

**CORPORATE GOVERNANCE AND PROFITABILITY OF LISTED CEMENT
COMPANIES IN NIGERIA**

BY

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**BEING A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE
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DECLARATION

I declare that this M. Sc. Thesis entitled “Corporate Governance and Profitability of Listed Cement Companies in Nigeria” has been carried out by me in the Department of Business Administration. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this thesis was previously presented for another degree or diploma at this or any other institution.

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CERTIFICATION

This Thesis entitled “Corporate Governance and Profitability of Listed Cement Companies in Nigeria” by Idiat Titilayo FOLORUNSHO meets the regulations governing the award of the degree of Master of Science in Business Administration of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This M.Sc thesis is dedicated to evergreen memory of my Late Husband Dr. A. A. Folorunsho and Mother, Alhaja Salamat Aweni Anifowoshe of blessed memory. May their gentle souls rest in perfect peace and pray Allah grant them Al-Janna Firdausi.

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ABSTRACT

Profitability is a vital factor that relates to the way and manner in which financial resources available to firm are judiciously used to achieve the overall corporate objective of an organization. Profitability keeps organization in business and creates a greater prospect for future opportunities. However, corporate profitability is faced with governance challenges recently, which undermine the future prospects and opportunities of corporate entities around the world, particularly developing economies like Nigeria. This study assessed the impact of corporate governance mechanisms on the profitability (return on equity ROE and return on assets ROA) of quoted cement companies in Nigeria. The study adopted correlation research design in a sample of 4 listed cement companies in Nigeria, for a period of ten years (2003-2012). Secondary data was used and multiple regression technique of data analysis using fixed and random effect models was applied. The study found that, the board size of the listed cement companies in Nigeria has no significant impact on profitability (return on equity and return on assets). It however found that the board composition and managerial shareholding have a significant positive impact on the profitability (ROE and ROA) of listed cement companies in Nigeria during the period under review. The study recommends among others that, the regulators of listed cement companies in Nigeria should increase surveillance and supervision to ensure effective compliance with the code of best practices on corporate governance. It further recommends that the regulators and the board of directors of listed cement companies in Nigeria should not concentrate on an optimal board that could significantly impact on the profitability.

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CHAPTER ONE

INRODUCTION

1.1 Background to the Study

Firms' profitability is a vital factor that relates to the way and manner in which financial resources available to a firm are judiciously used to achieve the overall corporate objective of an organization. Profitability keeps organization in business and creates a greater prospect for future opportunities. Therefore, profitability is a major performance metric in the corporate world, which determines wealth transfer between persons and measures the direction of business entity as well as decision base by different users of accounting information (Bello, 2010).

However, corporate profitability is faced with governance challenges recently, which undermine the future prospects and opportunities of corporate entities around the world, particularly developing economies like Nigeria. Consequently, corporate failures worldwide and new studies on how to run firms effectively emerged; a stream of prior researches have observed that the management of firms and their survival are associated with the type of management that is in place. This together with the global competitive business environment requires sound corporate governance (Maher & Andersson, 1999).

In response to frequent corporate failures, and increased competitive business environment around the world, several economic, and regulatory institutions embarked on the establishment and instituting a code of best practice on corporate governance for corporate firms. For instance, the Organisation for Economic Co-

operation and Development (OECD) Council meeting at Ministerial level in April 1998, stressed the importance of corporate governance and called upon the OECD to develop a set of corporate governance standards and guidelines. OECD Ministers in May, 1999 endorsed the Principles of corporate governance standards and guidelines developed and also requested continuing analytical work in this area (OECD, 1999).

In a similar effort, the Nigerian Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) inaugurated a seventeen (17) member Committee on June 15, 2000 in Nigeria, in realizing the need to align with the International Best Practices. The Committee headed by Mr. Atedo Peterside was mandated to identify weaknesses in the corporate governance practice in Nigeria and fashion out necessary changes that will improve the corporate governance practices (SEC, 2003). The Committee's terms of reference include; identifying weaknesses in the corporate governance practices in Nigeria with respect to public companies; examining practices in other jurisdictions with a view to the adoption of international best practices in corporate governance in Nigeria; making recommendations on necessary changes to current practices; and examining any other issue relating to corporate governance in Nigeria. Consequently, a Nigerian Code of Best Practices for Public Companies and Private companies with multiple stakeholders was established in 2003.

Moreover, in 2008 SEC revealed that weak corporate governance has been still responsible for some recent corporate failures in Nigeria, and in order to improve corporate governance, the SEC, in September 2008, inaugurated a National Committee chaired by Mr. M. B. Mahmoud for the Review of the 2003 Code of

Corporate Governance for Public Companies in Nigeria to address its weaknesses and to improve the mechanism for its enforceability. According to SEC, corporate governance is effective to corporate economic performance in today's global market place. As such companies adopting international best corporate governance practices are more likely to attract international investors than those whose practices are perceived to be below international standards (SEC, 2003). However, the committee set up in 2008 came up with a reviewed code of corporate governance for public companies in Nigeria.

In this respect, corporate governance is the system by which corporations are directed and controlled. The corporate governance structure specifies the distributions of rights and responsibilities among different participants in the corporations such as; boards, managers, shareholders, and other stakeholders. It spells out the rules and procedures and also decision making assistance on corporate affairs. By doing this, it provides the structure through which the company objectives are set and the means of obtaining those objectives by examining the value and performance of the firms (Ibrahim, Rehman & Raoof, 2010).

According to the SEC Code, the main target of the Code is the Board of Directors as leaders of corporate organizations, the primary responsibility for ensuring good corporate governance in business organizations lies with the board of directors. And, the principal objective of the board is to ensure that, firms are properly managed and management performance is effectively overseen to protect and enhance the interest of all the stakeholders. However, the major characteristics of the board of directors of corporations in Nigeria which are meant for the effectiveness of the board in piloting

their operations properly include the board Size, board composition (proportion of outside/non-executive and independence directors in the board) and insider ownership (managerial ownership).

The code requires that the board should be of a sufficient size relative to the scale and complexity of the firms' operations and should contain individuals in such a way as to ensure diversity of experience without compromising independence, compatibility, and integrity in carrying out their role. Based on this, board of directors is assumed to monitor and control the management and operations of their firms as effectively as possible to avoid problems that could affect performance adversely. On the other hand, independent/non-executive or outside directors should be the key members of the board capable of bringing independent judgment as well as necessary scrutiny to the proposals and actions of the management and executive directors especially on issues of strategy, performance evaluation and key appointments. They are therefore critical in the proper operations of the firms particularly with respect to financial performance (Sanda, Mikail, & Tukur, 2005).

