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CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF COMPANIES IN NIGERIA

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Abstract

The aim of this research paper is to examine corporate governance and financial performance of companies in Nigeria. The paper adopted a conceptual, theoretical and regulatory framework as well as review of previous empirical studies. The seminar paper showed corporate governance is concerned with ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors. The seminar paper shows that corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability. The seminar paper thus indicates corporate governance is significantly associated with companies' performance. Thus, the paper recommends that in view of corporate governance and financial performance of companies in Nigeria, government of both developed and developing countries such as Nigeria should encourage policies that would enhance the governance practices of companies and strengthen the enforcement mechanism of the regulatory institutions. Furthermore, to eliminate the issue of corruption and forgery of published financial statement, the regulatory authorities should set up their investigative team and auditors to re-evaluate accounts submitted to different bodies concerned with companies operations.
Keywords: Corporate Governance, Financial Performance, Nigeria.

Introduction

There has been a great deal of attention given recently to the issue of corporate governance in various nations. In particular, the Organization for Economic Co-operation and Development (OECD) has issued a set of corporate governance standards and guidelines to help governments in their efforts to evaluate and improve the legal, institutional and regulatory frameworks for corporate governance in their countries, and to provide guidance and suggestions for stock exchange, investors, corporations, and other parties that have a role in the process of developing good corporate governance.

The term Corporate Governance has been identified to mean different things to different people. Magdi and Nadereh (2002) stress that corporate governance is about ensuring that the business is run well and investors receive a fair return. OECD (1999) provides a more encompassing definition of corporate governance as the system by which business corporations are directed and controlled. The corporate governance structure

specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance. This definition is in line with the submissions of Wolfensohn (1999), Uche (2004) and Akinsulire (2008).

Financial performance is the measuring of results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. Financial performance is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Rehman, 2013). Financial performance refers to the act of performing financial activity. In a broader sense, financial performance refers to the degree to which financial objectives is being or has been accomplished. It is the process of measuring the results of a company's policies and operations in monetary terms, (Akinmulegun, 2012).

The objectives of this seminar paper include: To identifies the key characteristics and problems of corporate governance in Nigeria. To understand the relationships between different aspects of corporate governance while taking into account existing theories. It also outlines field of possible changes in the corporate legislation aimed to increase the efficiency of corporate governance. To review two key accounting measures of company financial performance which are Return on Equity and Return on Assets?

Problems identification and Analysis

Following the financial corporate scandals that took its toll with the collapse of corporate institutions in the USA, South East Asia, Europe and Nigeria, 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 analyst 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 & Venkatachalam, 2003). Some of cases include Adelphia, Enron, World Com, Commence Bank and recently XL Holidays. The cases in Nigeria include that of Cadbury Nigeria Plc in 2006 and only recently, the Central Bank of Nigeria sacked the Chief Executive Officers of five banks due to excessive high level of non-performing loan. There are other several cases in Nigeria banks and companies.

Global corporate scandals that took its toll with the collapse of once prestigious companies such as Enron and WorldCom in USA and Cadbury Nigeria Plc and Lever Brothers Plc in Nigeria reiterated the need for an investigation into the quality of financial reports and increased the clamore for a better governance mechanism worldwide. It has been observed by accountants and financial economists that central to these corporate failures are that there are systematic deficiencies in accounting standards and governance systems that generate financial information (Bowen, Rajgopal & Venkatachalam, 2003). In a bid to prevent such future failure of companies, most nations across the globe introduced new codes of best governance practices to align manager's interest with the wealth maximization objective of the shareholders.

An effective governance mechanism is expected to be capable of converging managers' decisions (both operating and investment) with that of the shareholders. But, despite the introduction of the codes of best governance practices in Nigeria in 2003 and its continuous modifications, the results that it has achieved can be said to be minimal as there are fresh cases that threaten the survival of quite a number of firms in different sectors of the economy. In Nigeria, this was further heightened, subsequent to the collapse of several financial and non-financial institutions which includes the Bank PHB, Spring Bank Plc, Oceanic Bank Plc, Intercontinental Bank Plc., African Petroleum Plc., Levers brothers, Cadbury plc. and Exide battery etc.

