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CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: A STUDY OF SELECTED BREWERY INDUSTRY IN NIGERIA

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ABSTRACT

This study examines the relationship between Corporate Governance and Financial Performance of selected Brewery Firms in Nigeria. Corporate governance variables used include – Female Board members, Audit Committee members, Board of Directors and CEO duality, while the performance variable used was Profit after Tax (PAT). Regression and correlation test were used to estimate the relationship between corporate governance and firm financial performance. Findings from the study show that CEO duality that have a positive relationship on firm financial performance, the other three variables have weak and negative impact on the firm’s performance. The study recommends that firms boards should be increased to optimal size, female members should be included in the board of directors of companies and shareholders should make sure that Audit committee are working in other to improved performance of firm.

Keywords: Firm Performance, Female board members, Profit after tax, CEO Duality

INTRODUCTION

Following the corporate scandals that took its toll with the collapse of companies such as Eron and WorldCom, Tyco and also our own, Lever Brothers Plc, Cadbury Nigeria Plc and Golden Guinea Breweries, reiterated the need for an investigation into the quality of financial report and increased the clamoring for a better governance mechanism worldwide. It has been observed by accountants and financial economist that central to these corporate failure of companies, is that there are systematic deficiencies in accounting standard and governess system that generate financial information.’ Browen, Rajgopal and Venkatachalam(2003). In a bid to prevent such future failure of companies most nations across the globe introduced new code of best governance practice to align manager’s interest with the wealth maximization objective of the shareholders of which Nigeria was among the nations. Following the introduction of the corporate governance in Nigeria in 2003 and its continuous modifications, the result that it has achieved can be said to be minimal as there are fresh cases of governance malpractice that threaten the survival of quite a number of firms in different sector of the economy .Hassan and Ahmed (2012).

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Corporate governance refers to a set of rules and incentives by which the management of a company is directed and controlled. Good corporate governance maximizes the profitability and long term value of the firm for the share holders .Khumani etal (1998).La Porate, Lopez and Shieifer(2000) view corporate governance as a set of mechanism through which outside investors protect themselves against expropriation by insider. Corporate governance is about putting in place the structure, process and mechanisms that ensure that the firm is being directed and managed in a way that enhances long term shareholders value through accountability of mangers and enhancing organizational performance.

The choice of brewery industry is that the sector has contributed much to the growth and development in Nigeria economy .Ola (2001) noted that this sector contributes about 28 percent of manufacture value Added and provides direct employment for over 30,000 persons. The indirect employment associated with the industry is close to 30,000 including the firm producing ancillary services. The weakness inherent in the application of corporate governance principle is perhaps the most important factor responsible for most corporate failures. It is on this note the paper aims at examining corporate governance and financial performance – a study of selected brewery industry.

Objective of the study.

The major objective of the study is to find out the impact of corporate governance on financial performance of selected brewery firms in Nigeria, specifically the study seeks to

1. To determine whether CEO duality has any effect on firm's financial performance.
2. Ascertain the influence of female board composition members on firm financial performance.
3. Find out whether number of the board size members has an impact on firms financial performance.
4. Ascertain the relationship between audit committee and firms performance.

Research Questions.

1.To what extent does CEO duality affect financial performance?
2.How does board composition relate with firm's financial performance?
3.To what extent does board size affect financial performance?
4.To what extent does Audit committee influence on firm performance?

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Statement of Hypothesis.

1. HO1 CEO Duality does not have significant relationship with firm performances.
2. HO2 There is no significant relationship between female board members and firm's performance.
3. HO3 Number of board members, has no significant relationship with a firm performance?
4. H04 Audit committee member have no significant relationship to firm's performance.

2.0 Empirical Literature Review

The word Governance means to exercise an authority, direction and control. Nigeria, as an emerging economy looks to the private sector for the required quantum of development. A sound system of corporate governance is imperative to ensure that managers and directors of enterprises carry out their duties within a frame work of accountability and transparency (Report of the committee on corporate Governances 2003). Corporate governance has also been defined by Keasey et al (1997) to include „the structures, processes, cultures and systems that engender the successful operation of organizations.‟ the definition could therefore be centered on how the organization relates with other stake holders within an environment. Therefore, corporate governance describes how companies ought to be run, directed and controlled (Cadbury Committee, 1992). It is about supervising and holding to account those who direct and control the management.

Corporate governance is about promoting corporate fairness, transparency and accountability, Glossary (2013). Adedoltum(2003) sees corporate governance as the frame work for accounting for decision making, it is effective management relationship within the organization integrity to enhance firm performance for the benefit of all stakeholders.