Moreover, the code required that, the membership of the board should not be less than five (5); and the board should comprise a mix of executive and non-executive directors, headed by a Chairman. Similarly, the majority of board members should be non-executive directors, at least one of whom should be an independent director. Corporate boards are confronted with issues of the governance and how best to improve the level of consistency of regulatory compliance. While improve compliance is necessary for the protection and enhancement of public and shareholder confidence, it has lead to the prevailing assumption that a more independent and engaged board is

the prescription for all that ails today's corporations. Corporations need to actively consider their strategic priorities before adopting corporate governance reforms and corporate strategies that enhance both business performance and governance effectiveness (Todd & Stevens, 2010).

In essence, good corporate governance contributes toward economic stability by enhancing the performance of companies and increasing their access to outside capital, thus serves a public policy objective. It also reduces the vulnerability of the financial crises, cost of capital and transaction cost (Chugh, Meador & Kumar, 2011).

In view of these, prior researches on the impact of corporate governance on firm performance reported mixed results; for instance, in a large board size there is a problem of communication between board members, quick decision making could not be possible, which causes great detriment to firm performance (Eisenberg, Sundgren & Wells, 1998; Singh & Davidson, 2003), board size has a negative relation with firm performance. On the contrary, Coleman (2007), Chugh et al., (2011) found that a larger board size creates more opportunities and resources for better financial performance.

Extant studies on the board of directors composition is also inconclusive, Independent directors are required on the board to control the activities of executive directors, and make a check and balance on the board (Jensen & Meckling, 1976). As such board composition is positively related with firm performance (Wu, Lin, I-Cheng and Lai 2005; Javid & Iqbal, 2008; Lam & Lee, 2012). Managerial share holding according to the corporate governance literature opine that holding of shares by the managers helps to align the interests between shareholders and managers. That is, when the manager's

interests coincide more closely with those of shareholders, the conflicts between managers and shareholders are mitigated. Also, managers are less inclined to divert resources of the firm away to their own account. Moreover, with a large proportion of shares in the hands of managers, they may work harder to improve the firm performance (Jensen & Meckling, 1976).

In Nigeria, among the few empirically studies on corporate governance are the studies by Sanda, Mukailu and Garba (2005), and Hassan (2011) that studied the corporate governance mechanisms and firms' performance. However, this study attempt to examine corporate governance and profitability of listed cement firms in Nigeria. Nigerian cement industry is among the recent sectors under the National Industrial Revolution Plan, and the Federal Government's Backward Integration Policy, which according to the Minister of Industry, Trade and Investment attracted additional investment worth \$8bn (Aganga, 2014). According to him, the cement industry have for the first time ever in the history of Nigeria, exported cement in 2013, and have a capacity of 28.5 million metric tonnes in the same year. The recorded success in the cement sector will be of great importance with the inauguration of the new Nigerian Mortgage Refinancing Company that will support building and construction in housing.

In view of the significance of cement industry to the growth and development of Nigerian economy, it is of critical importance to examine the corporate governance of cement companies in relation to their profitability. It is against this background that this study attempt to investigate the impact of corporate governance on the profitability of quoted cement firms in Nigeria.

1.2 Statement of the Problem

Corporate governance specifies the distributions of rights and responsibilities among boards of directors, managers, shareholders, and other stakeholders. It spells out the rules and procedures and also decision making assistance on corporate affairs; through which the company objectives would be achieved. Therefore, good corporate governance contributes toward economic stability by enhancing the performance of firms and increasing their access to outside capital (SEC, 2003).

Corporate governance, in theory, is the essential factor in reducing risk as well as enhancing value for firm, confidence for investors, and growth for national economy. More significantly, best corporate governance practice could prevent corporate failures and systemic crises. Realizing great values of corporate governance, several countries and regions have introduced corporate governance principles. However, in practice, empirical evidence indicates that corporate governance has different effects on performance of different organizations and environments. While some studies present the positive link between corporate governance and firm performance, others studies found the opposite. There may be various reasons for this divergence. One important element among them is key people leading the corporations. Corporate governance itself does not take effect because it is just a means. It requires boards to establish and put corporate governance framework into practice in every level of their organizational activities.

As such, the most important determinant for a sound corporate governance practice depends on how efficient and accountable the board of directors could be. Alongside the professional background, ethical and dedicated behavior is much more important

and needed that the board members should commit and embrace during exercising their duties.

Emanating from the relevance of corporate governance to the overall performance and the survival of firms, the SEC in 2003 established a code of best practice on corporate governance for public companies in Nigeria. Moreover, in response to subsequent weaknesses in the code, in 2008 SEC review the 2003 Code of Corporate Governance for Public Companies in Nigeria to address its weaknesses and to improve the mechanism for its enforceability. The main focus of the Code is to a some extent on the Board of Directors as leaders of corporate organizations, whose primary responsibility is to ensure good corporate governance in business organizations. That is, the board is to ensure that, firms are properly managed and management performance is effectively overseen to protect and enhance the interest of all the stakeholders.

However, in spite of the institution of code of corporate governance and its mechanisms in Nigeria, issues threatening corporate prosperity and survival, which are related to corporate governance, are still occurring. Such as Agency problem which arose as a result of the relationship between shareholder and managers based on conflict of interests within the firm. This prompted a research questions as to the impact of corporate governance (particularly board of directors) on the performance of firms in Nigeria; this therefore constitute the problem that this study is designed to achieve using listed cement firms. Specifically, in this study board of directors' size, board of directors' composition, and insider share holding, are perceived to be more sensitive to corporate governance with regards to firm performance.

Moreover, despite empirical studies on corporate governance and profitability, the results are mixed and inconclusive to influence policy and decision making. Most of the studies are not time bearing and limited in methodology and they did not focus and cement industry in Nigeria. Thus, a gap for this study to fill; this study is therefore aimed at investigating the relationship between corporate governance mechanisms and profitability of quoted cement firms in Nigeria.

1.3 Research Questions

In view of the problem of this study, and to guide the conducts of the research the following research questions are raised:

- i. Does board of directors' size influences the profitability of quoted cement companies in Nigeria?
- ii. To what extent does the board of directors' composition affect the profitability of quoted cement companies in Nigeria?
- iii. What is the impact of insider/managerial shareholding on the profitability of quoted cement companies in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to examine the impact of corporate governance on the profitability of quoted cement companies in Nigeria. The specific objectives include:

- i. To determine the impact of board of directors' size on the profitability of quoted cement companies in Nigeria.

