CORPORATE GOVERNANCE AND THE PERFORMANCE OF MANUFACTURING COMPANIES IN SOUTH-SOUTH, NIGERIA

Original Research Article

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ABSTRACT

This paper investigated the effect Corporate Governance has on the Performance of Aluminum Manufacturing Companies in South-South, Nigeria. The study used survey approach and covered a population of 305 management staff of 25 selected Aluminium manufacturing firms from the six states of south-south region of Nigeria. Judgmental sampling technique was used to select 221 members of staff, however, only 198 copies of the survey tool was accurately filled and returned. The data used in this study was generated from both primary and secondary sources but a questionnaire titled corporate governance and the performance of manufacturing companies (CG&PoMC) was the major instrument for data collection. The statistical tool used for data analysis was the one way ANOVA test using the 23.0 version of the SPSS. The study concludes that the effects of corporate governance on the performance of Aluminium manufacturing firm are very manifest, hence; should be given adequate consideration. The result may have also revealed the reason while most medium scale manufacturing firms in Nigeria do not emphasize the composition and institutionalization of corporate boards in their firms as they may have considered it of low consequence viz-a-viz overall corporate performance. It was recommended that; the cost of maintaining corporate governance structures in the organizations should be controlled in order to ensure that it does not negate the cost efficiency goals of the organization, there is need to give orientation on the principles of corporate governance to the owners, employers and employees of medium scale manufacturing firms. This will help reduce resentment to corporate governance and promote stakeholders' satisfaction. and that to ensure that corporate governance contributes maximally to market competitiveness, workers especially the marketing force should be trained in order to enable them effectively incorporate its tenets when developing marketing strategies.

KEYWORDS:

Corporate financial policy, Management ownership, Corporate board, Organizational performance

I. INTRODUCTION

Today, the design of corporate organizations is such that the owners of the firms are separated most times from the day to day management of the firms. This, in most cases, creates commitment and accountability problems. To ensure that at all times, the interest of key stakeholders are served adequately without undermining the long-term goals of the organization, it is pertinent that organizations evolve and adopt internal structures that will midwife a balanced relationship among the key stakeholders. Furthermore, the alarming rate at which manufacturing concerns or enterprises liquidate in Nigeria calls for urgent steps. Most times, these failures are associated with wasteful organizational practices by the top management who indulges in bureaupathology at the expense of organizational performance. This again emphasizes the need for an internal control mechanism that can align corporate goal with that of the individuals in the organization. Corporate governance therefore fills this gap. Again, across the globe today, corporate failure has become constant news; this may be as a result of crisis of confidence among the top management which have weakened the internal control mechanisms of the organizations. For an organization to survive this dynamic and complex environment, a structured and effective control must be instituted to curb the rate of resources misappropriation and outright corporate fraud. This according to Kashif (2008) will boost public confidence and ensure efficient and effective functioning of the manufacturing sector. This will strengthen and upgrade the institutions to survive in an increasingly open environment. Coleman and Nicholas-Biekpe (2006) define corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. However, Mayer (1999) offers a definition with a wider outlook and contends that it means the sum of the processes, structures and information used for directing and overseeing the management of an organization.

It is necessary to point out the fact that the concept of corporate governance has been a priority on the policy agenda in developed market economies for over a decade. Further to that, the concept is gradually warming itself as a priority in the African continent. Indeed, it is believed that the relative poor performance of the corporate sector in Africa have made the issue of corporate governance a critical issue of concern in developmental debate (Berglof and Von -Thadden, 1999). Several events are therefore responsible for the heightened interest in corporate governance in both developed and developing countries. The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies such as Enron, the Houston, Texas based energy giant and WorldCom the telecom behemoth which shocked the business world with both the scale and age of their unethical and illegal operations. These organizations seemed to indicate only the tip of a dangerous iceberg.

In Nigeria, the practice of corporate governance appears to have received considerable emphasis in the financial sector especially the banking sub-sector. While the concept of corporate governance has found expression and acceptance in big manufacturing companies,, it is not out of place to say that corporate governance practice in medium scale manufacturing firms have not taken deep root or are least studied or discussed in the academic circle . This may have raised critical questions of sustainable performance.

In explaining organizational performance, Richard, Timothy, George, and Gerry (2009) posited that organizational performance encompass three specific areas of firm outcomes which include:

a).Profitability (profitability returns, on assets, return on investment, etc).

b).Product market performance (sales, market share, etc) and,

c).Shareholders return (total shareholder return, economic valued added etc),

Systemwise consulting (2009) however defined organizational performance as identifying outcomes that organization wants to achieve, creating plans to achieve those outcomes, carrying out those plans and determining whether the outcomes were achieved. Sequel to the definitions above, this paper recognized four major organizational performance indicators (OPI) namely; competitiveness, operational efficiency, shareholders' satisfaction and corporate growth.

