IMPACT OF CORPORATE GOVERNANCE ON FIRMS' PERFORMANCE

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Abstract

Corporate governance is a mechanism through which corporations are governed and controlled with a view to increasing shareholder value and meet the expectations of other stakeholders. The purpose is to establish a transparent working environment and enhance the company's competitiveness. The recent financial crisis that hit the globe in the twenty-first century necessitated the move for good corporate governance practices. The study is aimed at finding the impact of corporate governance on firm performance of selected companies quoted on the Nigerian stock exchange. A sample of 248 companies was selected employing simple random sampling technique. The researchers used the econometrics analysis software E-views 7.0 to analyze the data. Return on equity and return on assets were used as the proxies for firm performance, while board size, board independence, board gender diversity and ownership structure were variables used for measuring corporate governance. The study results reveal

that there is significant negative relationship between board size and firm financial performance. Board independence, ownership structure and board gender diversity do not have significant impact on firm performance. The study suggests that statutory bodies should enact laws that will mandate all firms to maintain small board size.

Keywords: Financial and Non-Financial Institutions, Firm Performance, Corporate Governance, Ownership structure, Nigeria

INTRODUCTION

The term "governance" has been reported to be as old as mankind. There is also an emphasis that the concept started as far back as creation in the Garden of Eden. This was as a result of the inborn desire of man to ensure good governance wherever they find themselves. The concept of governance as it relates to Limited Liability Company (LLC) is an offshoot of the agency problem (Ajagbe & Ismail, 2014), which in turn is a result of dichotomy between ownership and management of the corporation's (Cheng, 2008). This dichotomy results in information asymmetry between managers and owners such that managers stand in vantage position to act in ways that are detrimental to the interest of shareholders (Cadbury, 2002; Ajagbe & Ismail, 2014). It is to compel managers to act in the best interest of shareholders that there has been an existing inclusive encouragement for corporate governance (Farreira, 2010; Ajagbe et al., 2011). The recent financial crisis that hit the globe in the twenty-first century necessitated the move for good corporate governance practices in corporations. Nielson (2000) opines that the common denominator of these monumental failures was poor corporate governance culture. While, Ajagbe (2007) put forward that in poor corporate management, fraud and insider abuse of power by management and board of directors is common place. There is however, a unanimous agreement that the key outcome of poor corporate governance is earnings smoothing. However, poor corporate governance practices invariably result to failure of firms (Enofe & Isiavwe, 2012). Such significant failures have brought to the fore the need for a deeper understanding of the impact of corporate governance on corporate performance. Despite that regulatory agencies emphasize on corporate governance and performance, it is surprising given that many academic investigations did not report statistical relationships between the variables (Hermalin & Weisbach, 1998; Nickell et al., 1997) and, in some studies, they reported negative relationship between corporate governance and firm performance. Several explanations have been suggested to be responsible for the inconsistencies. Some argued that the challenge results from the adoption of either publicly available information or

survey results as these sources are restricted in scope (Roth & O' Donnell, 1996; Long et al., 2013). Majority of these works, however, focused on either only financial institutions or non-financial institutions. It was also pointed out that the nature of the performance measures used could also be responsible for such inconsistency. This study used a hybrid study sample to address some of the research gaps that have been noticed from previous research. This was done through a combination of different firms drawn from both financial and non-financial institutions. The implementation of uncommon methodological approach is the justification for this research. Earlier researches noted that the nexus between corporate governance and firm performance is subject to endogeneity, or reverse causality. Hence, it is not clear whether performance causes governance or whether corporate governance causes performance. In order to clear this doubt, the study utilized a two-equation system to allow for performance and governance variables to be potentially endogenous. The remainder of this paper is organized as follows. Section 2 discusses the relevant literature and outlines the key hypotheses of the study. In section 3, the analytical framework was designed and presented. Section 4 presents the results on the relationship between corporate governance and company performance. Section 5 summarizes key findings of this study, conclusions and recommendations. Figure 1 shows the research conceptual framework consisting of the relationship between corporate governance and firm performance mediated by ownership structure.