- ii. To examine the effect of board of directors' composition on the profitability of quoted cement companies in Nigeria.
- iii. To assess the impact of insider/managerial shareholding on the profitability of cement manufacturing companies in Nigeria.

1.5 Statement of Research Hypotheses

In line with the objective of the study the following hypotheses are formulated in null form;

H₀₁: Board of directors' size has no significant impact on the profitability of quoted cement companies in Nigeria.

H₀₂: Board of directors' composition has no significant impact on the profitability of quoted cement companies in Nigeria.

H₀₃: Insider/Managerial shareholding has no significant impact on the profitability of cement companies in Nigeria.

1.6 Scope of the Study

The scope of the study comprises of all the listed cement firms on the floor of Nigerian Stock Exchange (NSE) Market during the period 2003 to 2012. The cement sector is chosen in this study for two reasons; one, because of the importance of the sector to the economic development, especially in line with the present new Nigerian Mortgage Refinancing Company that will support building and construction in housing and job creation. Secondly, the National Industrial Revolution Plan, and the Federal Government's Backward Integration Policy, has stressed the need for

effective performance in the cement industry which resulted in cement exportation in 2013 and attracted an additional investment worth \$8bn with production capacity of 28.5 million metric tonnes in 2013.

The study will cover a period of ten (10) years (2003-2012), this period is considered because the code of corporate governance for public firms in Nigeria was issued first in 2003, and reviewed in 2009. On the other hand, corporate governance in this study is restricted and refers to the board of directors characteristics (board size, board composition, and insider shareholding) because the code of corporate governance categorically stated that the responsibility of corporate governance lies on the board of directors. Profitability in the context of this study refers to the return on equity (ROE) and return on assets (ROA), this is because ROE and ROA are good indicators of firms profitability in relation to owners wealth and assets that generated the profit respectively.

1.7 Significance of the Study

The need for sound corporate governance in both developed and developing economies of the world necessitated this study. The study is therefore significant in revealing the effects of the major corporate governance mechanisms (board of directors) on the profitability of listed cement firms in Nigeria. The findings from this study are expected to benefit regulators (SEC and CAC), managements and boards of cement companies, existing and potential shareholders of cement companies, creditors, and Researchers.

Boards of directors and the management of cement companies in Nigeria could find this study useful, as it will investigate the financial performance in relation to existing governance mechanisms, which will show to them some possible areas that need additional efforts. Similarly, regulators such as SEC and CAC could also find this study useful as the study will analyze the major mechanisms (board of directors) of the code of best practices on corporate governance issued by them. That is, the results of this study will provide them with empirical evidence on the effectiveness or otherwise of the board of directors attributes as required, in order to take necessary actions.

Shareholders as owners, who are usually concern with maximization of their wealth, could also find this study useful. This is because the success of the cement companies is largely depended upon effective board on one hand, and high profitability on the other. Hence, the study will offer logical recommendations from the findings, which could be relevant to the shareholders as owners and creditors as well.

Researchers and student are also part of the beneficiaries of this study, because they are usually interested in understanding how mechanisms of corporate governance affect corporate operations, activities and performance. Hence, it will serve as a source of knowledge and point of reference to students and researchers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter critically review and present relevant literature on corporate governance and the firm profitability. The chapter begins with conceptual literature and then, a historical overview of corporate governance and a review of the corporate governance mechanisms. It also reviews the empirical studies on corporate governance and firm performance. The chapter ends with a discussion of theoretical frameworks of corporate governance.

2.2 Conceptualization

This part presents and discusses the concept of corporate governance and the concept of firm profitability; it begins with the concept of corporate governance.

2.2.1 The Concept of Corporate Governance

The term corporate governance is relatively new both in public and academic debates, although the issues it addresses have been around for much longer, at least since Berle and Means (1932), and even earlier during Adam Smith. According to Zingales (1998) corporate governance is a complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm. Viewing the corporation as a nexus of explicit and implicit contracts, Garvey and Swan (1994), assert that governance determines how the firm's top decision makers (executives) actually administer such contracts. They also observe that governance only matters when such contracts are

incomplete, and that a consequence is that, executives no longer resemble the Marshallian entrepreneur.

Shleifer and Vishny (1997) see corporate governance as activities that deal with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. In addition, corporate governance as being determined by the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors. John and Senbet (1998) propose a more comprehensive definition that, corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. They include stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers, and other interested parties.

Similarly, Hart (1995) closely shares the views of John and Senbet, as he suggests that corporate governance issues arise in an organisation whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organization these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract.

These numerous definitions all share, explicitly or implicitly, some common elements. They all refer to the existence of conflicts of interest between insiders and outsiders, with an emphasis on those arising from the separation of ownership and control over

the partition of wealth generated by a company (Jensen & Meckling, 1976). However, a degree of consensus exists regarding an acknowledgement that such corporate governance problem cannot be satisfactorily resolved by complete contracting because of significant uncertainty, information asymmetries and contracting costs in the relationship between capital providers and insiders (Grossman & Hart, 1986; Hart & Moore, 1990; Hart, 1995).

Moreover, corporate governance as defined by different scholars and practitioners, has pointed to the same end. For instance, in the words of Macey and O'Hara, (2001) corporate governance is the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. While 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. The OECD (1999) has also defined corporate governance as a system on the basis of which companies are directed and managed. It is upon this system that specifications are given for the division of competencies and responsibilities between the parties (board of directors, the supervisory board, the management and shareholders) and formulate rules and procedures for adopting decisions on corporate matters.

In another perspective, Arun and Turner (2002b) 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, Shleifer and Vishny (1997), Vives (2000) and 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.

There is a consensus, however that the broader view of corporate governance should be adopted in the case of financial institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders (Macey & O'Hara, 2001). In summary, one can be led to the inference that, if such corporate governance problem exists, some mechanisms are needed to control the resulting conflicts. The precise way in which those monitoring devices are set up and how they fulfill their role in a particular firm (or organisation) defines the nature and characteristics of that firm's corporate governance. In addition, there are several basic reasons for the growing interest in corporate governance. First, the efficiency of the prevailing governance mechanisms has been questioned (Jensen, 1993; Miller, 1997; and Porter, 1997). Second, this debate has been intensified following reports about spectacular, high-profile financial scandals and business failures (such as Enron, Worldcom, Polly Peck, and BCCI), media allegations of excessive executive pay (Byrne, Grover & Vogel, 1992), the adoption of anti-takeover devices by managers of publicly-owned companies and, more recently, a number of high visible accounting frauds allegedly perpetrated by managers of firms, like Enron and Worldcom. Third, there has been a surge of antitakeover legislation (particularly in the US) which has limited the potential disciplining role of takeovers on managers.

