CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SELECTED MANUFACTURING COMPANIES IN NIGERIA

OSUNDINA J. ADEMOLA, OLAYINKA I. MOSES & CHUKWUMA J. UCHEAGWU
Department of Accounting,
Babcock University, Ilishan-Remo,
Ogun state, Nigeria.
demkem8@gmail.com, olayinka.ifayemi@yahoo.com,

Abstract

The objective of this study is to empirically investigate the relationship between corporate governance (measured by Board Structure index, Ownership Structure index and Audit Committee index) and firm's performance (measured by Return on Asset) of selected Nigerian manufacturing companies. The study adopted ex-post facto research design. Random sampling was used to select 30 companies out of a total population of 45 manufacturing companies listed on the Nigerian Stock Exchange, for a time period of 2010 to 2014. Secondary data (financial and non-financial) were collected from the annual reports and accounts of the selected listed manufacturing companies. Multiple regression analysis and descriptive statistics were used in analyzing the data. F-stat and t-stat were used to test the hypothesis. The results of the study show that Board structure index had a significant positive relationship with performance (ROA) of the sampled manufacturing companies. Also, it was found that Audit committee index had a positive but insignificant relationship with the performance (ROA) of the sampled manufacturing companies, while Ownership structure index had an insignificant negative relationship with performance (ROA) of the sampled manufacturing companies. In conclusion, the study revealed that the performance indicator (ROA) related with each component of the Corporate Governance Index in a peculiar manner. It is therefore suggested that reform efforts should be directed towards improving the corporate governance of listed Nigerian manufacturing companies, especially emphasis should be devoted to the variables of Ownership Structure and Audit Committee.

Keywords: Corporate Governance, Performance, Manufacturing companies.

1. INTRODUCTION

Corporate governance epitomizes the system of controls, processes, policies, rules and proceedings set up by the Board and Management of a company to ensure the smooth running of the company, maximize shareholders wealth and satisfy the interest of every stakeholder. Corporate Governance is the set of processes, customs, policies, laws and regulations affecting the way a corporation or company is directed, administered or controlled (Owolabi & Dada, 2011). It deals with the relationships among management, board of directors, controlling shareholders, minority shareholders and other stakeholders. According to Cadbury Committee

Report (1992), corporate governance is the system by which companies are directed and controlled. In this wise, it is regarded as the framework within and by which rules, relationships, systems and processes are controlled.

As a result of corporate governance failure, many companies around the world, even those flaunted as too big to fail, have experienced crises and scandals that led to their end. Notable among such company scandals and failures are Enron, WorldCom, Arthur Anderson, and Adelphia. Also in Nigeria, we have equally had cases of scandals and failures: these were Oceanic bank, Intercontinental bank, Cadbury, Lever Brothers (now Unilever) as opined by Stephen & Benjamin (2013).

Corporate governance is a nonfinancial factor that affects the performance of any company, hence prior literatures support increasing disclosure of nonfinancial information in the reports of every organization (listed or not listed). PricewaterhouseCoopers (2002) found that most top managers and executives in multinational companies believe that non-financial performance measures outweigh financial performance measures in terms of creating and measuring long-term shareholder value. Coram, Mock and Monroe (2006) opined that non-financial performance indicators can offer key insight into future performance, and at the same time serve as a proxy for identifying well-managed companies. This is to an extent a reasonable assertion because corporate governance indicators can help see how well an organization is being managed and determines how future performance of such organization will be. No wonder Narayanan, Pincus, Kelm and Lander (2000) asserted that a wise manager will strive to reduce information asymmetries through voluntary disclosure, more importantly nonfinancial (corporate governance) information.

In a nutshell, weak corporate governance will largely contribute to systemic failures, corporate scandals and failures resulting from fraud and other forms of malfeasance, this on the long run will affect negatively the financial performance of any company. The financial crisis of 2008 that involved marginal lending by banks created erosion of stakeholders' funds of banks, insurance companies and manufacturing companies. The major cause of this development has been traced to weak corporate governance (Bhimani, 2008.). Experts have argued that the collapse of many big corporations is to a large degree traceable to weak corporate governance practice. Examples to support this argument were failed companies as previously mentioned. This presupposes that well governed companies have a premium on their price (Oyejide & Soyibo, 2001).

Therefore, the main objective of this research is to determine the relationship between corporate governance and firms' performance with specific attention to Nigerian manufacturing companies listed on the bourse of the Nigerian Stock Exchange.