Figure 1: Research Conceptual Framework
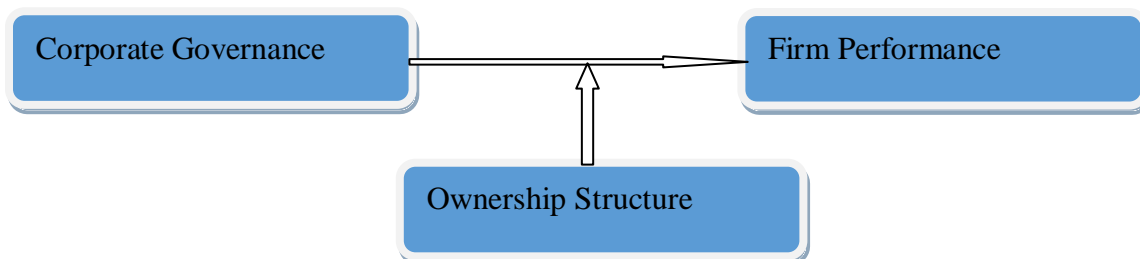
LITERATURE REVIEW

Concept of Corporate Governance

There is no universally accepted definition of Corporate Governance which enjoys consensus of views in all scenarios and countries. Numerous researchers have viewed corporate governance from their own perspectives (Drobetz et al., 2004; Long et al., 2012a; Long et al., 2012b). Different definitions have been put forward by authors. The Code of Corporate Governance issued by Central Bank of Nigeria (2014) defines the subject as the rules, processes, or laws by which institutions are operated, regulated and governed. It is developed with the primary

purpose of promoting a transparent and efficient system that will engender the rule of law and encourage division of responsibilities in a professional and objective manner. In Thailand, the National Corporate Governance Committee (NCGC) defined the term as a system having a corporate control structure combining strong leadership and operations monitoring. Its purpose is to establish a transparent working environment and enhance the company's competitiveness. The Organization for Economic Cooperation and Development (OECD) also defines corporate governance as the system by which business corporations are directed and controlled. The Asian Development Bank defined the concept as the manner in which authority is exercised in the management of a country's social and economic resources for development (Eng & Mak, 2003; Cheng, 2008; Cadbury, 2002). Corporate governance was described to be a way and manner in which the affairs of companies are conducted by those charged with that duty. In Nigeria, the governance of a limited liability company is the responsibility of its board of directors. Dozie (2003) believes that corporate governance is characterized by transparency, accountability, probity and the protection of stakeholders' rights. Oyediran (2003) further observes that corporate governance refers to the manner in which the power of a corporation is exercised in the management of its total portfolio of socio and economic resources with the aim of increasing shareholders' value and safeguarding the interest of other stakeholders in the context of its corporate mission.

Prowse (1998) posits that corporate governance refers to the rules, standards and organizations in an economy that govern the behavior of business owners, directors, and managers and define their duties and accountability to outside investors. Solomon & Solomon (2004) view it as the mechanism of checks and balances, both internal and external to companies, which ensures that organizations discharge their accountability to stakeholders and act in a socially responsible manner. Monks and Minow (1996) opine that corporate governance is the relationship among various participants in understanding the direction and performance of business organizations. This concept can be perceived as structure and processes to direct and control corporations and to account for their operations (Neuberger & Lank, 1998). Another opinion put across by Sanda et al. (2005) sees corporate governance as the ways in which all parties interested in the wellbeing of the corporation try to ensure that managers and other parties take necessary approach to safeguard the interest of all investors. Iskander & Chamlou (2000) stated that corporate governance is important not only to attract long-term foreign capital, but more especially to broaden and deepen local capital markets by attracting local investors both individual and institutional. Nielsen (2000) reported that corporate governance is the system of rights, structures and control mechanisms recognized internally and externally for the management of a listed public limited liability company, with the aim of protecting the interests

of stakeholders. Conclusively, what is evident from the various definitions reviewed is that corporate governance is the set of structures, processes, cultures and systems through which objectives are determined and companies are directed and controlled. Majority of the definitions are similar but presented in different ways.

Theories and Models of Corporate Governance

Theories of and models which explain corporate governance are well documented in accounting and finance literature. Three contrasting models (exclusive Vs inclusive model, conformance Vs performance model and enterprise Vs regulatory model) and four theories (stewardship theory, the theory of firm, the stakeholder theory and agency theory) are reported to provide the theoretical model for researches on corporate governance (Collier & Robert, 2002; Goodpaster, 2004; Rossouw, 2005; Ajagbe & Ismail, 2014). First of all, in the exclusive model of corporate governance, the directors are viewed as change agents of shareholders and in that capacity they have to manage the organization to the benefit of the shareholders. However, their role does not extend to other stakeholders such as creditors, tax authorities, employees and the general public.