In essence, 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 such as economics, accountancy, and finance among others (Cadbury, 2002). 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.

According to Morck, Shleifer and Vishny (1989), among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regimes and an appropriate savings deposit protection system.

2.2.2 The Concept of Firm Profitability

Profitability is seen as the primary reason for venturing into business. Profit is the money a business earns above and beyond what it spends for salaries and other costs (Nickels, McHugh & McHugh 1997). Hofstrand (2007) opine that profitability can be either accounting profit or economic profits. According to Amah (2006) profitability is the state of producing a profit or the degree to which a business is profitable. Profitability is the primary goal of all business ventures; it is the state or condition of yielding a financial profit or gain. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Whether you are recording profitability for the past

period or projecting profitability for the coming period, profitability is the most important measure of the success of the business. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability (Fauzi & Locke, 2012).

A review of some relevant literature on firm profitability and performance in the market place revealed that there are integrated two sample models of firm performance, one which used economic factors and one which used organizational factors (Marn & Romuald, 2012). The economic factor model is based primarily on economic tradition, emphasizing the importance of external market factors in determining firm success. The other model, organizational, is built on the behavioral and sociological paradigm and sees organizational factors and their fit with the environment as the major determinants of success. Their results confirm the importance and independence of both sets of factors in explaining performance, but they also find that organizational factors explain roughly twice as much variance in firm profit rates as economic factors.

Hirschey and Wichern (1984) analyze the consistency, determinants, and uses of accounting and market-value measures of profitability. They find that differences between accounting and market measures of profitability suggest the validity of cautioning remarks concerning the use of accounting data as it has a primarily historical interpretation unlike market-value measures of profitability which are expectational or forward looking. In addition, they find that there exists a significant

explanatory role for R&D intensity, TV advertising, leverage, and industry growth as determinants of profitability.

Kessides (1990) estimated a specified model of oligopoly and finds that the existence of firm effects implies inter-firm differences in internal efficiency, and also that such firm-specific efficiency characteristics persist across industries (i.e. if a firm is relatively efficient in market *A*, it is also likely to be relatively efficient in a randomly selected market *B*). The author also finds that the presence of industry effects signifies cross-industry differences in the height of effective entry barriers, the net advantage of size, and various elasticities. Overall, the study clarifies the relationship between market share and profitability.

Brush, Bromiley, and Hendrickx (1999) find that both corporation and industry influence business unit profitability but corporation has the larger influence. The authors use a continuous variable model, as an alternative to the more conventional ANOVA or VCA. This approach estimates the coefficients of corporation and industry effects on business segment returns while explicitly removing the simultaneous effects that might cause inconsistent estimates. In the end, they find a sizable corporate effect on business segment performance, one which appears to be greater than the industry effect. Brush and Bromiley's findings contradict Rumelt's (1991) widely cited paper, in which Rumelt finds that corporations explain almost none of the variability in business unit profitability.

2.3 Historical Overview of Corporate Governance

The foundational argument of corporate governance, as seen by both academics as well as other independent researchers, can be traced back to the pioneering work of Berle and Means (1932). They observed that the modern corporations having acquired a very large size could create the possibility of separation of control over a firm from its direct ownership. Berle and Means' observation of the departure of the owners from the actual control of the corporations led to a renewed emphasis on the behavioral dimension of the theory of the firm.

Governance is a word with a pedigree that dates back to Chaucer. In his days, it carries with it the connotation "wise and responsible", which is appropriate. It means either the action or the method of governing and it is in the latter sense that it is used with reference to companies. Its Latin root, "*gubernare*" means to steer and a quotation which is worth keeping in mind in this context is: 'He that governs sits quietly at the stern and scarce is seen to stir' (Cadbury, 1992:3). Though corporate governance is viewed as a recent issue but nothing is new about the concept because, it has been in existence as long as the corporation itself (Imam, 2006: 32).

Over centuries, corporate governance systems have evolved, often in response to corporate failures or systemic crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the security laws in the United States were put in place following the stock market crash of 1929. There has been no shortage of

other crises, such as the secondary banking crisis of the 1970s in the United Kingdom, and the U.S.A.

Savings and loan debacle of the 1980s, East-Asian economic and financial crisis in the second half of 1990s; in addition to these crises, the history of corporate governance has also been punctuated by a series of well-known company failures: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, Baring Bank and in recent times global corporations like Enron, WorldCom, Parmalat, Global Crossing and the international accountants, Andersen (La Porta, Lopez and Shleifer 1999). These were blamed on a lack of business ethics, shady accountancy practices and weak regulations. They were a wake-up call for developing countries on corporate governance. Most of these crisis or major corporate failure, which was a result of incompetence, fraud, and abuse, was met by new elements of an improved system of corporate governance (Iskander & Chamlou, 2000).

2.4 Corporate Governance Mechanisms

One consequence of the separation of ownership from management is that the day to today decision-making power (that is, the power to make decision over the use of the capital supplied by the shareholders) rests with persons other than the shareholders themselves. The separation of ownership and control has given rise to an agency problem whereby there is the tendency for management to operate the firm in their own interests, rather than those of shareholders' (Jensen and Meckling, 1976; Fama and Jensen, 1983). This creates opportunities for managers to build illegitimate

empires and, in the extreme, outright expropriation. Various suggestions have been made in the literature as to how the problem can be reduced (Jensen and Meckling, 1976; Shleifer and Vishny, 1997 and Hermalin and Weisbach, 1998). Some of the mechanisms of corporate governance include the board of directors, shareholders and the creditors (Jensen & Meckling, 1976).

2.4.1 Board of Directors

According to the Code of corporate governance in Nigeria, the primary responsibility for ensuring good corporate governance in firms lies with the board of directors. And, the principal objective of the board is to ensure that, banks are properly managed and management performance is effectively overseen to protect and enhance the interest of all the firms' stakeholders.

The board of directors according to SEC Code of Corporate Governance is accountable and responsible for the performance and affairs of company; it should defines the company's strategic goals and ensure that its human and financial resources are effectively deployed towards attaining those goals. The code further described the composition and structure of the board; the Board should be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings; membership of the Board should not be less than five and should comprise a mix of executive and non-executive directors, headed by a Chairman. The majority of Board members should be non-executive directors, at least one of whom should be an independent director. Moreover, the code requires the members of the board should be

individuals with upright personal characteristics, relevant core competences and entrepreneurial spirit, and should have a record of tangible achievement and should be knowledgeable in Board matters. Members should also possess a sense of accountability and integrity and be committed to the task of good corporate governance, should be independent of management to enable it carry out its oversight function in an objective and effective manner.