Statement of the Problem

Investors only invest their money in ventures where there is a high confidence for high yield or returns in the future. The absence of corporate governance may therefore hinder the attraction of investor's fund by creating a perception of inadequate financial discipline and controls and this may erode investor's confidence. The practice of corporate governance also increases the operational cost of firms as more people are involved in the policy making and management of the organization through different boards and this if not controlled may affect the firms competitiveness. Operational efficiency is achieved when wasteful organizational practices of all kinds are minimized to the possible state. When there is no institutionalized mechanism in the organization that shoulders the responsibility of monitoring cost structure and control, compensation policies and day-today operational processes; it creates room for wastages in form of increased employees idle time, material lost, under-utilization of capacity and improper inventory management. These will create problems that will affect the performance of the organization negatively. The problems of weak or absence of corporate governance as enunciated above ultimately affects the growth of the firms negatively. This is because corporate growth is only possible when the firms makes reasonable profit and efficiently satisfy various stakeholders' interest. Therefore, the absence or weak practice of corporate governance may slow if not stop the corporate growth of manufacturing firms. The problem of this study therefore is to examine the effect of corporate governance on the performance of manufacturing firms in South-South, Nigeria.

Objectives of the Study

The general purpose of this study is to examine the effect of corporate governance on the performance of manufacturing firms in South-South, Nigeria. However, the following specific objectives shall be investigated.

i. To investigate the effect of managerial ownership on the competitiveness of Aluminum manufacturing firms in South-South, Nigeria.

ii. To investigate the effect of corporate financial policy on the operational efficiency of Aluminum manufacturing firms in South-South, Nigeria .

iii. To examine the effect of corporate board existence on the satisfaction of Aluminium manufacturing firms' stakeholders in South-South, Nigeria.

Research Questions

The following research questions were postulated to serve as a guide in this study.

i. What are the effects of managerial ownership on the competitiveness of Aluminum manufacturing firms in South-South, Nigeria?

ii. What are the effects of corporate financial policy on the operational efficiency of Aluminum manufacturing firms in South-South, Nigeria?

iii. What are the effects of corporate board existence on the satisfaction of Aluminum manufacturing firm stakeholders in South-South, Nigeria?

Hypotheses

The following assumptions were raised in this study

H_{01}: Managerial ownership does not have significant effect on the competitiveness of Aluminum manufacturing firms in South-South, Nigeria

H_{02}: Corporate financial policy does not have significant effect on the operational efficiency of Aluminum manufacturing firms in River state significantly.

H_{03}: Corporate board existence does not have significant effect on the satisfaction of stakeholder's of Aluminum manufacturing firms in South-South, Nigeria.

II. REVIEW OF RELATED LITERATURE

Corporate Governance Defined

According to Cadbury (2002), Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others. As such it is essential that a comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organization depends on the underlying soundness of its individual components and the connections between them. In another perspective, Arun and Turner (2002) contend that there exists a narrow approach to corporate governance, which views the subject as the mechanism through which shareholders are assured that managers will act in their interests. However, Oman (2001) observed that there is a broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they can earn a return on their investment. Arun and Turner (2002) supported the broader view by arguing that the special nature of manufacturing requires not only a broader view of corporate governance, but also government intervention in order to restrain the behaviour of management. They further argued that, the unique nature of the banking firm, whether in the developed or developing world, requires that a broad view of corporate governance, which encapsulates both shareholders and depositors, be adopted for firms. They posit that, in particular, the nature of the banking firm is such that regulation is necessary to protect depositors as well as the overall financial system. This study therefore adopts the broader view and defines corporate governance in the context as the manner in which systems, procedures, processes and practices of a firm is managed so as to allow positive relationships and the exercise of power in the management of assets and resources with the aim of advancing shareholders‟ value and shareholders‟ satisfaction together with improved accountability, resource use and transparent administration.

Corporate Governance Mechanisms

According to Denis (2001), corporate governance encompasses the set of institutional and market mechanisms that induce self-interested managers to maximize the value of the residual cash flows of the firm on behalf of their shareholders. I highlight seven main ways to mitigate agency problems elaborated in McColgan (2001), these are corporate boards, corporate financial policy, blockholders and institutional investors, managerial remuneration, managerial ownership, the managerial labor market and the market for corporate control. The first five mechanisms can be categorized as internal control mechanisms while the latter two are external control mechanisms. To be effective, a governance mechanism must narrow the gap between the interests of manager and investors, and have a significant and positive effect on corporate performance and value (Denis, 2001).