Secondly, the conformance Vs performance model perceives corporate governance from direction and controlling point of view. The direction functions of corporate governance focus on the task of the board to attend to strategic positioning and planning, and to enhance the profitability and sustainability of the company. The control function, on the other hand, focuses on the conformance task of the directors to oversee the executive management of the company in execution of the plans and strategies of the organization. Third, the enterprise Vs regulatory model undertakes that governance can either be carried out depending on management policies or on statutory provisions. Krieger (1991) opines that there is therefore the need to distinguish such models considering the dimensions of governance adopted.

On the enterprise level, governance points to the manner in which the firm directs and controls its own affairs, while governance on the regulatory level points to the regulatory atmosphere within which organizations operate. In another perspective, empirical studies recommend four theories that can be implemented to evaluate governance in firms (Krieger, 1991; Hamilton & Kashlak, 1999; Erhardt et al., 2003). As mentioned earlier, stewardship theory requires directors to be accountable to owners for the resources entrusted to them. This theory represents a consensus perspective which rejects the notion that the board of directors is a disciplining mechanism to align conflict of interest between shareholders and managers. The stakeholder theory holds that companies are accountable for their stewardship over the resources entrusted to them by a coalition of various stakeholders which include shareholders,

employees, suppliers, bankers, regulatory authorities and the general public. Erhardt et al. (2003) argued that the theory reveals the function of the board of directors in the creation of utilities thus allowing other variables of production to earn their rewards. Finally, the agency theory sees the directors as agents of the shareholders and focuses on the need for them to act in the best interest of shareholders.

Firm Performance

Erhardt et al. (2003) carried out an investigation aimed at finding the linkage between board gender diversity and financial performance of firms in the United States of America using correlation and regression analysis. The results show that board gender diversity has a positive linkage with firm financial performance. Cheng (2008) studied the impact of ownership structure on profitability of Chinese firms. The results of the study shows that there is a significant positive relationship between concentrated ownership and firm financial performance. The result also shows that there is no significant relationship between firm performance and ownership concentration in countries which recently joined the Europe Union. Farreira (2010) found that an increase in the number of female directors does not have any significant impact on the return on assets of firms. Sanda et al. (2005) studied the connection between corporate governance mechanisms and financial performance of Nigerian firms using pooled ordinary least squares regression analysis technique (Solomon et al., 2012; Ajagbe, 2007). The results show that board structure has no significant relationship with return on equity while board size has a negative relationship with return on equity.

Abu-Tapanjeh (2006) evaluated the connection between good corporate governance mechanism and financial performance of Jordanian firms using multivariate regression technique. The results of the study show that board structure has positive relationship with financial performance. Rose (2007) also investigated the impact of female board representation on financial firm performance of selected quoted Danish companies. The result shows that gender diversity does have significant impact on firm financial performance. Aljifri & Moustafa (2007) employed cross-sectional regression analysis technique to find out the impact of board characteristics on performance of firms in United Arab Emirates. The results reveal that board size has an insignificant impact on firms' performance. The results further reveal that governmental ownership has a significant relationship with firm performance while the institutional ownership has no significant relationship with firm performance.

Bathula (2008) performed a study in New Zealand to find out the relationship between gender diversity using the general least square analysis technique. The findings of the study reveal that gender diversity was positively related with firm performance while director

ownership is negatively related with firm financial performance. Babatunde & Olaniran (2009) investigated the relationship between governance mechanism and performance of corporate firms in Nigeria. The results show that there is an inverse relationship between director's shareholdings and return on asset. The results further show that there is a positive relationship between board size and ROE, and a negative linkage between board independence and ROA. It was observed that the impact of female board members depends on the nature of the tasks performed. The result shows that the ratio of female directors has a positive direct relationship with board strategic control but no direct relationship with board operational control among Norwegian firms. Ibrahim et al. (2010) investigated the impact of corporate governance on performance of Pakistan chemical and pharmaceutical   companies. The results of the study show that board independence has positive impact on return on equity but has no significant impact on return on asset. The results also show that ownership structure has a significant impact on return on equity but has significant on return on equity.

Amran (2011) studied the relationship between board characteristics and performance of Malaysian firms using panel data methodology. His findings reveal that board size has a significant negative relationship with firm performance. Adusei (2011) find out the relationship between board structure and bank performance of Ghanaian firms employing panel data. The finding of the study reveals that, as board size of a bank's board of directors decreases its profitability increases. Al-Hawary (2011) studied the influence of banks corporate governance on performance. The result of   the study shows that board independence has a significant influence on performance. Al-Manaseer et al. (2012) employed pooled data analysis technique to investigate the impact of corporate governance on performance on Jordanian banks. The results reveal that there is a significant negative relationship between board size and return on equity. Claessens & Yurtoglu (2012) in their study on the Czech Republic find that the higher the level of ownership concentration, the higher the value and profitability of the company.