Corporate governance is a mechanism that is employed to reduce the agency cost that arises as a result of the conflict of interest that exists between managers and shareholders. The conflict emanates, almost naturally, because the separation of ownership from control of the modern day business places the managers at a privileged position that gives them the latitude to take decisions that could either converge with or entrench the value maximization objective of the firm. Thus, managers can use their control over the firm to achieve personal objectives at the expense of stakeholders. In this regard, Kang and Kim (2011) noted that management could influence reported earnings by making accounting choices or by making operating decisions discretionally. One of such discretionary decisions to manipulate reported earnings is imbedded in the accrual-based accounting.

The effect of bad corporate governance in Nigeria has posed so much threat to the Nigerian economy in recent time and this has been of serious concern to financial analyst and specialist that questions are asked: whether there is a mechanism to measure the independence of non-executive directors in the discharge of effective corporate governance, whether greater insider ownership would lead to better corporate governance in Nigeria and whether there is relationship between corporate governance and financial performance of companies in Nigeria.

Review of Related Literature

This section shows conceptual, theoretical and regulatory framework as well as review of previous empirical studies.

Conceptual Framework

Concept of Corporate Governance

The concept of corporate governance is variously defined because it potentially covers a large number of distinct economic phenomenons. However, many writers have variously expressed their views on corporate governance especially as a multifaceted subject. This fact is reflected in the various definitions given about the subject matter. However, these views can be seen as saying essentially the same thing. This is an elaboration of the term corporate governance and its essential features.

In view of Ozekmekei (2004), corporate governance is the set of process, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. He opined that it includes the relationship among the players involved (stakeholders) and the goals for which the corporation is governed. Shleifer and Vishany (1997) assert that corporate governance deals with the ways the suppliers of finance to corporations assures themselves of getting a return on their investment.

Corporate governance is the system by which business corporations are directed and controlled. Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporate entity such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for

making decisions on corporate affairs. By doing this, it provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance; (OECD, 1999).

The definition given by Oyejide and Soyibo (2001) can be seen as more embracing as it expressed the narrow and broad views of corporate governance given by Rwgasira (2002). According to him, corporate governance as a concept can be viewed merely as being concerned with the structures within which it is regarded as being the heart of both a market economy and democratic society. The narrow view which is in line with other definitions of the concept, perceives corporate governance in items of issues relating to shareholders protection and management control. Oyejide and Soyibo (2001) explain that a proponent of the broad perspective used the examples of the resultant problems of the privatization crusade.

Factors Responsible for the Development of Corporate Governance

i. The development of corporate governance is a reaction to unethical business practices in corporate organizations such as tempering with financial health of these organizations to the recipients of these reports.
ii. Problems of privatization crusade that has been sweeping through developing countries since 1980s.
iii. Deregulation the integration of capital market and the current financial meltdown.
iv. The bitter experience of Asian financial crisis of the 1990s.
v. Organizations which were once icons of success, productivity and financial discipline became bankrupt and collapsed.
vi. The transition economies of the former communist countries in the 1990s.
vii. The relationship among participants in the governance system, Ozekmekei (2004).

Parties to Corporate Governance

The parties involved in corporate governance include:

i. Governance and regulatory body e.g. Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Corporate Affairs Commission (CAC), etc.
ii. Chief Executive Officer (CEO) and management
iii. The board of directors
iv. Shareholders and other stakeholders (suppliers, employees, creditors, customers and the community at large).