This paper contributes to literature in several ways. First, it furthers our understanding of the economic consequences of corporate governance indexes. Prior studies on corporate governance mainly focus on few companies or on deposit money banks. This paper shows that decisions on corporate governance measures should be based on wider coverage for better generalization of opinion because such decisions enhance the value of shareholders. This extension provides supportive empirical evidence of prior literature argument that corporate governance increases firm's value. It is noteworthy to state that the debate on whether corporate governance should continuously be regarded as a pervasive precept of accounting is beyond the scope of our study, given the empirical findings in our paper, as well as the benefits of corporate governance to

shareholders documented in prior studies, we suggest that regulators and standard setters should fully consider the economic company specific implications of corporate governance before making regulation changes.
The remainder of the paper is structured as follows; the second section reviews the related literature. The third section contains the methodology and analysis of data. The fourth section provides conclusions and recommendations.

2. REVIEW OF RELATED LITERATURE

Corporate governance is relatively not a new concept but it is fast gaining ground both in the academic and corporate world. Corporate governance has long been an important concept in accounting. Although the concept of corporate governance has been criticized by market regulators, employees and standard setters empirical studies found that accounting practice has become more conservative in the last 10 years, especially after the fall of the big firms as a result of corporate governance negligence. This suggests that well governed companies have a likelihood of reporting more success.
Prior researchers such as Coram, et al. (2006); and Chua, (2006) were of the opinion that sound corporate governance practices leads firms towards the achievement of higher performance; provide sources for capital investment by increasing the creditability of shareholders. International financial world is facing rapid changes in terms of financial as well as economic systems. These systems have been upsetting from years. In this era, the introduction of new technologies in both services and product industry around the globe has created issues to govern the global environment. All these circumstances have forced the countries to adopt a sound system of corporate governance which enable them to survive in dynamic and open environment of innovations (Faisal & Abdul, 2015).

Corporate governance is concerned with the defense of the investors. With the help of governance mechanism the interest of shareholders is protected (Johnson & Greening, 1999). Corporate governance to earlier studies was the way through which minority shareholders safely guard their interest against the confiscation of expropriation by management and controlling shareholders (Shleifer & Vishny, 1997). They also opined that corporate governance refers to a complex set of mechanisms that helps to ensure the investors that they are gaining fair return on their investment. The managers and shareholders as part of a company's stakeholders are governed by laws and regulations which are offered as corporate governance which increases the financial stability and growth of the firm through reinforcement of integrity, confidence and efficiency. Good governance increases the corporate performance and accessibility of external finance that brings sustainable economic growth. It creates bond among the management, Board, stakeholders, controlling and minority shareholders. It serves a number of goals like reducing the effect of financial crises; strengthen the rights over property, results in decreasing cost of doing business and of capital which leads the market towards development. The firms requiring more external finance can have advantage of adopting good corporate governance that can lessen the cost of capital that is why they have better tendency to adopt corporate governance practice and it will increase the believe of insiders by increasing the firm value and the likeness of shareholders. It will put positive influence on the shareholders and will increase the access to external finance.

The development of Corporate Governance in Nigeria is a function of its environment; socially, economically, politically and legally. These factors have greatly influenced the nature of Corporate Governance in Nigeria also; businesses in Nigeria have been dominated by sole proprietorship and partnership, usually dominated by family members and friends. In the political history of Nigeria, the military have dominated the political landscape with its clear characteristic nature of force and fiat and the corporate sector have been dominated in one way or the other with government involvement at the board level. The experience at those times was that these military appointed directors conduct the affair of the company in flagrant disregard of corporate policy and so many anomalies prevailed at the decision-making levels.

Emanating from the nature of the environment in which Nigeria exist, it is difficult to fit its Corporate Governance structures within a specific theoretical framework. According to Yakasai (2001), organizational theory recognizes the organizational structure such that the board of directors (BOD) only exists to serve the interest of the chief executive officer (CEO). In other words, the BOD is at the beck and call of the CEO. Because of the nature of business and ownership structure (dominated by family members and friends) the key feature of organizational theory does not fit in.

In the same vain, the stewardship theory cannot be used to describe or qualify the corporate governance system in Nigeria especially before the advent of democratic rule in 1999. Prior to this period, the military system infiltrates the corporate landscape rooted in dictatorship and arbitrariness. The stewardship theory opined that Annual General Meetings should be opportunity for rendering accounts of decision made by directors. On the contrary, in the Nigerian corporate system AGM's are a mere formality organized only for a few members who vote in affirmative.