Corporate governance has been defined as the ways which suppliers of finance to corporation assure themselves getting retunes on their investment .Shleieifer and Vishny(1997).It has also been defined as a system by which companies are directed and controlled to ensure maximum return to shareholders. Mallin(2007).

Karim and Zeina (2007) define corporate governance as establishment of contractual internal control mechanisms, motives and accountability to ensure management and financial structure and report credibility. Zabihllah Rezaee(2007) shows that corporate governance can be defined in narrow scope as: corporate compliance with reform where in wider concept he defined it as wide set of participant in company's management including board of directors, shareholders and other stakeholders.

Zingalas(1998) defined corporate governances as a group of mechanism that stakeholders us to grantee that directors effectively mange corporate recourses. According to Monks (1996) the challenge of corporate governance is to find a way to maximize wealth creation over time, in a manner that does not impose in appropriate cost on the third parties or society as a whole

2.3 Theoretical Framework.

The theory that presents a clear direction and firm behavior about corporate governance is the Agency theory.

Agency theory was developed by Jensen and Meckling (1976) who argued the theory refers to the relationship between the principals, such as shareholder and agents such as the company executive and mangers. In this theory, shareholders who are owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholders agents. Jensen and Meckling (1976) further specified the existence of agency cost which arise owing to the conflicts either between managers and shareholder or between shareholder and debt holders. According to agency model, the separation of ownership and control creates an inherent conflict of interest between the shareholders (Principal) and the management (Agent) Aguilera et al(2008)Therefore, managers must be controlled to avoid moral hazed using some risk-bearing and monitoring mechanisms that checkmate their deviant behaviors. Agency theory advocated for clear separation between decision management and control .Eisenhardt (1989) elaborated that agency theory is concern with resolving two problems that can occur in agency relationship

2.1 Empirical Review.

In 2014 Sayla Siddiqui investigated the effect of corporate governance characteristic on firm performance based on 25 previous works The study consist of three particular concerns namely the effect of 1) legal organsiation2) governance structure and 3) accounting or market performance measures. Findings indicate that the value of the market of business performance measured by Tobin's Q in the place and market to book value is the fundamental value of the relation.

Pooja Gupta and Aarti Mehta Sharma (2014) examined a study to determine the impact of corporate governance variables on firm's performance in Indian and South Korean companies, result illustrate that corporate governance has limited effect on both the company's share prices as well as on their financial performance.

Another study conducted by S.Danoshana and T.Ravivathani (2014) to explore the effect of corporate governance on business performance of 25 listed financial institutions in Sri Lanka for a period 2008-2012. Return on Equity and Return on assets were used in the study as the key

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variable to define business performance. Finding show that corporate governance variable has significant effect on business performance.

Adekunle and Aghedo (2014) carried out a study on corporate governance and financial performance of selected quoted companied in Nigeria. When return on asset (ROA) was used as dependent variable, all the corporate governance variables were positively associated with performance except ownership structure.

Adel Bino and Shrouq Tomar (2012) in their study revealed that ownership structure and board composition have a strong impact on Bank performance and Banks with institutional majority ownership have the highest performance and that as managers and board members ownership percentage increase the bank becomes more efficient , but the size has no effect on bank performance.

Velnampy T(2013) did a work on corporate governance and firms performance. A study of Sri Lankan manufacturing companies. With a sample of 28 manufacturing companies using date representing the period of 2007-2011. The studies found out that determinate of the corporate governance are not correlated to the performance measure of the organization.

Okpanachi, Samuel and Suleiman (2103) in their study of corporate governance and financial performance in Nigeria, Using gross earrings profit after tax and net asset as the measure of performance. The study proved that there is no significant relationship between board structure and financial performance.

.Tanko and Kolawole(2010) in their study corporate governance and firm's performance in Nigeria used secondary date from chosen samples which were randomly selected from companies register in the stock exchange Return on equity, Net profit margin, sales growth dividend yield and stock prices as the key variables that defined the performance of firm while corporate governance were measured based on board independence, board size and audit independence ownership of the company. The paper found out that there is a high relationship between board size of companies used in the study and their performances.

Gap in Literature.

Considering the empirical reviews, it can be seen that no work have been done on the corporate governance and firm performance of brewery industry in Nigeria. This is the gap that the work wants to fill.

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3.0 METHODOLOGY

The study focuses on evaluating the relationship between corporate governance and financial performance: A study of selected Brewery industry.