Principles of Corporate Governance

The principles describe the underlying elements that help to foster good corporate governance in corporations. In the view of Organization for Economic Co-operation and Development (OECD, 2004), principles are a living instrument offering non-binding standards and good practices as well as guidance on implementation, which can be adapted to the specific circumstances of individual countries and regions. This principles help to create jobs and generate economic growth. Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect and commitment to the organization.

The Organization for Economic Co-operation and Development (OECD) principles of corporate governance were issued in 1999 with the purpose of assisting governance in their efforts to evaluate and improve their framework for corporate governance and providing guidance for regulators and more broadly, participants in financial markets (OECD, 2004).

The principles have in turn formed the framework for the establishment of regional corporate governance roundtable around the world, Ramaswamy (2005). The process of dissemination has been underpinned by the endorsement of the principles as one of the financial stability forums 12 key standards. They are considered essential for financial stability; they form the basis for the World Bank's review of observance of standards and codes. These reviews have mainly covered non OECD countries. Member countries on the other hand have introduced a number of corporate governance measures including code based largely on the principles.

The Common acceptable principles of corporate governance include the following:

a. Rights and Equitable Treatment of Shareholders
b. Role and Responsibility of the Board
c. Integrity and Ethical Behaviour
d. Disclosure and Transparency

Corporate Governance Mechanisms and Control

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection i.e. they are designed to reduce the agency problem. This could be attributed to the evolution of internal problems and the control of such problems. McColgan (2007). An ideal control system should regulate both motivation and ability. The corporate governance mechanisms and controls may be divided into internal and external controls.

Internal Corporate Governance Controls

Internal corporate governance controls monitors activities and then take corrective actions to accomplish organization goals. Some of these controls are:

Monitoring by the Board of Directors

The board of directors has the legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Corporate boards should act as monitors to disagreements amongst internal managers and carry out tasks involving serious agency problem such as setting executive compensation and hiring and firing of managers (McColgan, 2007). Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision making process and therefore evaluate top executives on the basis of the quality of its decision that lead to financial performance outcome.

Audit Committee

The audit committee is a creation of CAMA 2004 which consist of equal representation of shareholders and directors (subject to a maximum of six) who are required to examine the report of the auditors and make recommendations to the annual general meeting (Section 359 (4) of CAMA, 2004). The audit committee generally acts as liaison between shareholders and the management. According to Oladipupo (2005), posits that most of the recommendations for improved audit effectiveness, in one way or another, points towards the audit committee.

External Corporate Governance Controls

The external corporate governance control encompasses the following:

Debt Covenants

Debt covenant has an immense effect on the viability of corporations and it can tremendously influence management decision. Under a covenant, the business is committed to a stream of interest and principal payments and it must maintain all the required financial accounting ratios and other term expressed in the agreement. Creditors use debt covenants as an attempt to better secure their position, Miller, & Dess, (2011).

When a covenant violation occurs, creditors might increase borrowing rates, require additional collateral, constraints or terminate the credit. These may have significant cash flow implications.

External Audit:

CAMA 2004 specifies that all companies must appoint at its annual general meeting (AGM), an auditor or auditors to audit the financial statement of the company and hold office until the next AGM. In order to ensure the independence of the external auditor, the law prohibits any officer or servant of the company from being an auditor. Also anyone who is a partner or is in the employment of any officer or servant of the company is barred from being an auditor. This also applies to any person or firm that offers consultancy services to the company. (Oyejide & Soyibo, 2001).

Challenges of Corporate Governance

The followings are the problems of corporate governance.

- **Supply of Accounting Information**: Imperfections in the financial reporting process causes imperfections in the effectiveness of corporate governance. This should ideally be corrected by the working of external auditing process, but lack of auditor's independence poses a challenge to this;
- **Monitoring Costs:** In order to influence the directions, the shareholders must combine with others to form significant voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting. The cost of combining in this way might well be prohibitive relative to the benefit, (Dabor & Adeyemi, 2009).
- **Demand for Information:** A barrier to shareholder using good information is the cost of processing it, especially to small shareholders. The traditional answer to this problem is the efficient market hypothesis, which suggests that the small shareholders will freely ride on judgement of larger professional investors.