From the perspective of stakeholder theory, there is varied interest in the corporation much more than the narrow perspective upheld by agency theory. These other interests include customers, employees, lenders, government agencies and the community at large. The idea of stakeholder theory stresses the coming together of the various concerned parties through unbiased transactions without intimidating the long term corporate objectives. On the contrary, the Nigeria corporate boards only serve the interests of those who put them there.

A cursory review of agency theory reveals that the Nigeria governance system is saddled with the problem of management. Naturally agency theory posits that management is in their capacity to serve not their personal interests rather that of the shareholders. This describes the Nigerian situation where corporate executives take decision that maximizes the value of the firm, which is in-line with the concept of corporate governance. Therefore this paper is inched on the agency theory and stakeholder's theory; this is because it best suits the relationship that exists between stakeholders (principals) and governance (agents).

Increase in financial performance is one of the sole motives for the existence of any business and must be considered in any attempt to measure any business performance. Measuring performance under the stakeholder conceptualization involves identifying the stakeholders and defining the set of performance outcomes that measure their satisfaction (Connolly, Conlon, & Deutsch, 1980). The stakeholder theory offers a social perspective to the objectives of the firm and, to an extent, conflicts with the economic view of value maximization. The use of stakeholders' satisfaction as firm performance was also adopted in previous literatures (Clarkson, 1995; Kaplan, 1997). Besides offering a way to decide what performance is in a comprehensive way, the use of this theory allows one to resolve the issue of differentiating between performance antecedents and outcomes. Carneiro, Silva, Rocha, and Dib (2007) opined that performance measures assess the satisfaction of at least one group of stakeholders. This conceptualization of firm performance is applicable across different companies, as remarked by allowing one to differentiate between high and low performers from the stakeholder's perspective.

In the present study, we examined three mechanisms of corporate governance based on global corporate governance index; the first was board structure index. The Board of any company acts as one of the most important governance mechanisms in aligning the interests of managers and shareholders. Corporate governance provides the framework of rules and practices by which a board of directors ensures accountability, fairness, and- transparency in a company's relationship with its all stakeholders. Thus corporate governance provides the structure through which the company set the objectives from which it can obtain monitoring performance. It includes Board structure, shareholders control and credit monitoring, rules and procedures for decision making. The principal characteristics of effective Corporate governance are: openness, participation, accountability, effectiveness, coherence, transparency, protection and enforceability of the rights of all the shareholders; and directors capable of independently approving the corporation's strategy and major business plans and decisions, and independently hiring management, monitoring management's performance and integrity, and replacing management when necessary. These ideals can be accomplished with effective board structure (Momoh & Ukpong, 2013)

Secondly, the ownership structure of a publicly held corporation is one of the internal mechanisms of corporate governance that has been extensively studied in the developed countries, particularly the US and UK, and has more recently been the subject of much research in emerging economies. While the ownership and control structure of a firm is the source of agency costs in firms and is at the root of all corporate governance problems, the literature on ownership as a governance mechanism focuses on how the ownership structure per se, i.e., stock ownership by different shareholders, can separately or in conjunction mitigate agency costs in a firm (Kolawole & Tanko, 2008).

Finally in Nigeria, section 359(3 & 4) of companies and allied matter Act (1999) created the audit committee. Specifically S.359 (3) provides that "in addition to the auditor's report, the auditor shall in the case of a public company also make a report to an audit committee which shall be established by the public company". S.359 (4) says "the audit committee shall consist of an equal number of directors and representations of the shareholders of the company (subject to a maximum number of six) and shall examine the auditor's report and make recommendation there on to the annual general meeting.

Jayati, Subrata, and Kaustav (2012) proposed a corporate governance index for 500 listed companies in India corporate sector for the period of 6 years (2003 to 2008) using information on four corporate governance mechanisms namely Board of Directors, Ownership Structure, Information Disclosure and External Auditor. They examined the relationship between their Corporate Governance Index and performance of the companies used in their study. They found that there is a strong relationship between corporate governance index and performance of companies, they also found that better governing structures earning substantially has higher rates of return in the market.

Faisal and Abdul (2015) considered seven different governance measures (G-Index, E-Index, Board independence, director dollar value of ownership, Director Percentage value in ownership, and CEO-Chairman duality). They found that better governance, as measured by the G-Index, E-Index, stock ownership of board members, and CEO-Chairperson separation was significantly and positively correlated with present and subsequent operating performance as measured by ROA and Tobin's Q. Also, board independence was negatively correlated with the present and subsequent operating performance.