The study adopted the ex-post factor research design because it made use of existing secondary date .The data were collected selected from Nigeria stock exchange for the period 2004 to 2013 and from the Annual report and Accounts two prominent Nigeria Brewery. The selected Breweries are Guinness Nigeria Plc and Nigeria Breweries Plc

Research Model

PAT= f (CEODUA, BC, BS, AC)

$$PAT=\beta 0 +\beta_1 CEODUA+\beta_2 BC+\beta_3 BS +\beta_4 AC$$

Where β- Estimated parameter

PAT=Profit after Tax, index for performance

CEO DUA= Chief Executive Officer Duality

BC=Board Composition;

ACM= Audit Committee Members.

BS= Board Size

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4.0. RESULTS AND DISCUSION

Coefficients[a]

Model		*Unstandardized Coefficients* *B*	*Std. Error*	*Standardized Coefficients* *Beta*	*t*	*Sig.*
1	*(Constant)*	*-2.162E7*	*6.178E7*		*-.350*	*.731*
	CEO	*1.515E7*	*6.571E6*	*.605*	*2.306*	*.036*
	FB	*-2.370E6*	*4.431E6*	*-.153*	*-.535*	*.601*
	BOD	*-246512.955*	*1.759E6*	*-.031*	*-.140*	*.890*
	ACM	*5.936E6*	*9.406E6*	*.155*	*.631*	*.538*

a. Dependent Variable: PAT

TEST OF HYPOTHESES

Hypothesis One

Ho_1: CEO duality has no significant effect on financial performance of Brewery companies in Nigeria.

The results of our data analysis showed that the significance level (p-value) for the coefficient of CEO duality is 0.036 this is less than the required 0.05 critical p-value for rejection of the null hypothesis. This is an indication that the result is statistically significant. Thus, we reject the null hypothesis and accept that CEO duality has a significant effect of the financial performance of brewery companies in Nigeria.

Hypothesis Two

Ho_2: There is no significant relationship between board compositions and the financial performance of brewery firms in Nigeria.

The results of our data analysis showed that the significance level (p-value) for the coefficient of Board composition is 0.601 this is more than the required 0.05 critical p-value for rejection of the null hypothesis. This is an indication that the result is not statistically significant. Thus, we accept the null hypothesis that there is no significant relationship between the number of board composition and the financial performance of brewery firms in Nigeria.

Hypothesis Three

Ho_3: Board size has no significant relationship with the financial performance of brewery organizations in Nigeria.

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The results of our data analysis showed that the significance level (p-value) for the coefficient of number of board size is 0.890 this is more than the required 0.05 critical p-value for rejection of the null hypothesis. This is an indication that the result is not statistically significant. Thus, we accept the null hypothesis that number of board size has no significant relationship with the financial performance of brewery firms in Nigeria.

Hypothesis Four

Ho_4: Audit Committee has no significant relationship to the financial performance of manufacturing firms in Nigeria.

The results of our data analysis showed that the significance level (p-value) for the coefficient of Audit Committee (AC) is0.538, this is more than the required 0.05 critical p-value for rejection of the null hypothesis. This is an indication that the result is not statistically significant. Thus, we accept the null hypothesis that audit

Committee has no significant relationship with firm performance.

		PAT	CEO	FB	BOD	ACM
Pearson Correlation	PAT	1.000	.495	.108	-.129	.092
	CEO	.495	1.000	.546	-.226	-.218
	FB	.108	.546	1.000	-.140	-.473
	BOD	-.129	-.226	-.140	1.000	.115
	ACM	.092	-.218	-.473	.115	1.000
Sig. (1-tailed)	PAT	.	.013	.325	.295	.350
	CEO	.013	.	.006	.169	.178
	FB	.325	.006	.	.278	.018
	BOD	.295	.169	.278	.	.315
	ACM	.350	.178	.018	.315	.
N	PAT	20	20	20	20	20
	CEO	20	20	20	20	20
	FB	20	20	20	20	20
	BOD	20	20	20	20	20
	ACM	20	20	20	20	20

The result from the correlation analyses indicates that there is a positive correlation between CEO duality and the financial performance of manufacturing organizations in Nigeria. CEO duality was positively correlated to PAT with a value of 49.5% with the implication that the presence of a CEO duality has an effect of the financial performance of brewery firms' .Further; the result also showed that the significance level (p-value) for the coefficient of CEO is 0.013 which indicate that the result is statistically significant at 0.05 level.

We also observed from the analysis that there is a positive relationship between the presence of board composition and the financial performance of the brewery companies in Nigeria. From the results, it can be observed that the relationship between financial performance and presence of a female board member even though positive was very weak at 10.8% and statistically insignificant.