Board Size

Dozie (2003) defined board size as the number of members that form the board. There is no agreed number of members that make up an ideal board size. There have been diverging opinions by various researchers on the number of persons that should make up an ideal board. Some school of thought are of the opinion that a small board is more effective because it enhances fast decision making and cannot be manipulated by management. John & Senbet (1998) argue that large boards are less effective and are easily controlled by the CEO. When a board gets too big, it becomes difficult to coordinate and for it to process and tackle strategic problems of the organization. Dozie (2003) also argues that a smaller board may be less

encumbered with bureaucratic problems, more functional and more able to provide better financial reporting oversight. Some of the disadvantages associated with a large board are high cost of coordination and delay in passing information. It is also associated with weak monitoring. Dalton et al. (1999) argue that a large board is overcrowded and hence does not give room for each member's input; it is also less organized and unable to reach a decisive conclusion on time. The study measured the board size by the number of directors serving on such boards and expected this to have a negative relationship with performance. Hence, the following hypothesis was tested:

Ho: There is no significant relationship between board size and firm performance

Board Independence

John & Senbet (1998) argue that a board is more independent if it has more non-executive directors. As to how this relates to performance, empirical results have been inconclusive. In one breath, it is asserted that executive directors are more familiar with the firm's activities, therefore are in a better position to monitor top management. On the other hand, it is contended that non-executive directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. According to Fama & Jensen (1983), independent directors are incentives to scrutinize diligently, because they seek to protect their reputation as effective monitors of managerial discretion. Since they are in a better position to discipline management, independent directors are arguably more effective in prohibiting opportunistic behavior, thereby reducing potential agency conflicts (Bhagat & Black, 2002). However, some authors have found that there is no significant relationship between proportion of non-executive directors and performance. Rossouw (2005) asserts that the effectiveness of a board depends on the optimal mix of inside and outside directors. However available theory on determinants of optimal board composition is scanty. The study expected board independence to have a positive relationship with firm financial performance. Subsequently the following hypothesis was tested:

Ho: There is no significant relationship between board independence and firm financial performance

Ownership Structure

Long et al. (2013) argued that the nature of ownership of a firm also constitutes a dimension of its governance structure and should therefore influence firm financial performance. In countries like Australia, Belgium, Germany and Italy, over 50% of listed firms have large stockholders who own more than 50% of such firms. This is not common in the US and emerging economies like

Nigeria, where it is contended that ownership is less dispersed and control is not fully separated from ownership. Ajagbe & Ismail (2014) report that large equity owners may stimulate the firm to undertake higher-risk activities since shareholders benefit on the upside, while debt holders share the costs of failure. When there are large block holders, mechanism is put in place to ensure equitable treatment of all shareholders. This study considered institutional ownership by percentage of shares held by institutions. Institutions under such circumstances serve as extra monitoring device on the operation of the firm. It is therefore expected that ownership structure should have a positive relationship with firm performance. Subsequently the following hypothesis was tested:

Ho: Ownership structure has no significant relationship with firm financial performance

Board Diversity

Gender diversity on the board is supported by different theoretical perspectives. Agency theory is mainly concerned about monitoring role of directors given the perceived inherent conflict between the shareholders and management (Ajagbe & Ismail, 2014, Isiavwe, 2015). Representation from diverse groups will provide a balanced board so that no individual or group of individuals can dominate the decision-making of the board (Erhardt et al., 2003). The management may be less able to manipulate a more heterogeneous board to achieve their personal interests. Gender diversity is associated with effectiveness in the oversight function of boards of directors. The oversight function may be more effective if there is gender diversity on the board which allows for a broader range of opinions to be considered. According to Erhardt et al. (2003), diversity of the board of directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of many instruments adopted to reduce anticipated agency problems. From stakeholders' theory, diversity also provides representation for varying stakeholders of the firm for equity and fairness. From resource dependency views, the board is a strategic resource, which provides a connection to different external resources (Walt & Ingley, 2003). Several countries have put structures in place to promote board diversity. For instance, in Norway all listed firms must abide by a 40% gender quota for female directors since January 2008. Diversity can have positive effects on group performance since it endows a group with flexibility, which can be valuable if the group's tasks change or become more complex (Oyediran, 2003). In addition, if individual private data is valuable and is not fully correlated across board members, it would thus seem that a more diverse board would collectively possess more data and therefore would have the potential to make better decisions. It is

expected that the relationship between board gender diversity and firm performance should be positive. Subsequently the following hypothesis was tested:

Ho: There is no significant relationship between board gender diversity and firm financial performance

RESEARCH METHODOLOGY

The firms selected are all quoted companies in Nigeria drawn by employing simple random sampling technique to avoid biased selection. Data was derived from published annual financial statement of ten years (2004-2013) of the selected firms. Panel data regression was used as data analysis method for the study. The use of panel data regression methodology in this study is based on three fundamental justifications. (1) The data collected had time and cross sectional attributes and this will enable us to study corporate performance over time (time series) as well as across the sampled quoted companies (cross-section). (2) Panel data regression provide better results since it increases sample size and reduces the problem of degree of freedom. (3) The use of panel regression would avoid the problem of multicollinearity, aggregation bias and endogeneity problems (Solomon et al., 2012). However, the pooled data analysis neglects the heterogeneity effects in the sampled companies. Against this backdrop, the panel data was preferred as it allowed for analysis and consideration of the cross-sectional and time-series characteristics of the sampled companies. Consequently, the fixed and random effect was also conducted in the panel regressions for the models. The fixed panel regression models assume that there is a correlation between the independent variables in each model and their panel error terms. The random panel regression models assume that there is no correlation between the independent variables in each model and their panel error terms. In any case, the authors used the Hausman test to select between fixed and random panel estimation techniques. The model specified was subjected to the necessary statistical tests such as collinearity, normality, homoscedasticity, autocorrelation and linearity. The authors used return on assets (ROA) and return on equity (ROE) as the proxies for performance. In this study, the variables were selected based on alternative theories and previous empirical studies related to corporate governance and firm performance. In accordance with the theory and empirical studies, the independent and dependent variables of the study were identified in order to investigate the impact of corporate governance mechanisms on firms' financial performance. The basic panel data model is of the form:

Performance= f (corporate governance)

ROA=f (OWNSTR, BSIZE, BIND, BGD)

ROE=f (OWNSTR, BSIZE, BIND, BGD)

The above functions can be mathematically represented as:

$$ROA_{it} = \beta_o + \beta_1 BSize_{it} + \beta_2 BIND_t + \beta_3 BGD_t + \beta_4 OWSTR_t + e_t \text{ ……………………………. (1)}$$

Substitute ROA=ROE into (1) to arrive at;

$$ROE_{it} = \beta_o + \beta_1 BSIZE_t + \beta_2 BIND_t + \beta_3 BGD_t + \beta_4 OWNSTR_t + e_t \text{…………………….. .. … ... (2)}$$

Definition of Variables

Return on Asset (ROA)

Measures the overall efficiency of management and gives an idea as to how efficient management is at using its assets to generate earnings.

ROA = Profit after Tax / Total Asset

Return on Equity (ROE)

Measures a firm's financial performance by revealing how much profit a company generates with the money shareholders have invested. It shows how well the shareholders' funds are managed and used to generate return.

ROE = Profit after Tax / Total Equity

BDSIZE

Board size is a measure of the number of individuals on the board. It is used as proxy for board characteristics of the number of individuals on the board.

BDIND

This represents board independence and it is measured by number of non-executive directors on the board.

OWSTRU

This represents ownership structure of the firm. In this study three variants of ownership structure namely; foreign ownership, government ownership and institutional ownership were used.

BGD

This represents board gender diversity. It is the ratio of female director to total number of directors

ANALYSIS AND RESULTS

Descriptive statistics

Table 1: Result of the Descriptive Analysis

	BSIZE	BIN	BGD		ROA	ROE O	OWNSTR
Mean	11.82258	0.603347	0.181456		0.190582	1.738968	0.306133
Median	12.00000	0.430000	0.105000		0.110000	0.310000	0.300000
Maximum	24.00000	45.00000	9.700000		1.500000	307.0000	0.740000
Minimum	6.000000	0.000000	0.000000		-0.500000	-4.800000	0.000000
Std. Dev.	3.822051	2.835505	0.627013		0.230090	19.47883	0.242382
Skewness	0.615560	15.57087	14.22269		1.629670	15.61325	0.289049
Kurtosis	3.551010	244.3079	215.9379		8.194014	245.1841	1.739000
Jarque-Bera	18.79913	611726.3	476900.8		388.5444	616158.6	19.88462
Probability	0.000083	0.000000	0.000000		0.000000	0.000000	0.000048
Sum	2932.000	149.6300	45.00100		47.26440	431.2640	75.92100
Sum Sq. Dev.	3608.194	1985.901	97.10700		13.07654	93717.89	14.51098
Observations	248	248	248		248	248	248

Source: E-views 7.0

As shown in table 1 above, the board size reported a mean value of 11.82258 which means that on the average the sample companies have a board size of 12 directors.