Sanda, Mikailu and Tukur, (2005) in their study regressed measures of operating performance on governance index and control variables such as book-to-market equity and log of market value of equity. The coefficient of their governance index was found to be negative and significant in various modifications thereby evidencing a significant negative relation between subsequent operating performance and corporate governance index.

Bhagat and Black (2008) investigated the relationship between firm-level corporate governance and firm market value for Korean companies, they found that a strong positive relationship exist between Korean Corporate Governance Index (KCGI) and firm market value. Korean Corporate Governance Index was also found to be strongly related with other measures of firm value (market value of equity/ book value of equity, and market value of equity /sales) of Korea.

Brown and Caylor (2006) created 'Gov-Score', a governance index based on 51 firms' specific internal and external governance variables. They found a significantly positive correlation between Tobin's Q and Gov-Score. Using regression analysis, they found the regression co-efficient on Gov-Score to be positive and significant. They affirm that a board size of between 6 and 15 members attracts a higher return on equity and better profit margins than firms with other sizes.

3. METHODOLOGY AND DATA ANALYSIS

Sample Selection

We collected yearly financial and non-financial (firm specific) data from the annual reports of the selected listed manufacturing companies. The population of this study was the manufacturing companies listed on the Nigeria Stock Exchange (NSE). There were as at the beginning of this study (January 2016), 45 companies in the manufacturing sector, out of which 19 were in industrial goods category and 26 in number were in consumer goods category. Random sampling was used to select30 out of the total population of 45 manufacturing companies. The choice of the listed companies is due to the fact that the Nigerian Stock Exchange is authorized by SEC to provide listing services and platform for primary and secondary trading of stocks therefore any listed companies would have met all listing condition and their corporate reports is deemed reliable for evaluation and decision making.

Variable Description

The Corporate Governance Index is measured on 15 proxies categorized in sub-indices namely Board Structure index (BSI), Ownership Structure Index (OWI) and Audit Committee Index (ACI). Each sub index is assigned equal weight. The Corporate Governance Index is the aggregate of the average scores of the sub-indices of each manufacturing company which shows their corporate governance practice. The simple aggregate of the scores on each of the parameters constitutes the Un-weighted corporate Governance Index. In order to correct the shortcoming of an un-weighted index, following Vasal (2006), equal weights have been assigned to each of the three mechanisms thereby restricting the importance of each mechanism. The un-weighted average of the variables' scores constitutes the Corporate Governance Index.

The time dimension of this study is 2010 to 2014 covering a period of five years post review of SEC code of corporate governance 2008. Random sampling method is adopted in the selection of companies listed on the Nigeria Stock Exchange within the manufacturing sector. The elements of corporate governance index as a composite index consists of three major categories namely board structure, ownership structure and audit committee. Each of these major categories is then broken down into sub index. The proxy for performance is Return on Asset (ROA), showing how efficiently the companies had made use of their assets. The attributes of corporate governance sub-index are as indicated below:

Sub-Index 1 for Board Structure includes Board Size, Duality of CEO/Chairman, Board Diversity, Number of Board Meetings and Non-Executive/Independent Directors.

Sub-Index 2 for Ownership Structure are the attributes of ownership structure which are; Presence of Block Holders, Ownership Concentration, Managerial Ownership, Director Ownership, Family Ownership and Institutional Ownership.

Sub-Index 3 for Audit Committee consist the elements of Audit Committee that is used to construct the Audit Committee Index which are: Size of audit committee, percentage of independent directors, presence of executive directors in audit committee and number of meetings held.

In order to empirically determine the impact of corporate governance indexes on manufacturing sector performance in Nigeria, the multiple regression model was specified. The multiple regression equation is explicitly specified in the functional forms as follows:

$$ROA_{it} = \alpha_1 + \beta_1 OWI_{it} + \beta_1 BSI_{it} + \beta_1 ACI_{it} + \mu_{it}$$

Our a priori expectation is that we expect all the coefficients of our explanatory variables to be positively related to our measure of performance. (i.e. $\beta_1 > 0$)