❖ ***Corporate Boards:*** The classical assumption under the agency theory is that directors are good stewards of the shareholders and will monitor the managers on behalf of investors. According to Warther (1998), as well as Hirshleifer and Thakor (1994), due to incentive compensation and reputation concerns, the interests of directors are aligned with those of shareholders. Fama and Jensen (1983) suggest that effective boards should be largely comprised of independent directors to ensure better governance. According to Jensen (1993), increased board size may be detrimental to firm value because when boards become too big, director free-riding increases within the board and the board becomes more symbolic and less a part of the management process. Self-serving managers would want to increase a board's size beyond its value-maximizing level. The agency model therefore predicts an inverse relationship between board size and performance. Besides board composition, some researchers analyze the role of directors and the monitoring process.

❖ ***Corporate Financial Policy:*** Jensen and Meckling (1976) argue that a higher debt leads to less equity, and thus enables higher levels of insider ownership. Jensen (1986) suggests that debt is a better bonding mechanism than dividend payment to make managers pay out future cash flows, especially in situations where companies have few internal growth prospects. Debt improves firm value because it improves the liquidation decision by making default more likely (Harris and Raviv, 1991). However, usage of debt also results in higher levels of debt-related agency costs and bankruptcy costs.

❖ ***Blockholders and Institutional Investors:*** The most direct way to align the cash flow and control rights of outside investors is through concentrated shareholdings. According to Shleifer and Vishny (1997), blockholders play a crucial role in successful corporate governance systems because they have more skills, time, and interest to monitor effectively. The benefits of large shareholders include reducing the free-riding problem in takeovers (Shleifer and Vishny, 1986) and increasing the takeover premium by competing with other large bidders (Burkart, 1995).

❖ ***Managerial Remuneration:*** Jensen and Meckling (1976), posit that higher levels of financial incentives should ultimately lead to higher firm performance. Jensen and Murphy (1990) show that executive salary is an ineffective mechanism for maximizing firm value, since equilibrium in managerial labor markets will prevent large salary cuts for poorly-performing managers. To Brennan (1995), monetary incentives are not sufficient to ensure complete coherence between the goals of managers and shareholders.

❖ ***Managerial Ownership:*** According to agency theory, the interests of owners and managers are better aligned when managers become owners as well. Increased managerial ownership reduces managerial perquisite consumption and in turn, increases investment. Based on this convergence-of-interest hypothesis, Jensen and Meckling (1976) predict a positive relationship between insider holdings and a firm's performance. Insider ownership may also reduce market value. This occurs when managers gain so much power within the firm that they are able to pursue their own interests at the expense of outside shareholders (Fama and Jensen 1983).

❖ ***The Managerial Labor Market:*** Fama (1980) argues that the managerial labor market should discipline poorly performing management through compensation schemes. The basis of their salary should be the firm's prior performance relative to counterparties. Celentani and Loveira (2004) suggest that executive compensation depends not only on firm's own performance but also on industry performance. However, Singh (2006) finds that a strong link between pay and reported performance leads to a weak link between pay and actual performance and low managerial effort. Several theoretical models predict an inverse relationship between pay-for-performance sensitivity and shareholder rights. Cyert et al. (2002) suggest that, in equilibrium, internal governance by the board and external takeover threats by a large shareholder act as substitutes in awarding equity-based compensation to managers. Talley and

❖ *The Market for Corporate Control:* To the extent that legal and internal control mechanisms fail to align the interests of managers and investors in maximizing firm value, parties outside the firm may see a profit opportunity. Jensen (1986) argues that takeovers occur in response to breakdowns of internal control systems in with substantial free cash flows. The market for corporate control can therefore serve to transfer the control of the firm's assets to more efficient managers.

Organizational Performance

According to Robert (2004), there are five measures of organizational performance. The four primary categories of overall organizational performance variables used in recent empirical research identified include (1) accounting measures, (2) operational measures, (3) market-based measures, and (4) survival measures. In addition, measures of economic value creation are popular in practice but are not frequently used in strategic management or entrepreneurship research. Ford and Schellenberg (1982), developed three models for understanding organizational performance. These models are:

Theoretical Framework

This study is anchored on two major theories namely;

Stakeholder Theory: Sundaram and Inkpen (2004), suggest that stakeholder theory attempts to address the question of which groups of stakeholder deserve and require management's attention. Donaldson and Preston (1995), explained that under this model, all person or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another. Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognizant of the myriad participants who seek multiple and sometimes diverging goals.