The Concept of Financial Performance

Financial performance which assesses the fulfilment of a company's economic goals has long being an issue of interest in accounting research. Company financial performance relates to the various measures of how well a company can use its given assets from primary mode of operation to generate earnings.

Orlitzky, Schmidt, & Rynes (2003) have reviewed literature and found out that corporate financial performance is represented by three ways: the first one deals with market measures reflecting shareholders' level of satisfaction; the second one depicts the level of business efficiency through accounting measures; the third one refers to surveys with estimated financial performance. In turn, Surroca, Tribo & Waddock (2010) analysed the effects of intangible assets of a company on mediating the relationship between corporate responsibility and financial performance. For the analysis of the study various variables were used: financial performance and corporate responsibility to measure

corporate performance; innovation, human capital, reputation and culture to assess intangible assets; physical resources, influence, financial resources, control, size and risk to evaluate tangible assets the results indicated that there is no direct relationship between corporate responsibility and performance in only indirect financial relationship, which depends on the mediating effect of the company's intangible assets.

Kothari (2001) defined the value of a company as the present value of the expected future cash flows after adjusting for risk at an appropriate rate of return. Eyenubo (2013) it is the success in meeting pre-defined objectives, targets and goal within a specified time target. Qureshi, (2007), put forward four different approaches in which the value of a company has been identified in financial literature. These are:

i. **The financial management approach:** This focus on the evaluation of cash flows and investment levels before identifying and assessing the impact of financing sources on company value.
ii. **The capital structure approach:** This study the impact of capital structure changes on the value of company and how different factors impact directly or inversely the debt and equity component of the firm capital structure
iii. **The resource base approach:** This explains the value of company as an outcome of company's resources.
iv. **The sustainable growth approach:** This is a summary of the above three approaches to firm value, taking into account the company's operating performance, its investment and financing needs, the financing sources, and its financing and dividend policies for sustainable development of company's resources and maximization of company value.

Return on Equity (ROE)

One accounting based measure of performance in corporate governance research is ROE. (Dehaene, De Vuyst & Ooghe 2001).The primary aim of an organization's operation is to generate income for the benefit of the investors. Therefore, return on equity is a measure that shows investors the profit generated from the money invested by the shareholders (Epps & Cereola 2008). It measures the profitability of shareholders investment and shows the net income as a percentage of shareholders equity. It is calculated as:

$$ROE = \frac{\text{Annual Net Income}}{\text{Average stockholders' equity}}$$

Return on Assets (ROA)

One of the widely used accounting based measures of corporate governance in literature is the ROA (Finkelstein & D‟Aveni 1994; Weir & Laing 1999). It assesses the effectiveness of capital employed and provides a basis in which investors can measure the earnings generated by the firm from its investment in capital assets (Epps & Cereola 2008). The ROA is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of Kobo earned on each Naira worth of assets. It allows users, stakeholders and monitoring agencies to assess how well a company's corporate governance mechanism is in securing and motivating efficient management of the firm (Chagbadari, 2011). ROA is the ratio of annual net income to average total assets of a business during a financial year. It is measured thus:

$$ROA = \frac{\text{Annual Net Income}}{\text{Average Total Assets}}$$

Theoretical Framework

There are several theoretical perspectives on corporate governance available to scholars in exploring the issues of corporate governance. These theories include: agency theory, stakeholder's theory, stewardship theory, resource dependence theory, transaction cost theory, organization theory, political theory and ethics related theories; three of these theories are examined:

Agency Theory

Agency theory has its roots in economic theory exposited by (Alchian & Demsetz 1972), and further developed by (Jensen & Meckling 1976). The theory focuses on separation of ownership and control (Bhimani, 2008). It highlights relationship between the principals (e.g. shareholders), the agents e.g. company executives) and the managers. The theory advocates that shareholders (who are the owners or principals of the company) hire agents to perform work; but, the principals delegate the running of the business to directors or managers (who are the shareholder's agents) (Clarke, 2004). Thus, agency problems can arise when one parts (the 'principals') contracts with another part (the 'agents') to make decisions on behalf of the principals. Agency problems may occur as agents can hide information and manage firms' in their own interest; for example, as in the cases of Adelphia, Enron, WorldCom and Parmalat. According to (Jensen & Meckling 1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building. (Daily, Dalton, & Canella, 2003) identify two major factors which influence the prominence of agency theory. First, the theory is conceptual and simple one that reduces firm to two participants: managers and shareholders; and second, the theory suggests that employees or managers in firms can be self-interested.

Stakeholders Theory

The organization is not solely operated for itself and its stockholders, but also for other stakeholders. Its activities and operations affects and its affected by the stakeholders in the environment in which it carries out its operations. Organizations should recognize that they have legal and the obligations to all legitimate stakeholders. These stakeholders include employees, customers, suppliers and the general public. Stakeholders provide the corporate enterprise with a "charter" to operate and enjoy approval under the "public trust". Business organization as well as social institutions must uphold the public trust to maintain their legitimacy (Tipgos and Keefe, 2004). Stakeholders use a corporation's annual reports and financial statements to gauge the success of its operations and to judge whether it is upholding the public trust. Stakeholders require truth, honesty and integrity in those financial reports.

Stewardship theory

Stewardship theory postulates that managers are motivated by a desire to achieve and gain intrinsic satisfaction by performing challenging tasks; hence, their motivation transcends mere monetary considerations. Stewardship theory recognizes the need for executives to act more autonomously to maximize the shareholders returns. Consequently, managers require authority and desire recognition from peers and bosses to effectively perform their tasks. Hence, shareholders must authorize the appropriate empowering governance structure, mechanisms, authority and information to facilitate managers' autonomy, associated with a higher firm value. Likewise, Brick and Chidambaran (2008)

observe that board independence (i.e., higher percentage of outsiders) is negatively related to firm risk when measured by the volatility of stock returns.

This seminar paper rests on the foundations of agency theory, stakeholder's theory and stewardship theory.

Regulatory Framework of Corporate Governance in Nigeria

In Nigerian corporate structure, there is quite a number of corporate governance provisions that every company is required to abide by. A company must among others comply with the provisions of the Companies and Allied Matters Act (CAMA) 2004, which is the principal law regulating the activities of companies in Nigeria, Investments and Securities Act (ISA) 2007, Central Bank of Nigeria Act (CBN Act) 2007 and Nigerian Deposit Insurance Corporation Act (NDIC Act) 1990, which were designed for Nigeria's companies and the Code of Corporate Governance in Nigeria 2011 for public companies which was issued by Securities and Exchange Commission (SEC) applicable to all public companies registered in Nigeria.

Corporate Governance in Nigeria

Code of Corporate Governance for Banks in Nigeria Post-Consolidation 2006 (CBN 2006 Code) which was issued by Central Bank of Nigeria (CBN) and applicable to all banks operating in Nigeria. The Code of Corporate Governance for License Pensions Operators 2008, which was issued by National Pension Commission (NPC) and applicable to all Pension Fund Administrators and Pension Fund Custodians operating in Nigeria. Also Code of Good Corporate Governance for the insurance industry in Nigeria 2009 issued by National Insurance Commission (NAICOM) and applicable to all insurance and reinsurance companies operating in Nigeria and the provisions of Financial Reporting Council of Nigeria Act (FRC Act) and also the code of corporate governance for telecommunication industry 2014 issued by the Nigerian Communications Commission (NCC).

