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EFFECT OF CORPORATE GOVERNANCE ON PERFORMANCE OF CONSUMER GOODS FIRMS IN NIGERIA

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Abstract
This paper examines the effect of corporate governance on the selected consumer goods firms in Nigeria. Data was sourced from firms Annual reports (secondary data). The population of the study consists of five selected consumer goods firms and the scope of study ranges from 2015 to 2022. The data was analyzed using Regression technique. It was found that the Board size of selected consumer goods companies in Nigeria has a positive and significant (0.01) effect on Return on Equity (ROE). It also revealed that Audit committee composition of the selected consumer goods companies in Nigeria has a positive and significant (0.001) effect on the ROA during the period of the study. The study therefore recommends that there should be mandatory compliance with the code of corporate governance by all firms in Nigeria.

Keywords: Corporate governance, Audit committee, Board size, Return on asset, Return on equity.

Introduction
Corporate governance is increasingly recognized by the business communities and capital market regulators as a fundamental instrument of corporate financial performance. It differs throughout the world but there is a common view among stakeholders that certain mechanism must be present in order to minimize the issues of misconduct, bribery and corruption by ensuring corporate disclosure and transparency (lekaram 2014). In Nigeria

corporate governance cannot be separated from company law. Prior to the time the expression “corporate governance” became popular, company law recognized and still recognizes two organs of the company; the board of directors and the company in general meeting. Corporate governance as a concept merely stresses the greater focus that should be paid on how a company should be run by those put in charge of company’s affairs.Ibekwe and Harry (2018) posit that corporate governance is all about running an organization in a way that guarantees that its owner as stakeholders are receiving a fair return on their investment. It is a process of a virtuous circle that links the shareholders to the board, to the management, to the staff, to the customer and to the community at large. Corporate governance has become a determinant and a means of identifying company’s strength, weakness and performance. The subject has new urgency because of global financial crises and major corporate failures that shock major financial centers of the world.

Before 1990, the principal company law statute in Nigeria was company Act 1968. The enactment was a comprehensive legislation modeled after the companies Act 1948 of the United Kingdom. The Companies and Allied Matter Act Cap C20, laws of the federation of Nigeria was the product of a rigorous process championed by Nigeria Law Reform Commission. The Code of Best Practices of Corporate governance in Nigeria (2003 SEC Code) issued by Security and Exchange Commission (SEC) in 2003 greatly impacted the corporate governance scene in Nigeria. In the first place, it was the first corporate governance to be issued by any regulator in Nigeria. Secondly, it was applicable to all public companies registered in Nigeria. 2008 Pension Commission (PENCOM) code, 2009 National Insurance Commission(NAICOM) code and 2011 SEC code followed suit. A few months after the 2011 SEC Code became operational, the Financial Reporting Council of Nigeria Act 2011 (FRCN Act) was enacted by the federal government.

The FRCN says under the proposed 2018 Nigerian Corporate Governance Code for the private sector that the existing sectoral codes across the country will serve as guideline for the regulators. The Chairman Mr Dotun suleman at a press briefing on the Exposure Draft of the 2018 Nigerian Code of Corporate Governance in Lagos said that “All sectoral Codes would become guidelines and a sectoral regulators could issue guidelines that set out corporate governance practices consistent with the principles in this code and enforce compliance with such guidelines with appropriate sanctions as may be prescribed by them"(Guardian Newspaper 2018).

Statement of Problem

Global corporate scandals that took its toll with the collapse of once prestigious companies such as Enron Worldcom reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism worldwide(Odunayo 2014). In Nigeria like most countries, the failure of companies can be due to internal or external factors or in rare cases the combination of both. However in most cases usually, it has to do with internal cases such as corporate governance. The same case of abuse of corporate governance include the gross financial misconduct committed by the former managing director of Oceanic Bank of Nigeria PLC, Union Bank of Nigeria and recently Skye Bank of Nigeria and other banks widely reported in the press. Investors in Nigeria have lost several billions of naira through collusion of companies directors and Chief Executive Officers (CEO). As a consequence of poor corporate governance which has resulted in the distress or occasionally the closure of companies, some indigenous Nigerian Managing Directors of multination corporations such as Unilever Nigeria PLC and Cadbury Nigeria PLC have been sacked and replaced with expatriates. Many authors have examined the effect of corporate governance on the performance of banking sector in Nigeria. Some other authors researched on manufacturing firms and conglomerates. It is therefore necessary to examine the effect of corporate governance on the financial performance of consumer goods sector in Nigeria because of its significant role as a mover of economy. It is against this backdrop that the researcher seeks to examine the effect of corporate governance on the financial performance of selected consumer goods companies in Nigeria.