Specifically, SEC requires that the Executive Directors should be persons knowledgeable in relevant areas of the company's activities in addition to possessing such other qualifications as may be needed for their specific assignments or responsibilities. And, they should be involved in the day-to-day operations and management of the company. In particular, they should be responsible for the departments they head and should be answerable to the Board through the Chief Executive Officer/Managing Director. On the other hand, Non-executive directors should be key members of the board, who should bring independent judgment as well as necessary scrutiny to the proposals and actions of the management and executive directors especially on issues of strategy, performance evaluation and key appointments. The code also requires that Non-executive directors should be persons of high caliber with broad experience, integrity and credibility. SEC defined independent director as a non-executive director who: is not a substantial shareholder of the company, that is, one whose shareholding, directly or indirectly, does not exceed 0.1% of the company's paid up capital; is not a representative of a shareholder that has the ability to control or significantly influence Management; has not been employed by the company or the group of which it currently forms part, or has served

in any executive capacity in the company or group for the preceding three financial years.

Moreover, independent director according to the code should not be a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company or the group in an executive capacity; and, is not a professional adviser to the company or the group, other than in a capacity of a director; he is also required not to be a significant supplier to or customer of the company or group; and has no significant contractual relationship with the company or group and is free from any business or other relationship which could materially interfere with his/her capacity to act in an independent manner. In essence, the code requires independent director to be free of any relationship with the company or its management that may impair, or appear to impair the director's ability to make independent judgments.

SEC requires the board to carry out its duties and responsibilities through committees. It should determine the number and composition of such committees by ensuring that each committee comprises the relevant skills and competences and that its members are able to devote sufficient time to the committee's work. The Board may in addition to the Audit Committee required by the Companies and Allied Matters Act (CAMA) establish a Governance/Remuneration Committee and a Risk Management Committee and such other committees as the Board may deem appropriate depending on the size, needs or industry requirements of the company. It is worth noting that only directors should be members of board committees while senior management may be in attendance. In addition, the board is responsible for the process of risk management; it

should form its own opinion on the effectiveness of the process, while the management is accountable to the board for implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company.

2.4.2 Shareholders

According to CAMA, shareholders are the stakeholders that own the equity share capital of a firm; they are the residual owners of the business. Shareholders play a key role in the provision of corporate governance. Small or diffuse shareholders exert corporate governance by directly voting on critical issues, such as mergers, liquidation, and fundamental changes in business strategy and indirectly by electing the boards of directors to represent their interests and oversee the myriad of managerial decisions. Incentive contracts are a common mechanism for aligning the interests of managers with those of shareholders. The Board of directors may negotiate managerial compensation with a view to achieving particular results. Thus small shareholders may exert corporate governance directly through their voting rights and indirectly through the board of directors elected by them (Fama & Jensen, 1983).

However, a variety of factors could prevent small shareholders from effectively exerting corporate control. There are large information asymmetries between managers and small shareholders as managers have enormous discretion over the flow of information. Also, small shareholders often lack the expertise to monitor managers accompanied by each investor's small stake, which could induce a free-rider problem.

Large (concentrated) ownership is another corporate governance mechanism for preventing managers from deviating too far from the interests of the owners (Jensen &

Meckling, 1976). According to them, large investors have the incentives to acquire information and monitor managers. They can also elect their representatives to the board of directors and thwart managerial control of the board. Large and well-informed shareholders could be more effective at exercising their voting rights than an ownership structure dominated by small, comparatively uninformed investors. Also, they could effectively negotiate managerial incentive contracts that align owner and manager interests than poorly informed small shareholders whose representatives, the board of directors, can be manipulated by the management. However, concentrated ownership raises some corporate governance problems. Large investors could exploit business relationships with other firms they own which could profit them at the expense of the company. In general, large shareholders could maximize the private benefits of control at the expense of small investors.

2.4.3 Debt Holders

Debt holders provide finance in return for a promised stream of payments and a variety of other covenants relating to corporate behaviour, such as the value and risk of corporate assets. If the corporation violates these covenants or default on the payments, debt holders typically could obtain the rights to repossess collateral, throw the corporation into bankruptcy proceedings, vote in the decision to reorganize, and remove managers (Zingales, 1998).

However, there could be barriers to diffuse debt holders to effectively exert corporate governance as envisaged. Small debt holders may be unable to monitor complex organization and could face the free-rider incentives, as small equity holders. Also, the effective exertion of corporate control with diffuse debts depends largely on the

efficiency of the legal and bankruptcy systems. Large debt holders could ameliorate some of the information and contract enforcement problems associated with diffuse debt. Due to their large interest in the firm, they are more likely to have the ability and the incentives to exert control over the firm by monitoring managers. Large creditors obtain various control rights in the case of default or violation of covenants. In terms of cash flow, they can renegotiate the terms of the loans, which may avoid inefficient bankruptcies. The effectiveness of large creditors however, relies importantly on effective and efficient legal and bankruptcy systems. If the legal system does not efficiently identify the violation of contracts and provide the means to bankrupt and reorganize firms, then creditors could lose a crucial mechanism for exerting corporate governance. Also, large creditors, like large shareholders, may attempt to shift the activities of the company to reflect their own preferences. Large creditors for example, as noted by Myers (1997) may induce the company to forego good investments and take on too little risk because the creditor bears some of the cost but will not share the benefits.

2.5 Review of Empirical Studies on Corporate Governance and Firm Profitability

2.5.1 Board Size and Firm Profitability

Adebayo, Ayeni, and Oyewole (2013) examined the relationship between three corporate governance mechanisms (Board independence, board size, and chief executive duality) and two organization performance measures (earnings per share and return to equity) of Nigerian listed organizations. Their result showed that there is a positive significant relationship between board independence and organizational

performance while board size and chief executive duality have negative significant relationship with organizational performance.

Ramezani et al. (2013) explore the relationship between board size and market value of companies in Iran. To accomplish the work, the researchers use 140 Iranian listed companies from 2006 to 2010 as a statistical sample. They find that board size has no significant effect on market value. Using the sample of 62 Romanian firms listed on the Bucharest Stock Exchange for the year 2010, Moscu (2013) explores that the increase in board size leads to the improvement of the company profitability. Also, expanding the size of board increases information as well as diversity in companies. Velnampy, (2013) found that board size has no connection to firm performance which measures by ROA and ROE. These results are found in the study of 28 Sri Lankan manufacturing companies for the period from 2007-2011.