Agency Theory: The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, Dalton and Canella (2003), point to two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea. In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties" interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system (Davis, Schoorman and Donaldson, 1997)

III. RESEARCH METHODOLOGY

This study used survey approach and covered a population of 305 management staff of 25 Aluminium manufacturing firms selected from the six states of the south-south region of Nigeria. In determining the sample size, the researchers used judgmental sampling technique to select 221 members of staff, however, only 198 copies of the survey tool was accurately filled and returned. The data used in this study was generated from both primary and secondary sources but a questionnaire titled corporate governance and the performance of manufacturing companies (CG&PoMC) was the major instrument for data collection. The statistical tool used for data analysis is the ANOVA test using the 23.0 version of the SPSS.

The ANOVA Table is given Thus:

Source of variation	SS	DF	MS	F - value
Between sample (treatment)	TRSS	r-1	$\frac{TRSS}{r-1}$	
Within	ESS	n-r	$\frac{ESS}{n-r}$	$\frac{TRMS}{EMS}$
Total	**TSS**	**n-1**		

Source: Egbulonu K.G (2007), statistical inference for science and Business, Owerri: Peace Publishers Ltd.

IV. DATA ANALYSIS AND INTERPRETATION

Test of Hypotheses

Hypothesis one

H_{01}: Managerial ownership does not have significant effect on the competitiveness of Aluminum manufacturing firms in South-South, Nigeria

Respondent's Distribution Frequency for Hypothesis One

S/N	OPTIONS					
	SA	A	U	D	SD	TOTAL
1	21	89	35	39	14	**198**
2.	30	76	30	45	17	**198**
3.	37	88	23	33	17	**198**
4.	45	96	47	10	0	**198**
5.	49	90	32	27	0	**198**
TOTAL	**182**	**439**	**167**	**154**	**48**	**990**

Source: Field Survey 2018

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SPSS OUTPUT FOR HYPOTHESIS ONE
ONEWAY MOandC BY RANKS
/STATISTICS DESCRIPTIVES HOMOGENEITY
/MISSING ANALYSIS.
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Descriptives

MOandC

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1.00	5	9.6000	8.84873	3.95727	-1.3871	20.5871	.00	17.00
2.00	5	30.8000	13.42386	6.00333	14.1321	47.4679	10.00	45.00
3.00	5	33.4000	8.79204	3.93192	22.4832	44.3168	23.00	47.00
4.00	5	87.8000	7.29383	3.26190	78.7435	96.8565	76.00	96.00
5.00	5	36.4000	11.30487	5.05569	22.3632	50.4368	21.00	49.00
Total	25	39.6000	27.99851	5.59970	28.0428	51.1572	.00	96.00

Test of Homogeneity of Variances

MOandC

Levene Statistic	df1	df2	Sig.
.682	4	20	.612

ANOVA

MOandC

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	16746.800	4	4186.700	0.006	.000
Within Groups	2067.200	20	103.360		
Total	18814.000	24			

From the SPSS output, the f-value is 0.006, which is less than the level of significance (0.05), therefore we reject the null hypothesis and conclude that management ownership has significant effect on the competitiveness of Aluminium manufacturing firms in South-South, Nigeria

Hypothesis Two

H_{02}: Corporate financial policy does not have significant effect on the operational efficiency of Aluminum manufacturing firms in River state significantly

S/N	OPTIONS					
	SA	A	U	D	SD	TOTAL
1.	49	67	33	30	19	**198**
2.	36	62	34	39	27	**198**
3.	37	65	40	42	14	**198**
4.	39	55	45	33	26	**198**
5.	28	64	48	36	22	**198**
TOTAL	**189**	**313**	**200**	**180**	**108**	**990**

Source: Field Survey 2018

Descriptives

CFPandOPE

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1.00	5	39.6000	18.70294	8.36421	16.3772	62.8228	19.00	67.00
2.00	5	39.6000	13.27780	5.93801	23.1134	56.0866	27.00	62.00
3.00	5	39.6000	18.11905	8.10309	17.1022	62.0978	14.00	65.00
4.00	5	39.6000	11.12654	4.97594	25.7846	53.4154	26.00	55.00
5.00	5	39.6000	16.75709	7.49400	18.7933	60.4067	22.00	64.00
Total	25	39.6000	14.48563	2.89713	33.6206	45.5794	14.00	67.00

Test of Homogeneity of Variances

CFPandOPE

Levene Statistic	df1	df2	Sig.
.430	4	20	.785

ANOVA

CFPandOPE

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.000	4	.000	.000	1.000
Within Groups	5036.000	20	251.800		
Total	5036.000	24			

From the SPSS output, the f-value is 0.000, which is less than the level of significance (0.05), therefore we reject the null hypothesis and conclude that Corporate financial policy has a significant effect on the operational efficiency of Aluminium manufacturing firms in South-South, Nigeria

Hypothesis Three

H_{03}: Corporate board existence does not have significant effect on the satisfaction of stakeholder's of Aluminum manufacturing firms in South-South, Nigeria.