Objectives of the study

The main objective of the study is to examine the effect of corporate governance on financial performance of selected consumer goods companies in Nigeria.
The specific objectives are

1. To determine the effect of board size on return on equity of selected consumer goods companies in Nigeria.
2. To examine the effect of audit committee composition on the return on assets of selected consumer goods companies in Nigeria.

Review of related Literature

Conceptual framework - Alp and Kilic (2014) posit that there are different definitions of corporate governance by three different groups: definitions that arrange relations between the firms and the share holders, definitions that predicate on intended outcomes and definitions based on management concept which rely on certain objectives and principles. Based on these classifications corporate governance can be defined as a set of relationship between a company's management, its boards, its share-holders and stake holders. It is thus framed to perform a system of supervision that uses techniques like board structure, reporting and remuneration to provide shareholders with the necessary information to hold management liable for decision (Lekaram 2014). Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. It essentially involves balancing the interest of a company's stakeholders such as shareholders, management, customers, suppliers, financiers, government and the community (Investopedia) Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and maintaining performance. No single model of corporate governance exists and each country rely on their culture to attempt to find the most suitable governance system (OECD 2015).

Return on assets {ROA) is a ratio which seeks to measure the amount of profit generated from the entire asset of the company (Okunola & Ojochema 2022). It is commonly defined as net income divided by total assets. Net income is derived from the income statement of the company and is the profit after taxes.

Return of equity (ROE) represents profitability of shareholders of the firm after meeting all expenses and taxes (Horne 2002) in corporate finance, it is a measure of the profitability of a business in relation to the book value of shareholder equity also known as net assets or assets minus liabilities. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing.

Board size: This is considered to be one of the major ways of monitoring firms conducts and performance. It is responsible for hiring and firing employees, setting employees compensations and taking key decisions. In theory, the board is responsible to the shareholders and to govern a company's management. But in many instances, the board has become a servant of the Chief Executive Officer (CEO) who is also the chairman of the board. There is no universal agreement on the optimum size of board of directors. A large number of members represent a challenge in terms of using them effectively and or having any kind of meaningful individual participation.

Audit Committee

It operates as a representative of the board of directors from whom it receives its powers to perform its corporate governance responsibilities which include: overseeing and monitoring the organization's financial reporting, disclosures, internal and external audit and internal control. Adekoya (2012) opined that audit Committee is a critical link between a company's financial reporting function and its external shareholders. Audit Committee effectiveness can be achieved by encouraging independence of the committee members through more independent outside directors in the committee. A strong audit committee is expected to remedy poor governance systems (e.g. agency problems) that seem to prevail in emerging markets.

Theoretical Framework

There are several theories that describe the relationship between corporate governance and company's performance. They include stakeholder theory, stewardship theory and agency theory.

Stakeholders Theory: This theory holds that business organization must play an active social role in the society in which it operates. An advocate of this theory, Freeman (1984) presented a more positive view of manager's support of corporate governance mechanism. He asserts that managers must satisfy a variety of constituents who can influence the firm's output. According to his view, it is not sufficient for managers to focus exclusively on the needs of shareholders who are the owners of the company. Stakeholders Theory implies that it can be beneficial for firms to engage in certain corporate social responsibility activities that non-financial stakeholders perceive to be important otherwise this group might withdraw its support.

Stewardship Theory

Stewardship theory suggests that there is no agency cost between principals (owners) and the agents (managers). There is a consensus in the interests of the shareholders and managers thus minimizing the necessity to monitor the management for increasing shareholders wealth. The theory also says that the board should have a significant proportion of inside directors to ensure more effective and efficient decision making. This is because inside directors (Executive Directors) understands the business better and thus make better decisions than outside directors (Non Executive Directors). It is also assumed that enhanced firm performance is closely related to the decisions of inside directors as they work for the maximization of stakeholders wealth

Agency Theory

The theory has its root in the economic theory and it dominates the corporate governance literature. It is concerned with the problems arising as a result of conflicts of interest between principals and agents. Agency theory basically explains how the unhealthy relationship between managers and shareholders generate costs of inefficiencies thereby affecting the firm's performance (Agbaeze & Ogosi 2018). There are two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one which reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human being as self-interest is a generally accepted idea. In its simplest form, agency theory explains the agency problems arising from separation of ownership and control.

This study anchored on agency theory in the sense that agent represents the principal in business transactions and is expected to represent the best interest of the principal without regard for self-interest. The different interests of principals and agents may become a source of conflict as some agents may not perfectly act in the principals best interests.

The resulting miscommunication and disagreement may lead to various problems within companies. Corporate governance can be used to change the rules under which the agent operates and restore the principals' interest.