Samuel (2013) investigates the effects of the larger board size on financial performance of Nigerian corporations. In this study, the author employs a dataset of 50 companies listed on the Nigerian Stock Exchange during 2001-2010. He finds that there is a negative connection between the size of board and the firm value. The larger board size deteriorates financial performance and corporate governance as well. In Vietnam, Duc and Thuy (2013) employ a panel data analysis to examine the effect of corporate governance on performance of 77 non-financial companies quoted during 2006-2011 in the HOSE. The results show that board size has an adverse effect on performance of corporations.

Yusoff and Alhaji (2012) investigated the relationship between corporate governance and firm performance of 813 listed companies in Malaysia from 2009 to 2011. They

demonstrate that board size significantly influences performance in relation to firm earning per share and return on equity (ROE). Fauzi and Locke (2012) employ a dataset of 79 New Zealand listed firms to examine whether board composition and ownership structures have impact on firm performance. They find that large boards can improve firm performance because more members in the boardroom lead to the increase in quality and frequency of overseeing management activities. This results in lessening managerial entrenchment, thus improve firm performance.

In contrast, Ghabayen (2012) proves that board size has no effect on performance (ROA) of 102 non-financial listed companies in Saudi Arabia for the year 2011. In the analysis of 208 Brazilian publicly firms which are listed on Bovespa for the year 2008, Gondrige et al. (2012) present a positive relationship between board size and firm value. They document that most valued firms are likely to have a large board. The research of Marn and Romuald (2012) is based on the sample of 20 Malaysian public companies. Their purpose is to examine the association between corporate governance and corporation performance measured by earning per share. The data is collected cover 5 years, spanning from 2006 to 2010. Their study finds that board size is positive associated with company performance. In Vietnam, the study of the IFC (2012) presents evidence of correlation between board size and best corporate governance scores in top companies. The explanation may be the larger firms are likely to obtain higher governance scores and have more complex problems to solve. Therefore, they also need greater board members.

In Canada, Gill and Mathur, (2011) board size is found to negatively impact on profitability of the service corporations. The result is based on an analysis of 75 Public

companies of which data were obtained randomly on the Toronto Stock Exchange during 2008-2010. The study of Ness et al. (2010) confirms that board size has a negatively correlation to the debt to asset ratio. It contributes to the literature that larger boards may face with vacillation due to various ideas, hence effecting debt-funded projects. Babatunde and Olaniran (2009) conduct a study of 62 companies quoted on the Nigerian Stock Exchange between 2002 and 2006. Their findings reveal that for the Nigerian environment, board size has a strong association with better firm value (Tobin Q) because more numbers on board may produce a larger range of knowledge which is helpful for decision making.

Tsifora and Eleftheriadou (2007) perform an empirical test to identify the effects of corporate governance principles on performance for publicly traded manufacturing firms in Greek over the period 2002 -2004. The findings indicate that corporate governance has a closely connection to performance of companies. Particularly, firms that implement the corporate governance practice have high profitable ratios. Moreover, the expanding board size is associated with better performance.

Garg (2007) finds that board size is negatively related to firm performance, the higher members in board, the lower effective it performs. He also suggests that the board of six members is an optimal size and board size should be small for all members contribute their ideas and come to a consensus. He points out that the firms are likely to add more board members in case of underperforming, leading to poorer performance.

Staikouras et al., (2007) find that for European banks, profitability is negatively related to the size of the board of directors, while the impact of board composition,

although positive in all models, is insignificant in most cases. In the analysis of 821 listed companies on the First Section of Tokyo Stock Exchange, Bebenroth and Donghao (2006) discover that board size is not related with market performance (Tobin's Q) of Japanese manufacturing firms.

Anderson et al. (2003) conduct a study on a sample of S&P 500 firms and document that board size is negatively associated with the cost of debt financing, for example when the former added one member, then the latter declined 10 basis point. They rationale that the oversight of financial reporting will be improved as board has a greater members.

2.5.2 Board Composition and Firm Profitability

Board composition is a debated corporate governance issue since it could influence board deliberations and the capability to control top management decisions and results. Although there is not an optimal formula (Vance, 1978), board independence has become a relevant issue in the corporate governance agenda. As a matter of fact, non-executive and independent directors are considered one of the most important mechanisms for ensuring corporate accountability (Daily et al., 2003; Dalton et al., 1998).

He et al. (2009) state that board independence is the most effective deterrent of fraudulent financial reporting, as a matter of fact, many studies (Dechow et al., 1996; Beasley et al., 2000; Song and Windram, 2004; Uzun et al., 2004; Farber, 2005) showed that firms committing financial reporting fraud are more likely to have a board of directors dominated by insiders. With reference to Italy, Romano and Guerrini (2012) find that the higher the percentage of independent directors on the

board, the lower the likelihood of financial fraud, arguing that a higher relative weight of independent directors appears to ensure more effective control.

Many countries have strengthened recommendations on board composition and independence (Aguilera, 2005; Huse, 2005). Recent study shows that nowadays the independence of non-executive directors is a commonly recommended governance practice (Zattoni and Cuomo, 2010). However, the results regarding the effectiveness of outside directors are mixed. Some empirical researches in the last decades show no significant relationship between board composition, considered as the proportion of outsiders or of independent board members on the board, and performance (Romano et al., 2012; Adams and Mehran, 2008; Love and Rachinsky, 2007; Zulkafli and Samad, 2007; Adams and Mehran, 2005; Simpson and Gleason, 1999).

However, the majority of the existing studies about banks shows a significantly positive relationship between board composition and banks' profitability or efficiency, highlighting how firms with a higher presence of non-executives or independent members in their boards perform better than the others (Shelash Al-Hawary, 2011; Trabelsi, 2010; De Andres and Vallelado, 2008; Tanna et al., 2008; Bino and Tomar, 2007; Busta, 2007; Pathan et al., 2007; Staikouras et al., 2007; Sierra et al., 2006; Isik and Hassan, 2002).

Romano, Ferretti and Rigolini (2012) analyze the interaction between corporate governance and performance in the Italian banking groups during the period 2006-2010. Using the fixed effect model on a panel dataset, they test seven hypothesis concerning board size, board composition, existence of board committees, control and risk (audit) committee size and membership, board remuneration, and women

directorship. The empirical research gives evidence of the influence board of directors' composition and structure exercise on banks' profitability in terms of ROE and ROA. They find that board size does not affect Italian bank holding companies' performance and that smaller audit committees charged with internal control activities perform better, increasing vigilance over board decisions and activities and, thus, concurring to enhance banks' profitability.