Summary of Statistics

The table below provides summary of statistics for companies' performance, corporate governance base on companies' specifics. The Table summarizes the basic statistical features of our data under consideration including the mean, the maximum and minimum values, standard deviation, skewness, and kurtosis for the data. This descriptive statistics provide a historical background for the behaviour of our data. The maximum and minimum values provide indications of significant variations as shown by the difference between the two values for the variables under consideration over the period of study. The skewness of Board Structure Index, Audit Committee and Index shows positive, this indicates that (they are positively skewed showing that the right tails are extreme) the data series indicate a symmetric or normal data distribution as the series relatively maintains normality by being positively skewed, while Return on Asset and Ownership Index shows a negative skewness which indicates a non-normal data distribution. Also in relation to kurtosis, ROA and ACI are both leptokurtic indicating fat tails than normal distribution; all the variables have a heavy tail (i.e. heavier than normal) because the data series is above the threshold of 3. On the other hand OWI and BSI are platykurtic (i.e. thinner than normal) this is because the data series are below the threshold of 3.

Table 1: Descriptive statistics

	ROA	OWI	BSI	ACI
Mean	0.136046	0.527778	2.975772	2.908333
Median	0.122411	0.500000	2.925000	3.000000
Maximum	0.870238	0.833333	3.916667	4.000000
Minimum	-1.335378	0.166667	2.040000	2.500000
Std. Dev.	0.208786	0.211892	0.464359	0.369128
Skewness	-1.730531	-0.020026	0.069727	0.836182
Kurtosis	19.63456	1.936579	2.380634	3.762200
Observations	150	150	150	150

Source: Researcher's E-Views output 2016.

Empirical Analysis

This section presents the result of the analysis of secondary data gathered from the financial statements of the sampled firms for the period of five years spanning 2010 – 2014 with a view to investigate the extent to which Corporate Governance based on Index method affect Firms' performance measure by Return on Asset. The specific objectives necessary for the achievement of this study's objective is presented in the remaining parts of this paper with detailed discussion of findings.

Table 2: Regression estimate

Variable	Main Model			
	Coefficient	**Std Error**	**t-Stat.**	**Prob.**
C	**-0.278069**	**0.264778**	**-1.050200**	**0.2954**
BSI	**0.158154**	**0.075228**	**2.102336**	**0.0372***
ACI	**0.012232**	**0.093126**	**0.131348**	**0.8957**
OWI	**-0.174484**	**0.159601**	**-1.093252**	**0.2761**
R^2	**0.334665**			
Adj. R^2	**0.214830**			
S.E of Reg	**0.135945**			
F-Statistic	**1.747621**			
Prob.(F-Stat)	**0.049869***			
Obs	**150**			
Cross-Sections	**30**			
Durbin Watson	**1.93**			
Ramsey RESET Test (Prob of F-stat)	**0.218681**			
Ljung Box(F-stat)	**0.118**			

Dependent Variable: ROA_{it} *significance at 5%

Source: Researcher's E-Views output 2016.

Main Model & A- priori expectation

$ROA_{it} = \alpha_1 + \beta_1 OWI_{it} + \beta_1 BSI_{it} + \beta_1 ACI_{it} + \mu_{it}$

$ROA = -0.278069 – 0.174484OWI_{it} + 0.158154BSI_{it} + 0.012232ACI_{it}$

Table 2 above showed the regression result of our main model indicating that there exists a negative relationship between ownership structure and the financial performance (ROA) of our selected companies and the regression result also shows there is a positive relationship between Corporate Governance Index (BSI and ACI) and financial Performance of manufacturing companies measured by ROA. This is indicated by the sign and size of the coefficients for OWI which is $\beta_1 = - 0.174484 < 0$. This result is not consistent with a prior expectation while BSI and ACI have a coefficient of 0.158154 and 0.012232 respectively; these are greater than 0 which is then in line with our a priori expectation. From table 2, the Adjusted R-squared showed that about 21.4% variations in ROA can be attributed to the influence of all our Corporate Governance Index while the remaining 78.6% variations in the respective dependent variable were caused by other factors not included in this model.

Furthermore, the coefficients showed that one unit change in Ownership Structure Index will cause a negative 17.4% change in ROA, one unit change in BSI will cause a positive 15.8% change in ROA while one unit change in ACI will also cause a positive 1.2% change in ROA. Also, the F-statistic p-value showed 4.9% for CGI, meaning that the multiple regression result are statistically significant because this (the p-value) is less than 5%, which is the level of significance adopted for this study. This shows that the influence of Corporate Governance Index on ROA is statistically significant. Therefore, from the above multiple regression estimates, Corporate Governance Index has a positive and negative significant effect on ROA (i.e. negative relationship between ownership structure and the financial performance (ROA) of our selected companies and the regression result also shows there is a positive relationship between Corporate Governance Index (BSI and ACI) and financial Performance of manufacturing companies measured by ROA.). Thus, we may reject the null hypothesis.