Code of Corporate Governance in Nigeria

The concept of corporate governance cannot in anyway be separated from company law in general. As noted above, the emergence of corporate governance principle in Nigeria which, concerns with issues relating to the regulation, control and governance of corporate entities can be traced, essentially to CAMA 1990, which replaced the Companies Act 1968. In this regard, like the legal system in Nigeria, corporate governance practices mirrored the UK pattern. Therefore, it is crucial to discuss the evolution of corporate governance in Nigeria in five phases.

i. Pre – 1990 Phase
ii. 1990 – 2003 Phase
iii. 2003 – 2011 phase
iv. 2011 – 2013 phase
v. 2014 – To Date Phase

2014 – To Date Phase

In line with dynamic nature of capital market and many challenges in the corporate world, SEC further amended the 2011 code to reflect the international best practices which came into force on May 12, 2014 as SEC Code of Corporate Governance for Public Companies.

Code of Corporate Governance for Public Companies in Nigeria 2014

Major issue covered by the amendment was upgraded status of the code from a moral-suasion based voluntary code to a mandatory code. The code, according to amendment, will now be described as a framework that is expected to facilitate sound corporate governance practices and behaviour and it should be seen as a dynamic document defining minimum standards of corporate governance expected particularly of public companies with listed securities.

The new code also made provisions for the application of sanctions and penalties which would scale up the code to same level of statutory rules being made by SEC under the mandate of the ISA. Already under the 2011 code, publicly quoted companies are required to include in their annual report and accounts a compliance report on codes of corporate governance which is still retained in the new code. It sets the minimum acceptance standards for quoted companies, which is now mandatory and failure attracts sanction.

Code of Corporate Governance for Banks and Discounts Houses in Nigeria and Guidelines for Whistle Blowing in the Nigerian Banking Industry 2014

The global economic crisis of 2008 exposed many weaknesses in running the affairs of companies globally. In Nigeria in particular, the regulations put in place were squarely found to be inadequate, hence the need for addressing the issue. In the banking industry, the banking examination conducted by the joint panel of CBN/NDIC revealed series of corporate abuses which the corporate governance mechanisms failed to address.

Code of Corporate Governance for Telecommunication Industry 2014

The NCC believes that corporate governance in an emerging economy is driven by the need to develop a system which is aimed at increasing shareholder value and surpassing the expectations of other stakeholders. The NCC code seeks to foster good corporate governance practices in the Nigerian Telecommunications Industry, which provisions are based on the international best practices.

Draft National Code of Corporate Governance 2015

In an effort by the Federal Government to ensure that Nigeria is working towards promoting international best governance practices led to the enactment of FRC Act in 2011.77 The Act has provisions that are concerned with the running of affairs of companies in Nigeria. One remarkable feature of the Act is the express jurisdiction over corporate governance issues in Nigeria given to FRCN. It was the first time in Nigeria that a regulator was specifically saddled with the powers to regulate on corporate governance. In line with that, the FRCN was mandated to establish a Directorate of Corporate Governance78 and the functions and objectives of the Directorate was also stated79 to include the following: to develop principles and practices of corporate governance; promote the highest standards of corporate governance; promote public awareness about corporate governance principles and practices; act as the national coordinating body responsible for all matters pertaining to corporate governance; promote sound financial reporting and accountability based on true and fair financial statements duly audited by competent independent Auditors; encourage sound systems of internal control to safeguard stakeholders' investment and assets of public interest entities; and that audit committees of public interest entities keep review the scope of the audit and its cost effectiveness, the independence and objectivity of the auditors.

Prior Empirical Studies

The prior empirical studies are reviewed to show and determine the link between corporate governance and financial performance of companies. The impact of corporate governance variables on firm performance has been investigated in many studies around the world. This part therefore reviews some of this paper that is related to this paper in different countries. Sayla (2014) investigated the effect of corporate governance characteristics on firm performance based on 25 previous researches. The study consists of three particular concerns namely the effects of:

i. Legal organisms
ii. Governance structures
iii. Accounting or market performance measures.