Empirical Review

Okonla and Ojochema (2022) examined effect of corporate governance and firm performance of listed Deposit Money Bank in Nigeria. The study used a well structured questionnaire to collect the data and was analyzed with Chi-Square. The findings suggest that a strong board of directors is linked to prosperous financial firm. The result of board composition showed a positive and statistically significant effect on ROE ($r = 0.267$, $p = 0.006$), and statistically insignificant impact on ROA ($r = 0.024$, $p = 0.021$). Board size was found to have a positive and statistically significant on ROA ($r =0.251$, $p = 0.010$) with a p-value less than 0.05 for a two tailed test. Dulyamba, Benjamin, Stephen and Daniel (2022)studied effect of corporate governance mechanisms on the financial performance of listed consumer goods companies in Nigeria. Secondary data was collected and a judgmental sampling technique for the sample selection. Descriptive statistics, Correlation Matrix, OLS and Hausman test were used in the analysis. The results revealed that top management team and CEO characteristics have a significant and positive impact on ROE, whereas audit committee independence and external auditors independence have significant negative influence on ROE of consumer goods companies in Nigeria. Finally, shareholders involvement has a negative but insignificant influence on ROE.

Molokwu and Duru (2020) investigated the effect of Corporate Governance on the Performance of Deposit Money Banks in Nigeria. Ex-Post Facto research design was adopted and secondary data were obtained from Annual reports of selected Deposit Money Banks for a period of ten years (2009-2018). The objectives are to investigate the extent to which Board size affects Return on Equity and also to determine the effect of Board composition on the Net profit of Deposit Money Banks in Nigeria. Hypotheses were formulated and analyzed using Ordinary Least Square (OLS) regression method. The result reveals that the Board size has significant and positive effect on the Return on Equity (ROE) of Deposit Money Banks in Nigeria. It equally shows that Board composition has positive significant effect on their net profit as well. The study recommends that effort should be made to increase shareholders' returns on investment by making sure that corporate organizations appoint Board members based on professional expertise and integrity.

Ibekwe and Harry (2018) studied corporate governance in international oil companies by reviewing existing literature. The paper examined corporate governance standards, governance structure put in place in international oil companies and the implementation thereof. The study concluded that a sound governance framework encompasses multiple areas across oil companies and several crucial segments include in the planning to ensure that the developed governance frame work is both implementable and also takes root within the organization to ensure that benefits are achieved.

Adeoye and Amupitan (2015) investigated corporate governance in Nigeria Banking Sector. Data was sourced from survey questionnaire. The findings revealed that lack of presentation of information is common in pre-consolidation than post-consolidation era.

Frauds, override of internal control and non-adherence to limit of authority in a bid to meet set targets and recapitalization of banks play a vital role in promoting effective corporate governance. It recommends that promoting the culture of whistle blowing and promoting business ethics through moral education will strengthen the financial system and encourage compliance with the code of corporate governance. Also, establishing strong anti-fraud controls that would serve as deterrents to fraudsters at every level within the deposit money banks.

Okaro and Okafor (2014) researched on compliance with corporate governance code. Evidence from eighty four firms listed on Nigerian Stock Exchange served as sample size while descriptive statistics was used to analyze the data. The findings showed high degree of compliance with corporate governance (2011) code of best practices in terms of board independence and diligence, audit committee independence, size and diligence as well as number of board meetings. Based on the findings, they recommend that encouragement should be given to shareholders activities and that audit committee should be headed by financial expert for effective leadership.

Adeusi, Akeke, Aribaba and Adebisi (2013) studied the relationship between corporate governance and performance in Nigerian banking sector. Based on the econometric model, the result indicated that improved performance of the banking sector is not dependent on increasing the number of executive directors and board composition. It shows further that when there are more external board members, performance of banks tend to be worse. The study recommended the need for increase in board size and decrease in board composition as measured by the ratio of outside directors to the total number of directors in order to increase bank performance.

Research Methodology

This section discusses the research design, population of the study and methods of data collection.

Population of the study

The population of the study is made up of five consumer goods companies listed in the Nigerian Stock Exchange as at 2017. The companies are: Nestle Nig. PLC, Cadbury Nig. PLC, Unilever Nig. PLC, P-Z Nig. PLC and Flour Mills Nig. Plc.

Method of Data collection

Data for calculating return on asset and return on equity was extracted from the Annual Reports and Accounts of these companies for the period under study (2015-2022). The data include total asset, shareholders fund and Net income or Net profit for the year.

Method of Data Analysis

Data collected from Annual reports and accounts of the consumer goods companies were analyzed using regression technique. Regression analysis is a method to quantify the relationship between dependent and independent variables with the aid of SPSS ver. 20.

Variable Description.

Dependent Variable;

Return on Asset = $\frac{NetIncome}{TotalAsset}$

Return on Equity = $\frac{Netincome}{ShareholdersEquity}$

Table 1.