On the other hand, the number of board of directors was negatively relatively related to the financial performance of brewery firms in Nigeria. This can be observed from our analysis which shows correlation between number of board of directors and financial performance of -12.9% which implies that as number of board members increases, there is a likelihood of reduction in the financial performance brewery firms in Nigeria. The result also indicated a statistically insignificant relationship between number of board members and financial performance.

Finally, we observe from our results that there is a very weak but positive correlation between the number of audit committee and the financial performance of brewery companies in Nigeria. With a correlation value of only 9.2%, the relationship is not only weak but statistically insignificant with the implication that audit committee members as a variable cannot be relied on to explain the financial performance of brewery companies in Nigeria.

5.0 Conclusions and Recommendations

The study established that significant and positive relationship exit between CEO duality and performance of brewery industry in Nigeria, the result of the study support the study done by Adekunle and Aghedo(2014). Also the research conclude that negative relationship was found to exit between the variable of Corporate governance variable .This findings agrees with prior studies of Hermalin and Wesisbeach (2003) and Guo and Kumara(2012).

From the findings of the research the following recommendation were made

1. There is need to have optional board size so as to increase performance.
2. More women should be appointed and included on the Board composition of Companies not only in Brewery firms.

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3. Shareholder with profit motive should make sure that audit committee is effective this will also enhance performance of the firm.

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APPENDIX 1

	YEARS	BOD	F.B	A.C	CEO	PAT
NIGERIAN BREWERIES PLC	2004	15.00	1.00	6.00	1.00	5086403.00
	2005	15.00	1.00	6.00	1.00	8254557.00
	2006	15.00	1.00	6.00	1.00	10900524.00
	2007	11.00	1.00	6.00	1.00	18942856.00
	2008	15.00	1.00	6.00	1.00	25700593.00
	2009	15.00	0.00	6.00	1.00	27910091.00
	2010	15.00	1.00	6.00	1.00	30332118.00
	2011	15.00	1.00	6.00	1.00	38408847.00
	2012	15.00	1.00	6.00	1.00	38042714.00
	2013	15.00	1.00	6.00	1.00	43080349.00
GUNINNESS NIGERIA PLC	2004	18.00	0.00	6.00	0.00	7913503.00
	2005	16.00	0.00	6.00	0.00	4859019.00
	2006	16.00	0.00	6.00	0.00	7440102.00
	2007	16.00	0.00	6.00	0.00	10691060.00
	2008	13.00	1.00	6.00	0.00	11860880.00
	2009	14.00	1.00	6.00	0.00	13541189.00
	2010	15.00	1.00	6.00	1.00	13736359.00
	2011	16.00	2.00	6.00	1.00	17927934.00
	2012	17.00	3.00	6.00	1.00	14671195.00
	2013	13.00	2.00	6.00	1.00	11863726.00

APPENDIX 2

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	ACM, BOD, CEO, FB[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: PAT

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Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.549[a]	.301	.115	1.10773E7

a. Predictors: (Constant), ACM, BOD, CEO, FB

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.930E14	4	1.983E14	1.616	.222[a]
	Residual	1.841E15	15	1.227E14		
	Total	2.634E15	19			

a. Predictors: (Constant), ACM, BOD, CEO, FB

b. Dependent Variable: PAT

Coefficients[a]

odel		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.162E7	6.178E7		-.350	.731
	CEO	1.515E7	6.571E6	.605	2.306	.036
	FB	-2.370E6	4.431E6	-.153	-.535	.601
	BOD	-246512.955	1.759E6	-.031	-.140	.890
	ACM	5.936E6	9.406E6	.155	.631	.538

a. Dependent Variable: PAT

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APPENDIX 3

[**Regression** DataSet0]

Descriptive Statistics

	Mean	Std. Deviation	N
PAT	1.8058E7	1.17734E7	20
CEO	.7000	.47016	20
FB	.9500	.75915	20
BOD	15.0000	1.48678	20
ACM	5.9000	.30779	20

Correlations

		PAT	CEO	FB	BOD	ACM
Pearson Correlation	PAT	1.000	.495	.108	-.129	.092
	CEO	.495	1.000	.546	-.226	-.218
	FB	.108	.546	1.000	-.140	-.473
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	ACM	.350	.178	.018	.315	.
N	PAT	20	20	20	20	20
	CEO	20	20	20	20	20
	FB	20	20	20	20	20
	BOD	20	20	20	20	20
	ACM	20	20	20	20	20