Findings indicate that the value of the market of business performance measured by Tobin's Q in the marketplace and finally the study found that market to book ratio is the fundamental value of this relation.

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

Another study was conducted by Danoshana & Ravivathani (2014) to explore the effect of corporate governance on business performance of 25 listed financial institutions in Sri Lanka for during the period 2008-2012. Return on equity and Return on assets were used in the study as they are the key variables to define business performance. Analysis findings show that corporate governance variables are significantly effect on business's performance and board of director's size and audit committee size have effect positively the business's performance.

Onakoya, Fasanya & Ofoegbu (2014) conducted a study to explore the effect of corporate governance characteristics on bank performance in Nigeria. The final sample consists of 9 banks for the sample period of 2006-2010. It is found that both of board size and ownership structure are positively impacted on return on equity. Nevertheless, the study found that corporate governance practices is negatively associated with companies' assets. In addition, Results show that there is no effect of board structure since it considers as a profitability measures predictor.

Ehikioya (2009) conducted a study to explore the impact of corporate governance mechanisms on bank performance on 9 Nigerian banks with a sample period of ten years (2001-2010). The analysis found that corporate governance is significantly associated with banks performance. Moreover, it indicates the definition of poor asset quality and loan deposit ratios were found to have a negative impact on business performance.

Adekunle & 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 & 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 (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 & Suleiman (2103) in their study of corporate governance and financial performance in Nigeria, Using gross earnings 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 & 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.

Discussion

The results from analysed prior research reveal that there is a positive and significant relationship between composition of board member and financial performance. This is line with Pooja and Aarti (2014) who examined in a study the impact of corporate governance on firm performance. The findings revealed that corporate governance has limited effect on both the company's share prices as well as their financial performance.

The precvious studies also show that corporate governance has limited effect on both the company's share prices as well as on their financial performance. This is in line with Tanko & Kolawole (2010) in their study corporate governance and firm's performance in Nigeria, the use of secondary data from chosen samples 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. It was revealed that there is a high relationship between board size of companies used in the study and their performances.

The studies reviewed also indicate that corporate governance variables have significant effect on business's performance and board of director size. This is in line with Danoshana & Ravivathani (2014) on the effect of corporate governance on business performance, for the period 2008-2012. Return on equity and Return on assets were used in the study as they are the key variables to define business performance. The findings further revealed that corporate governance variables have significant effect on business's performance, the size of board of directors and audit committee.

Findings from literature

i. Corporate governance is concerned with ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors.
ii. Corporate governance is significantly associated with company's performance.
iii. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability.

iv. The exercise of ownership rights by all shareholders including institutional investors should be facilitated.

Recommendation

The following suggestions are made:

i. Despite the undeniable importance of corporate governance in alleviating agency problem, the current body of research is modest and as a result, future research should be vastly under explored.

ii. International research into corporate boards and discipline from the market for corporate control has been forthcoming. However, there appears that very little research has been carried out involving many of the other governance mechanism which control agency problems.

iii. In view of corporate governance and financial performance of companies in Nigeria, government of both developed and developing countries such as Nigeria should encourage policies that would enhance the governance practices of company's and strengthen the enforcement mechanism of the regulatory institutions.

iv. Despite the efforts of the regulatory authorities, there is fundamental need to harmonize the provisions of industry specific codes and the code issued by SEC and FRC, which requires urgent solution for better regulation.

v. To eliminate the issue of corruption and forgery of published financial statement, the regulatory authorities should set up their investigative team and auditors to re-evaluate accounts submitted to different bodies concerned with companies operations.

Conclusion

From the information obtained on review of corporate governance financial performance of companies in Nigeria, it has made it clear that there is a very strong tool and unbreakable chain connecting corporate governance and financial performance. It was also explained that corporate governance is a key ingredient to increase company performance through its various mechanism.

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