Their results also show a significant negative relationship between the percentage of independent directors in the audit committee and banks' performance in terms of both ROE and ROA. Our study shows also a significant positive relationship between the presence of women on the board of directors and both ROE and ROA, even if the representation of women in Italian bank holding companies' boards is still scarce. The other dimensions of corporate governance (board independence, board committees' existence, audit committee size, and board remuneration) do not have a statistically significant relationship with bank groups' profitability.

2.5.3 Managerial Ownership and Firm Profitability

Rowe, Shi and Wang (2011) study the relation between board governance structure and performance of Chinese banks for the period of 1998-2007. They find that Western governance mechanisms within the principal-agent framework work effectively in Chinese banks. Boards with stronger governance structure produce superior financial performance in Chinese banks. Specifically, higher board ownership, lower percentage of insiders on board, and lower block ownership are associated with better bank performance. These findings suggest that strengthening board governance and introducing global best practices and accountability will likely

improve Chinese bank performance significantly and it is the right direction to take as China's banking reform deepens.

Daraghma and Alsinawi (2010) examined the effect of board of directors, management ownership and capital structure on the financial performance of the corporations listed in Palestine securities exchange. Palestinian corporations were selected within four years 2005-2008. The results of their study indicated that the chief executive officer CEO-chairman separation does not have any significant impact while the CEO-chairman duality has a significant impact on the financial performance. The results also showed that management ownership has positive effect on the financial performance. It was also concluded that the debt financing has no influence on the profitability of Palestinian corporations.

Uadiale (2010) assessed the impact of board structure on corporate financial performance in Nigeria. This study employs four board characteristics include board composition, board size, board ownership and CEO duality. Findings from the study showed that there is a strong positive association between board size and corporate financial performance. Also it was concluded that there is a positive association between outside directors sitting on the board and corporate financial performance. However a negative association was observed between directors' stockholding and firm financial performance. In addition, the study revealed a negative association between ROE and CEO duality.

Jelinek and Stuerke (2009) examined the nonlinear relation between agency costs and managerial equity ownership. They used return on assets as a measure of profitability and two financial statement-based agency cost measures, i.e. asset utilization and an

expense ratio, which proxy for management's efficiency in use of assets and perquisite consumption, respectively. They found that managerial equity ownership is nonlinearly and positively associated with return on asset and asset utilization, and nonlinearly and negatively associated with the expense ratio.

Hasan and Butt (2009) discussed the impact of ownership structure and corporate governance on capital structure of Pakistani listed companies. The study covers the period 2002 to 2005 for 58 non-financial listed companies from Karachi stock exchange. Results revealed that board size and managerial shareholding is significantly negatively correlated with debt to equity ratio. Also the results showed that corporate financing behavior is not found significantly influenced by CEO/chair duality and the presence of non-executive directors on the board. Finally the findings suggested that corporate governance variables like size and ownership structure and managerial shareholding play an important role in determination of financial mix of the firms.

Kaserer and Moldenhauer (2008) examined the effect of insider ownership on firm performance in their research. Using pooled data set of 648 German firms observation for the years 2003 and 1998, they found evidence for positive and significant relationship between corporate performance-as measured by stock price performance, market to book ratio and return on assets-and insider ownership. In addition, their research showed that outside block ownership as well as more concentrated insider ownership has a positive impact on corporate performance. Overall, the results indicated that ownership structure might be an important variable explaining the long term value creation in the corporate sector.

2.6 Theoretical Framework of the Study

The study of corporate governance according to Fauzi and Locke (2012) is generally explain from four commonly theoretical perspectives (agency, stewardship, resource dependence, and stakeholders).

2.6.1 Resource Dependency Theory

Pfeffer and Salanciks (1978) developed resource dependence theory and is widely applied greatly in the studies on the board of directors. This perspective defines the organizational actions in response to the interdependencies and contingencies in the business world. In essence, the competency of the board membership with regard to resource service is the main topic of resource dependence view (Hillman et al., 2009).

Given the philosophical underpinnings of resource dependency theory, Pfeffer and Salancik (1978) discuss that the existence of an organization mainly depends on how it can obtain and maintain the vital resources. In reality, no company can absolutely operate independently but must inevitably link to other entities in the business environment. Thus, they are mutually dependent for importing several needed resources. To survive and sustain, companies must have interactions with surroundings for their supplies, their sales, etc. The cooperation between organizations helps them to establish the networks in controlling their external environment, reducing the instability, and improving their performance. Such interactions can be attainable by the connections of the corporate boards.

The resource dependence role of board is, on the one hand, providing personal human capital, and on the other hand, creating the linkages of external resources. Firstly, board members possess qualification and experience to initiate and formulate strategic

direction as well as to give administrative counsel (Hillman et al., 2009). Board members with individuals' expertise and relational capital can strengthen board effectiveness. Board also pools the standing and legitimacy which improves firm performance. Moreover, board serves as the bridge of information between its corporation and other organizations. As a channel of communication, board facilitates the firm to gain timely access to valuable information which helps to moderate the transaction costs of vulnerability from environment. Lastly, board procures resources from outside by connecting to influential individuals and important organizations in the network system (Hillman and Dalziel, 2003). According to Alvarado et al. (2011), with the knowledge of individual directors, board not only plays the role of information and resource provider, but also functions as the "cushion" to mitigate the possible influences of environment.

Moreover, resource dependence perspective is also a useful ground for evaluating how effectively board could fulfil its strategic role. The board of directors is subject to the assessment of building external relationships for the acquirement of beneficial resources. Thus, the fulfilment of this fundamental objective is an important dimension of the board's efficiency (Brown, 2005).

2.6.2 Agency Theory

Fama and Jensen (1983) and Jensen and Meckling (1976) state that agency problem stems from the separation of ownership and control in modern businesses of which stocks are dispersedly held. According to them, in order to expand business, firms need to raise capital and a common and cheap way is to go public for accessing to financial resources. This leads firms to have more owners. Usually, the shareholders

do not manage the firms due to the diffused ownership and the professional background. Typically, the managers (or the agents) are employed to run the company through a contract with the owners (also referred to as the principals).