Ramsey Reset test is a robustness formal test which helps to test the linearity of our model. A regression criterion is that the model must be linear and from the result presented on table 2 we do not reject the Null hypothesis which says that the model is linear. This shows that our model for this study is correctly specified (i.e. no specification biasness in the model). What is reported here is the probability value (significant value) of F-statistics.

Ljung Box on the other hand is an improved robustness test to confirm the result of our Durbin Watson. They both test the presence of Serial correlation (time series data) or Auto-correlation (panel data) in any particular variable. The result of the Durbin Watson is within the threshold of 1.8 and 2.2, this show that in our series there is no evidence of auto correlation. This result is further confirmed by the result from Ljung Box which shows that the p-value of Q-statistics is greater than our chosen level of significance (5%). This means that we cannot reject the Null hypothesis for this test which says there is no evidence of significant or severe serial or auto correlation. This is indeed a good result for our series.

Variable One Discussion of Findings

The findings of the present study show that Board structure has a positive significant effect on performance (financial). This is consistent with a priori expectation. The result suggests that the reputation, integrity and goodwill of those that form Board members are positive on how the companies perform financially. The result indicates that a 1% increase in Board Structure Index will cause an insignificant 15.8% increase in the financial performance, this shows that when one more person is added to the board size, when board diversity exist across all ethnic group, one more day added to the meeting days of board members, and the positions of CEO and Chairman occupied by separate persons and higher proportion of non-executive directors on the board all of these collectively are expected to have a 15.6% on the financial performance of our selected companies. The implication of this result is that we do not accept the Null hypothesis which indicates that there is significant relationship between Board Structure Index and Firms' performance as measured by ROA. Our result is consistent with the findings of Jayati et al. (2012) who posit that the Board Structure of any firm is key and that it is the responsibility of the Board to ensure credible governance systems and this can only be achieved through good and appropriate Board Structure.

The results of this model support the fact that Board structure or composition is a vital element in the governance of any company. It determines the quality of members of the Board in terms of independence, experience, expertise and gender who are able to engage in robust discussions that are germane to the realization of vision of the company. The existence of a high proportion of outside directors, members with versatile experience and a board that is gender sensitive will promote best practice governance culture that will serve the interest of all stakeholders. Equally, a board that meets regularly in accordance with the benchmark set by SEC code of corporate governance is poised to deal with issues that require their urgent attention and are abreast with development that impacts on the survival and sustainability of the company. Furthermore, our finding lends credence to the work of Brown and Caylor (2010) who affirm that a board size of between 6 and 15 members attracts a higher return on equity and better profit margins than firms with other sizes. Empirically board structure influences the performance of firms has also been proven by Hermalin and Weisbach (1991& 2009), and their finding were also in line with the result of this model. Also Bhagat and Black (1999) affirm a positive relationship between the two variables. It is noteworthy that the theoretical perception of agency theory as adopted in this work is that inclusion of high proportion of outside and non-executive directors as members of the board will engender quality, objective and fruitful decision making which invariably translates to good performance for the benefit of shareholders. This study concluded that most of the boards of manufacturing companies in Nigeria are made up of high proportion of non-executive directors represented by shareholders.

Variable Two Discussion of Finding

The objective of this was to examine the impact of Audit Committee Index on the performance of manufacturing companies in Nigeria. It was found that Audit Committee Index has a positive but not significant impact on company's performance (especially those considered in this study). This result is consistent with a priori expectation and in agreement with previous findings. Wild (1994) affirmed that there is a positive relationship between performance and audit committee. However the insignificance of the relationship may be as a result of the fact that audit committee's duty is carried out on the financial activities that had already taken place. So what they do is postmortem which may not impact on the performance reported and it's likely not to affect the performance of the future financial year if proper implementations of findings are not put in place by management. This justifies the reason for Audit Committee Index not to have a significant effect on performance.

This study discovered that majority of the listed manufacturing companies complied with requirements of CAMA 1990 and SEC code of corporate governance 2008 on the Audit committee Index in terms of Size, proportion of non-executive directors, presence of financial literate members and number of meetings held. We discovered that when Audit Committee Index is combined with other exogenous variables it will have a significant effect. It is worth noticing that the audit committee is an important corporate governance mechanism designed to ensure that firms produce relevant, reliable, adequate and credible information that investors can use to assess the performance of the company and not to improve performance (financial) itself. It is the duty of the audit committee to ensure that external auditors receive all necessary information that are required to carry out the audit process independently and effectively and that the job of the external auditor is not subjected to the whims and caprices of management.