COMPANIES	YEARS	NO. OF AUDITCOM	NO. OF BOD	ROA =N=	ROE =N=
NESTLE PLC	2015	6	8	15.23	0.85
	2016	6	8	21.22	0.71
	2017	6	8	23.76	0.62
	2018	6	7	20.57	0.55
	2019	6	8	20.96	0.62
	2020	6	7	19.91	0.62
	2021	6	7	4.67	0.75
	2022	6	7	22.97	0.09
CADBURY PLC	2015	6	7	4.00	0.22
	2016	6	7	10.00	0.17
	2017	6	7	8.62	0.14
	2018	6	7	17.05	0.09
	2019	6	7	8.20	0.54
	2020	6	7	4.14	0.53
	2021	6	7	6.65	0.51
	2022	6	7	16.06	0.19
UNILIVER	2015	6	12	8.90	0.50
	2016	6	7	10.08	0.57
	2017	6	14	10.08	0.51
	2018	6	14	7.78	0.32
	2019	6	8	4.33	0.15
	2020	6	14	2.01	0.26
	2021	6	10	0.44	0.10
	2022	6	12	8.21	0.14

COMPANIES	YEARS	NO. OF AUDITCOM	NO. OF BOD	ROA =N=	ROE =N=
PZ	2015	6	12	8.93	0.13
	2016	6	12	8.46	0.06
	2017	6	12	7.57	0.11
	2018	6	11	3.72	0.11
	2019	6	11	6.74	0.10
	2020	6	11	6.01	0.57
	2021	6	10	2.50	0.05
	2022	6	11	3.69	0.08
FLOUR MILLS	2015	6	10	8.20	0.34
	2016	6	10	3.96	0.21
	2017	6	14	4.75	0.10
	2018	6	10	3.66	0.09
	2019	6	14	4.63	0.10
	2020	6	15	1.05	0.03
	2021	6	14	4.47	0.10
	2022	6	14	2.86	0.09

H_{O1} Board size has non-significant effect on ROE of selected consumer goods companies in Nigeria.

VARIABLES	B	BETA	T	PV
ROE	-0.038	-0.431	-2.741	0.01
0.431				R2
0.161				Adjd R2
7.511				F-Value
1.062				DW

Source: Author's compilation

According to the preceding table, R2 = 0.431 and Adjusted R2 = 0.161. It shows that Board size of selected consumer goods companies in Nigeria has a positive and significant (0.01) effect on Return on Equity (ROE). Additionally, it was responsible for 0.43 (43%) of the variations in the ROE of Nigeria's consumer goods companies. All explanatory (predictor) factors have a statistically non-significant relationship to the response variable (ROE) if the p-value of the F-statistics is 7.511 > 0.05. Therefore, we reject the null hypothesis and accept the alternate, which states that the board size significantly affects the ROE of consumer goods companies in Nigeria. DW 1.062 < 2, which suggests an autocorrelation that is positive.

H_{O2} Audit committee composition has non-significant effect on ROA of selected consumer goods companies in Nigeria.

VARIABLES	B	BETA	T	PV
ROE	-1.195	-0.506	-3.616	0.001
0.256				R2
0.236				Adjd R2
13.073				F-Value
1.520				DW

Source: Author's compilation

Based on the finding on the above table R2 = 0.256 and adjd R2 = 0.236. it reveals that the Audit committee composition of the selected consumer goods companies in Nigeria has a positive and significant (0.001) effect on the ROA during the period of the study. It also explained that ROA accounted only 0.25 (25%) of independent variable.All explanatory (predictor) factors have a statistically non-significant relationship to the response variable (ROA) if the p-value of the F-statistics is 13.073> 0.05. We reject the null hypothesis and accept the alternate, which states that the Audit committee composition significantly affects the ROA of a subset of Nigerian consumer goods companies. DW 1.520< 2, which suggests an autocorrelation that is positive.

Summary of findings and conclusion

The study was carried out to determine the effect of corporate governance on selected consumer goods firms in Nigeria and the summary was that board size has a significant effect on firm performance using return on equity of consumer goods firms in Nigeria. It was also revealed that audit committee size has no significant effect on return on assets of consumer goods firms in Nigeria. From the analysis above, the study therefore concludes that the board size significantly affects the ROE of consumer goods companies and also Audit committee composition significantly affects the ROA of a the selected consumer goods companies in Nigeria.

Recommendations

Based on the findings of this research, the following recommendations are made for the policy regulators and corporate organizations.

1. In order to ensure shareholders returns, corporate organizations should be encouraged to appoint board members based on expertise, professional qualifications and as well as have outside independent directors in the size of the board.
2. Corporate governance should also focus on the value of stock ownership of board members since it positively relates to both future performance and to the probability of reduced board turnover.
3. Finally, there should be mandatory compliance with the code of corporate governance. It could be in form of legal framework to specify the rights and obligations of consumer goods firms and their stakeholders.

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