The standard deviation reported relatively small values 3.822051 while OWSTR reported a standard deviation of 0.243482. The variable of BIND reported a standard deviation statistics of 2.835505.

The Jarque–Bera statistics reported very large values and their associated probabilities are significant. The implication of this is that the regression variables are all normally distributed. BSIZE reported a Jarque-Bera value of 18.79913 (0.000083); BIND 622726 (0.000000) respectively.

The variables are positively skewed and the positive value of the kurtosis signifies that the regression variables are peaked than the Gausian distribution. With Kurtosis value greater than 3, the variables are a Leptokurtic distribution. The kurtosis value of BSIZE=3.551010; BIND=244.3879. ROA=8.194014. Only the OWNSTR reported a kurtosis value of 1.739000<3 which represents Platykurtic distribution.

Table 2: Result of the Correlation Analysis

	BSIZE	BIND	BGD	ROA	ROE	OWNSTR
BSIZE	1.000000					

BIND	-0.008496	1.000000				
	-0.133261	-----				
	0.8941	-----				
BGD	0.005484	0.014563	1.000000			
	0.086012	0.228438	-----			
	0.9315	0.8195	-----			
ROA	-0.335833	0.048575	-0.019180	1.000000		
	-5.592112	0.762767	-0.300887	-----		
	0.0000	0.4463	0.7638	-----		
ROE	0.044965	-0.002126	-0.019730	-0.039017	1.000000	
	0.705955	-0.033350	-0.309513	-0.612429	-----	
	0.4809	0.9734	0.7572	0.5408	-----	
OWNSTR	-0.097191	-0.064529	-0.039227	-0.054087	0.001404	1.000000
	-1.531628	-1.014208	-0.615726	-0.849569	0.022017	-----
	0.1269	0.3115	0.5386	0.3964	0.9825	-----

Source: E-views 7.0

The correlation analysis reported in table 2 reveals the strength of the relationships amongst the variables used in the models. The result is mixture of positive and negative correlation. The correlation between ROA and BSIZE is negative (-0.335833) with a significant t- value of -5.592112 and associated with value of (0.0000). The correlation coefficients are relatively small with the highest value of (-0.335833) which means the absence of multicollinerity. BIND, ROA and OWNSTR reported negative correlation of -0.008496, and -0.335833 and -0.097191 with the variable of BSIZE, ROE was also negatively correlated BIND, BGD and ROA respectively.
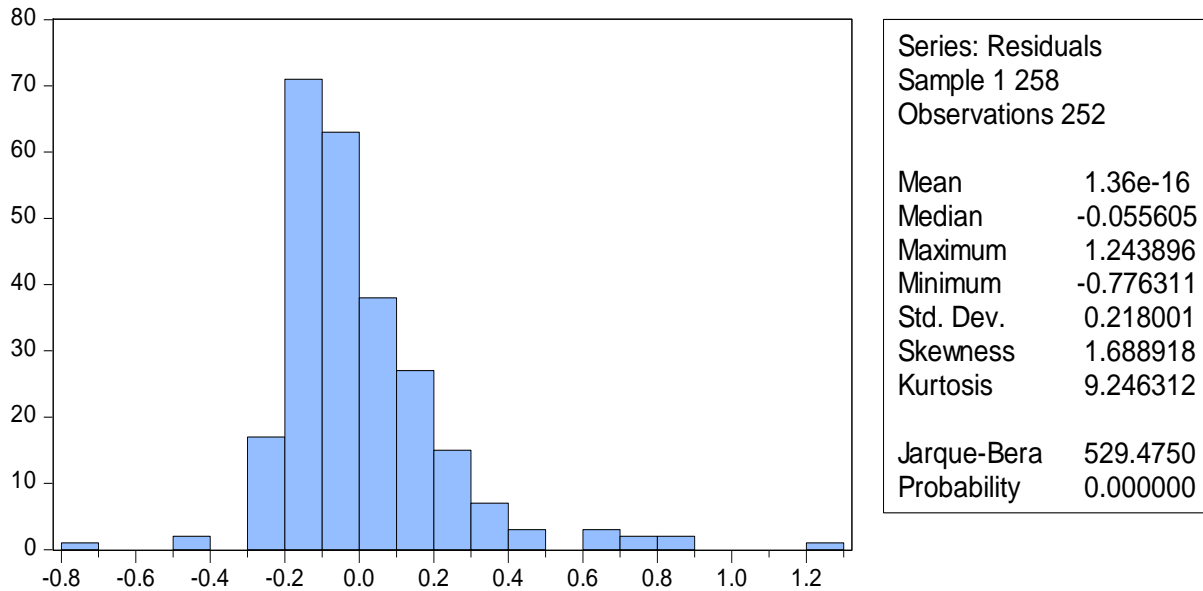
Table 3: Result of Variance of Inflation Factor