Variable Three Discussion of Finding

The objective of this was to investigate how Ownership Structure Index would affect the performance of manufacturing companies in Nigeria. Evidence from prior study shows ownership structure of a company is one of the internal mechanisms of corporate governance that has been extensively studied in the developed countries such as US and UK and has more recently been a subject of interest in the emerging countries Jayatiet'al (2012). It is true that because of the Nigerian environment, nature of business and ownership structure (dominated by family members and friends) it is very difficult for managers to sincerely be independent in carrying out their duty. In the process of dancing to the tunes of the owners of the business things do not always go as expected which negatively affect the performance to be recorded, which is the justification for our result on this model and research objective.

The result of this research shows a negative relationship between Ownership Structure Index and Performance as measured by ROA although the extent is insignificant (-3.1%). The implication of this result is that firms with family ownership and managerial or directorship ownership with less ownership concentration having block holders are not directed towards better performance as indicated by the value of coefficient (R). This result is consistent with the findings of Sanda, Mikailu and Tukur (2005) that discovered a negative relationship between performance and director shareholding. The factors associated with this may not be associated with reducing agency cost which assumes ownership interest (whether as directors' shareholding, family ownership or institutional) to protect shareholders since they own part of the shares. However in the work of Faisal and Abdul (2015) they found a positive relationship between Ownership Structure Index and Performance.

4. CONCLUSION AND RECOMMENDATION

Conclusion

This study has investigated the relationship between corporate governance of manufacturing firms and performance over a period of five years spanning 2010 – 2014 using the index approach for the explanatory variables. The interaction of corporate governance index and firms' performance as measure by ROA differs. The study concludes that the different attributes of corporate governance influence the performance indicator differently. This means that there is a mixed relationship between the two variables.

Furthermore except for ownership structure index that exhibits a negative but insignificant relationship with ROA (individually), but the probability of the F-stat shows that corporate governance affects firms' performance (using Boards Structure Index, ownership structure index and Audit Committee index as governance mechanisms).

Recommendations

On the basis of the findings and conclusions drawn from this study, the following recommendations are made:

The Regulators and Boards of manufacturing firms should keep a close check on influence of board structure index and audit committee index which have a positive influence on performance (ROA). The relationship is positive and significant for board structure which means that firms board structure that consists of the appropriate size, exhibits qualities of board diversity, separate functions of CEO and Chairman will improve performance when measure with ROA. Equally, the existence of independent directors and non-executive directors on the Board of Firms will boost their independence and impact positively on performance. The relationship between Audit Committee Index and performance is positive, although insignificant. It is recommended that the Regulators and Board of Firms re-examine the attributes of Audit committee with a view to strengthen and raise the bar especially on qualifications, experience and industry knowledge of committee membership.

There is an inverse relationship between Ownership Structure Index and Performance although the extent is insignificant. It is recommended that shareholders should create a balance between the structures of ownership, institutional shareholders, controlling power with controlling shareholders.

There is need for SEC to continuously review the code of corporate governance in consideration of the peculiarities of our local environment. These peculiarities include political, cultural, social and legal framework. The legal framework as contained in CAMA 1990 is no longer in tune with our socio-economic realities. Specifically, there is need to review section 359 (6) of CAMA 1990 which provides for the Audit Committee to be composed of 6 members with equal representation of shareholders and executive directors. The following recommendations are made:

i. The position of the chairman should be well specified detailing the qualifications and experience of the person to occupy the position.
ii. The number of times the committee meets is key to the effectiveness of the functions of the committee. Meeting regularly ensures that important issues are considers ahead of any damage. Therefore the law should specify the minimum number of times to meet in a year.
iii. CAMA is silent on the qualifications and experience of committee members. It is important to review this section to specify the attributes of committee membership.

This study has contributed to knowledge by extending the conceptual work of prior literatures on the relationship between corporate governance index and firms' performance as measure with ROA. Also by focusing on the impact of a pool of corporate governance variables to form an index rather than individual variables of corporate governance measured against performance variable.

References

Bhagat, S., & Bolton, B. (2008).Corporate governance and firm performance.*Journal of Corporate Finance, 14*, 257-273.

