profit After-tax) of listed manufacturing companies in Nigeria. The analysis revealed a significant relationship between board size (BS) and performance indicators. The random effect model indicated that board size (BS) positively affects Return on Capital Employed (ROCE) and Net Profit After-tax (NPAT) with significant coefficient values of 0.071 and 4.226, respectively. The observed p-values of 0.000 for both ROCE and NPAT were less than the significance level of 0.05, leading to the rejection of the null hypothesis. Therefore, the study concludes that the performance of Nigerian listed manufacturing companies is significantly influenced by the board size (BS).

Hypothesis Two examined whether audit committee independence (AC) has a significant impact on performance metrics (Return on Capital Employed, Sales Volume, Net Profit After-tax) of listed companies in Nigeria. The analysis showed that audit committee independence (AC) positively affects Return on Capital Employed (ROCE) and Net Profit After-tax (NPAT) with significant coefficient values of 0.131 and 22.936, respectively, based on the random effect model. The observed p-values of 0.000 for both ROCE and NPAT were less than the significance level of 0.05, leading to the rejection of the null hypothesis. Thus, the study concludes that the independence of the audit committee significantly influences the performance of Nigerian listed manufacturing companies.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

In conclusion, this study has provided valuable insights into the relationship between key aspects of corporate governance and financial performance metrics, particularly focusing on the impact of board size and audit committee independence on ROCE and NPAT. The findings are consistent with existing research, underscoring the importance of these governance structures in influencing business success.

The data indicates that a larger board is associated with higher ROCE and NPAT, suggesting that a diverse board composition may positively impact financial outcomes. Furthermore, the study identified a positive correlation between ROCE and NPAT and audit committee independence, highlighting the importance of objective oversight and rigorous financial examination in enhancing financial performance. These findings emphasize the critical role of robust corporate governance practices in achieving financial performance and shareholder value creation.

5.2 Recommendations

Based on these conclusions, the study offers the following recommendations:

1) Listed manufacturing companies should evaluate the size and composition of their boards to ensure a balance of efficiency, knowledge, and diversity. While larger boards may bring diverse viewpoints and expertise, companies should avoid excessive board size, which can lead to coordination issues and inefficient decision-making. Therefore, businesses should aim for a board size that facilitates effective communication, collaboration, and decision-making while ensuring members possess essential knowledge and expertise relevant to the manufacturing sector.
2) Manufacturing companies listed on stock exchanges should ensure their audit committees consist of independent directors with appropriate experience and knowledge in risk management, financial reporting, and auditing. By appointing independent members with diverse backgrounds, companies can promote impartiality and objectivity in audit committee discussions and decision-making processes.

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