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.002585	13.48611	NA
BSIZE	1.34E-05	10.86906	1.009838
BIND	2.44E-05	1.050399	1.004501
BGD	0.000498	1.085349	1.001664
OWNSTR	0.003349	2.643302	1.015353

Source: E-views 7.0

To further strengthen the result of the absence multicollinearity, the study carried out a residual diagnostic test of variance inflation factor. The results of the centered VIF of the explanatory variables in table 3 above shows values less than the bench mark of 10. BSIZE reported a VIF of 1.009838; BIND1.004501, BGD1.001664 and OWNSTR 1.015353. As mentioned earlier the values are all less than a further confirmation of absence of multicollinearity.

Figure 2: Histogram of Normality Test

Series: Residuals	
Sample 1 258	
Observations 252	
Mean	1.36e-16
Median	-0.055605
Maximum	1.243896
Minimum	-0.776311
Std. Dev.	0.218001
Skewness	1.688918
Kurtosis	9.246312
Jarque-Bera	529.4750
Probability	0.000000

The histogram of the normality test further strengthened the Jarque–Bera statistics reported in table 1. The result reported in figure 2 signifies a bell–shape histogram with mean Jarque-Bera value of 529.4750 and associated probability value of 0.000000 which signifies normal distribution of the regression variables.

Table 4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.718504	Prob. F(4,247)	0.5800
Obs*R-squared	2.898470	Prob. Chi-Square(4)	0.5750
Scaled explained SS	11.48131	Prob. Chi-Square(4)	0.0217

Source: E-views7.0

The Breusch–Pagan–Godfrey test of heteroskedasticity was adopted and presented in table 4 above. The result of the reported probability values of 0.5800 and 0.5750 far exceeds the 0.05 benchmark. Hence the null hypothesis of heteroskedastic residual is uniform across all observations.

Table 5: Result of Ramsey Reset Test

	Value	df	Probability
t-statistic	1.378297	246	0.1694
F-statistic	1.899702	(1, 246)	0.1694
Likelihood ratio	1.938560	1	0.1638
F-test summary:			
	Sum of Sq. Df		Mean Squares
Test SSR	0.091412	1	0.091412
Restricted SSR	11.92867	247	0.048294
Unrestricted SSR	11.83725	246	0.048119

Source: E-views7.0

The Ramsey Reset test as shown in table 5 above is a test of model misspecification. The results of the test reported probability values of 0.1694 and 0.1694 which exceeds P=0.05 and signifies that our model was specified appropriately.

Analysis of Regression Results Model 1

Table 6: Regression Result

Variable	Pooled effect	Random effect
C	9.127146(0.0000)	4.526768(0.0000)
BSIZE	-5.635434(0.0000)	-2.534193(0.0119)
BIND	0.659087(0.5104)	0.153670(0.8780)
BGD	-0.3838847(0.7014)	-0.095356(0.9241)
OWSTR	-1.557102(0.1207)	0.425906
R-Squared	0.519575	0.410131
Adjusted R-Square	0.405317	5.642236
F-statistics	8.386576	0.00428
Probability (F-statistic)	0.000082	1.825456
Durbin-Watson stat	1.860643	0.4055

Source: E-views 7.0

The result of the pooled and random effect model is presented in table 6 above helps to explain the relationship between dependent and independent variables. The Hausman test reveal preference for random effect model having reported a probability value of 0.4055. The explanatory power of random effect model shows that the explanatory variable BSIZE; BIND, BGD, and OWSTR accounts for about 41% of the cross sectional variation in the dependent variable of ROA. The Durbin Watson statistics of 1.825456 is significantly close to 2.00 and signifies the absence of auto Correlation. The F Statistics of 5.64236 and the associated probability value of 0.00428 are significant and depicts a linear relationship between the dependent and the independent variables.