Bhimani, A. (2008). "Makin corporate governance count: The fusion of ethics and economic rationality".*Journal of Management and Governance*, 12(2), 135-147.

Brown, L. D.&Caylor, M. (2010).Corporate governance and firm operating performance.*Reviewof Quantitative Finance and Accounting*, 32, 129-144.

Cadbury, A. (1992). *Report of the Committee of the Financial Aspects of Corporate Governance.*London: Gee Gee Ltd. (Professional Publishing Ltd.), London.

Carneiro, J. M. T., Silva, J. F., Rocha, A., & Dib, L. A. R. (2007).Building a better measure ofbusiness performance.RAC-Eletrônica, (1) 2, 114-135. Retrieved from http://www.anpad.org.br/periodicos/arq_pdf/a_639.pdf

Chua, W.F. (2006). Extended performance reporting: A review of Empirical studies. Sydney, New South Wales: The Institute of Chartered Accountants in Australia.

Clarkson, M. B. E. (1995). "A stakeholder framework for analyzing and evaluating corporate social performance".*Academy of Management Review*, 20(1), 92-117.

Connolly, T., Conlon, E. J., & Deutsch, S. J. (1980). Organizational effectiveness: a multipleconstituenciesapproach. *Academy of Management Review*,5(2), 211-217. doi:10.2307/257430

Coram, P., T.J. Mock, and G. Monroe (2006). An investigation into the use of non-financial performance indicators by financial analysts.Working paper, university of Melbourne.

Faisal J; and Abdul S. (2015). Impact of Corporate Governance index on firm performance: evidence from Pakistani manufacturing sector.

Jayati S, Subrata S, and Kaustav S. (2012). A Corporate Governance Index for large listed companies in Nigeria.

Hermalin, B. E., and Weisbach, M. S. (1991). "The effects of board composition and direct incentives on firm performance." *Financial Management*, 20(4), 101–12

Hermalin, B. E., and Weisbach, M. S. (2009). "Information Disclosure and Corporate Governance."Ohio State University Fisher College of Business Working Paper 2008–03–016.

Johnson, R. A., & Greening, D. W. (1999). The effects of corporate governance and institutional ownership types on corporate social performance.*Academy of Management Journal*, 42(5), 564-576.

Kaplan, S. (1997). Corporate Governance and Corporate Performance - A comparison of Germany, Japan and the US.*Journal of Applied Corporate Finance, 9(4).*

Kolawole, O.O. and Tanko, M. (2008).Corporate governance and firms' performance in Nigerian.*Global journal of Management and Business Research*.8 (10) 15-23.

Momoh, O.A. and Ukpong, M.S (2013).corporate governance and its effects on insurance industry, *European Journal of Globalization and Development Research*, 8(1)

Narayanan, V.K., G.E. Pincus, K.M. Kelm, and D.M. Lander. (2000). The influence of voluntarily disclosed qualitative information. *Strategic Management Journal*, 21(7): 707-722

Organization for Economic Co-operational and Development OECD (2004).Principles of Corporate Governance, Paris – OECD Publication Services.

Owolabi, S.A. Dada, S.O. (2011). The role of shareholders and directors in Corporate governance: An appraisal of Babcock University.*Journal of Economics, Banking and Finance*, 101-109.

Oyejide, T. A and Soyibo, A. (2001).Corporate Governance in Nigeria. Paper presented at the Conference on Corporate Governance, Accra, Ghana, 29-30 January 2001.

PricewaterhouseCoopers. (2002). Non-financial measures are highest-rated determinants of total shareholder value, PricewaterhouseCoopers finds. Management Barometer (April 22).

Sanda., A, Mikailu., A. S. and Tukur., G. (2005). Corporate governance mechanisms and firm financial performance in Nigeria.African economic research consortium, Nairobi.*AERC Research Paper*, 149. ISBN 9966-944-66-4

Shleifer, A. and Vishny, R.W (1997)."A Survey of Corporate Governance".*Journal of Finance*, 52(2),737-783

Stephen. A. Ejuvvekpokpo and Benjamin U. Esuike (2013). Corporate Governance Issues and its Implementation: The Nigerian Experience.*Journal of Research in International Business Management.*

Vasal, V. (2006).*Corporate Reporting in India - Financial and Social Performance Disclosures*.New Delhi, India: New Century Publications.

Yakasai, A. G. A. (2001) Corporate Governance in a third world country with particular reference to Nigeria, Corporate Governance: An International Review, 9, July, 238–253.