Respondent's Distribution Frequency for Hypothesis Three

S/N	OPTIONS					
	SA	A	U	D	SD	TOTAL
1	36	69	34	42	17	**198**
2.	39	69	33	29	18	**198**
3.	47	58	26	46	21	**198**
4.	35	66	37	31	29	**198**
5.	39	70	45	37	17	**198**
TOTAL	**196**	**332**	**175**	**185**	**102**	**990**

Source: Field Survey 2018

Descriptives

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SPSS OUTPUT FOR HYPOTHESIS THREE
ONEWAY CBEandSS BY RANKS
  /STATISTICS DESCRIPTIVES HOMOGENEITY
   /MISSING ANALYSIS
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CBEandSS

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1.00	5	39.6000	18.87591	8.44156	16.1625	63.0375	17.00	69.00
2.00	5	37.6000	19.15202	8.56505	13.8196	61.3804	18.00	69.00
3.00	5	39.6000	15.53383	6.94694	20.3122	58.8878	21.00	58.00
4.00	5	39.6000	15.09304	6.74981	20.8595	58.3405	29.00	66.00
5.00	5	39.6000	15.51773	6.93974	20.3322	58.8678	17.00	60.00
Total	25	39.2000	15.47579	3.09516	32.8119	45.5881	17.00	69.00

Test of Homogeneity of Variances

CBEandSS

Levene Statistic	df1	df2	Sig.
.086	4	20	.986

ANOVA

CBEandSS

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	16.000	4	4.000	.014	1.000
Within Groups	5732.000	20	286.600		
Total	5748.000	24			

From the SPSS output, the f-value is 0.014, which is less than the level of significance (0.05), therefore we reject the null hypothesis and conclude that Corporate board existence has a significant effect on the satisfaction of stakeholder's of manufacturing firms in South-South, Nigeria.

V. DISCUSSION OF FINDINGS

In this study, the major findings revealed that corporate governance has significant effects on the performance of Aluminium manufacturing firms in South-South, Nigeria. This assertion is drawn from the output of the data generated after been subjected to statistical analysis with the one way ANOVA test. The hypothesis one showed that management ownership plays significant effect in determining the competitiveness of Aluminium manufacturing firms in as the level of significance was greater than the f-value (i.e 0.05>0.006). In hypothesis two, the null hypothesis was rejected in place of the alternate hypothesis since the f-value was lesser than the level of significance (i.e 0.0.0<0.05). The output of hypothesis three proved that the existence of corporate board plays significant role in determining the satisfaction of stakeholders in Aluminium manufacturing firms in South-South, Nigeria as the null hypothesis was rejected in place of the alternate, this is because the level of significance is higher than the f-value (i.e 0.05>0.014).

VI. CONCLUSION

Corporate governance as important as it is may not have found total expression in the Nigerian manufacturing sector. This study concludes however that the effects of corporate governance on firm performance are very manifest, hence; should be given adequate consideration. This study further asserts that variations in the results obtained showed that corporate financial policy has more significant effect as it posted the least output (0.000). This is closely followed by management ownership at (0.006) before corporate board existence which posted a (0.014) output. The result may have also revealed the reason while most medium scale manufacturing firms in Nigeria do not emphasize the composition and institutionalization corporate boards in their firms as they may have considered of low consequence viz-a-viz overall corporate performance

VII. RECOMMENDATIONS

Sequel to the findings and conclusions above, the following recommendations were made by the researcher;

1) The cost of maintaining corporate governance structures in the organizations should be controlled in order to ensure that it does not negate the cost efficiency goals of the organization.

2) There is need to give orientation on the principles of corporate governance to the owners, employers and employees of medium scale manufacturing firms. This will help reduce resentment to corporate governance and promote stakeholders' satisfaction. This recommendation is very vital since it was observed by the researchers that the practice of corporate governance in manufacturing firms is still weak.
3) To ensure that corporate governance contributes maximally to market competitiveness, workers especially the marketing force should be trained in order to enable them effectively incorporate its tenets when developing marketing strategies

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