The robust t value of -2.534193 reported by the variable BSIZE is beyond the likelihood of chance. It reveals that there is a significant relationship between board size and profitability, even though the relationship is negative. The negative relationship is premised on the fact that too much energy and time are dissipated over trivial issues in board meetings. In addition, larger boards require huge overhead cost which may reduce the profit of the organization. The finding corroborates the report by Amran (2011) who also found a negative relationship between board size and profitability. It however deviates from the positive relationship established by Babatunde & Olaniran (2009).

Board gender diversity and ownership structure reported negative and insignificant relationship with profitability of -0.09. This means the presence of women on the board reduces the profitability. It is evident that women directors are less committed to board activities because they most of time engross in personal issues. The results conform to extant negative relationship reported by Farreira (2010), but deviates from the positive relationship by Erhardt et al. (2003). Board independence was found to have a weak positive relationship with profitability which means that an independent board will help to improve the level of profitability. This will help to improve the level of profit of the organization but at very slow rate. Ownership structure shows a positive but insignificant relationship to firm performance. This is consistent with the findings of Long et al. (2013) which found that there is no significant relationship between ownership structure and firm financial performance.

Table 7: Analysis of Regression Results Model 2

Variable	Pooled effect	Random effect
C	-0.222660(0.8240)	-0.251026(0.8020)
BSIZE	0.7074419(0.4800)	0.7205546(0.4719)
BIND	-0.017546(0.9860)	-0.018904(0.9849)
BGD	-0.308268(0.7581)	-0.288544(0.7729)
OWNSTR	0.077170(0.9286)	0.080095(0.9362)
R-Square	0.102447	0.072505
Adjusted R-Square	0.093973	0.033915
F-Statistics	0.149047	0.152571
Probability (F-Statistics)	0.9633297	0.961719
Durbin-Watson	2.270612	2.289154
Hausman		0.8091

Source: E-views 7.0

Table 7 shows correction of panel data in order to get a favorable result. The second model with dependent variable of ROE also had preference for random effect model with Hausman test stood at 0.8091. The explanatory power of the random effect model in table 7 above shows that

R-Square stood at 1% of the cross-sectional variation of ROE was accounted by the explanatory variables. The F Statistics of 0.149047 was far from being significant. The Durbin Watson stood at a value of 2.289154 is within the grey area and shows the absence of auto correlation. The variables of BSIZE and OWNSTR were both positive and insignificant. BSIZE reported a positive value of 0.720546 even though relationship is statistically insignificant. OWNSTR reported a positive t-value 0.80095 though insignificant. BIND and BGD both reported insignificant negative relationship with profitability. BIND has a t-value of -0.018904 and BGD had a t-value of -0.288844.

CONCLUSION

This study finds that the relevance of corporate governance cannot be over-emphasized since it constitutes the climate for internal activities of the firm. The descriptive statistics shows that the model is normal. The diagnostic show that there is no auto-correlation .The study examines the impact of corporate governance on financial performance of quoted companies in Nigeria using two models. The return on equity (ROE) and return on assets (ROA) were used as the proxies for firm performance. The result of regression analysis reveals that large board reduces profitability especially when the board is dominated with executive directors, while board independence does have significant impact on profitability. The study also discovered that board gender diversity does have any significant impact on firm profitability. Finally, the results show that ownership structure has no significant impact on firm's profitability. Based on the result of the study the following recommendations were given. Statutory and regulatory bodies should ensure that quoted companies maintain small board membership. Government should enact laws on institutional and governmental ownership to serve as control mechanism and in the long run enhance firm performance. Female directors are minority, even though their presence does not significantly contribute to firm profitability, could be given a reasonable mandatory quota on board membership. This will enhance cross fertilization of technical know-how. Finally, researchers who intend to beam their search light on this area should explore corporate governance and firm performance; a comparative study of banking and non-banking institutions in Nigeria.

LIMITATION OF CURRENT RESEARCH

This current study is limited in its scope because it focused mainly on finding the impact of corporate governance on firm performance of selected companies quoted on the Nigerian stock exchange. This may limit a wide applicability to other organizations not quoted on the Nigerian stock exchange. Another limitation could be in the area of research methods adopted in this

investigation. This method is purely quantitative in nature, other researchers may adopt a broader approach by triangulation of data through the use of both quantitative and qualitative method of data collection. This will help to adequately justify research findings and enhance applicability. Also the sample surveyed is companies in Nigeria and may not be applicable to other country context.

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