Theoretically, such contracts cover stipulations of what the agents must do (Shakir, 1997). However, whether the agents completely perform their duty as if they would be the owners of that firm is the main concern. Since one could not predict all situations in the future, the contingencies might arise and result in an imperfect contract which is technologically infeasible in reality. Consequently, the agents have more room to do what are not specified in the contract at their proposal. With considerably residual rights, the managers could allocate funds discretionarily (Shleifer and Vishny, 1997). This issue is described very vividly by Jensen and Meckling (1976, p. 5) “an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal”.

When the investors sink their money in companies with a hope of gaining returns, what they have from this affair is only “a piece of paper”. So, how they can know that their welfare is used in the right ways by the right people (Shleifer & Vishny, 1997). This topic is first discussed in the work of Adam Smith (1776, p.700) entitled “The wealth of Nations”. The author argues that “The directors of [joint stock] companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious

vigilance [as owners]; Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company” (Hermalin & Weisbach, 2000, p. 8).

Another aspect of the contractual relationship is the adverse selection. Before entering into a contract, the principals cannot determine exactly the capability of the agents. Therefore, the agents may misrepresent their true information. The principals hire the agents via the agent labor market. In case of low qualified agents, the principals get the “lemons” as mentioned in Akerlof (1970). According to Chen (2012), the principals face with the impediment in preparing the contract because of the unrevealed information from the side of the agents. Therefore, adverse selection is unavoidable in the real world as an inherent issue of corporate governance. Besides, moral hazard occurs when the contract is carried into effect. In fact, the agents have more understandings of the firm over the principals. This situation is described as asymmetric information. Along with that, the divergent incentives between the principals and the agents induce the latter to pursue their own goals at the formers costs. It is difficult for the principals to observe such actions because the firm performance is affected by several factors (Jensen and Meckling, 1976).

When the agents seek to pursue their own interest, expenditures that involve in such transactions are considered as agency cost which affects the shareholders interest (Jensen and Meckling, 1976; Fama and Jensen 1983). Regarding agency problem solving, Fama and Jensen (1983) suggest that decision management should be separated from decision control. Moreover, the oversight of managerial actions could mitigate agency problem. This mission is given to the board of directors (Donaldson

and Davis, 1991).

At this point, the board members are selected by the shareholders to function as the monitors who ensure that the agents always respect and maximize the assets of the principals. Jensen and Meckling (1976) point out that agency problem, whatever ways it can be solved, will ultimately end in expenses of firm. The challenge to alleviate agency conflict between the principals and the agents at the minimum costs accounts for the need of corporate governance and the important role of board.

According to Rogers et al., (2007) in the countries that are characterized as high concentrated ownership and underdeveloped stock market, corporate governance problem mainly comes under the conflict between the majority and the minority shareholders. Thus, the agency conflict between the principals and the agents as described by Fama and Jensen (1983) may not be as typical as that between the minority shareholders and the majority-controlling stockholders (Berglöf & Claessens, 2004; Villalonga & Amit, 2006).

Supporting this view, Claessens and Fan (2003, p6) posit that “When ownership is concentrated to a degree that one owner has effective control of the firm, as is typically the case in Asia, the nature of the agency problem shifts away from manager-shareholder conflicts to conflicts between the controlling owner (who is often also the manager) and minority shareholders”.

2.6.3 Stewardship Theory

Contrary to the agency theory, the steward perspective views human beings are honest and can be reliable trustees. As such, there is no concern about the agents because

they can serve the companies as good as possible. They try their utmost to maximize the welfare of the principals and enhance the value of the companies. Thus, the managers are the good stewards whose motives are far from the exploitative shirkers. They just want to perform well (Donaldson and Davis, 1991). The point of this argument is that the managers perceive that their own interests are aligned with those of their owners and the goals of firm. Thus, the executives' benefits are closely ties to their performance and firm outcome.

By working towards enhancing value for firm, they will in turn receive higher benefits than the utility that they could gain by pursuing their own objectives (Davis et al., 1997). Beside wages, other non-financial factors also stimulate managers to improve their performance and maximize the firm value. The recognition of talent and devotion from the owners as well as the co-workers can boost the managers' ego. Furthermore, the sense of satisfaction, achievement and challenge are personal aspirations. When they have served long time and incorporate their personal values into the company, the prestige of individuals and organization will become one. In addition, the perception of hard work today for future prosperity encourages managers to act as stewards even though they hold no firm shares (Davis and Donaldson, 1991).

2.6.4 Stakeholder Theory

Freeman (2004, p. 229) defines "stakeholder as any group or individual that can affect or is affected by the achievement of a corporation's purpose". This viewpoint implies that the stakeholders are significantly linked to the firm's goals. According to Argüden (2010), every corporation needs resources to sustain and create value. As such, the stakeholders play an important role in supplying capital for firm. These

outside suppliers are the decisive factors for the success of firms. Their contributions in both physical and human capital help firms to get profits and competitiveness. Therefore, companies should acknowledge the valuable provisions of the stakeholders and promote their embedding in long time (the IFC, 2010). Given the importance of the stakeholders, Jensen (2001) asserts “A firm cannot maximize value if it ignores the interest of its stake holders”. The reason is “stakeholders are about the business, and the business is about the stakeholders”.

Therefore, “Stakeholder interests need to be balanced over time” (Freeman (2004, p.231). According to Pfeffer and Salancik (1978), there are various groups and organizations in regard to an organization’s activities. How well to serve them is an external standard for identifying the organizational effectiveness.

Imam and Malik (2007) argue that paying attention to outside stakeholders is the ethical standard for sound corporate governance practice. Corporate governance assures the major resources to be utilized efficiently and allocated properly. In doing so, corporate governance mechanisms, on the one hand, have to attain the strategic objectives of corporation and on the other hand, align the interests of the owners with those of other stakeholders. In essence, the value creation for the enterprise should be connected closely to those of the stakeholders. Thus, the business is an arrangement to reach the satisfaction of various stakeholders: suppliers, customers, employees, communities, managers and shareholders in long-term (Freeman et al., 2004).

The Stakeholder perspective underscores the role of board in serving diverse stakeholders. Through the corporate governance systems, board should take into account the demands and expectations of all constituencies concerned (Radlach &

Schlemmbach, 2008). Board has responsibility to balance benefits of all players in a company. For sustainable growth, moral behaviors, economic objectives and governance strategy should not be separated. The board should identify the crucial capitals, viz., finance, technology, society, environment, and human in establishing the long-term corporate strategies. Furthermore, the impacts of company's operations on surroundings such as community, environment, and society have to include in the reports for the stakeholders (Argüden, 2010).

This study is underpinned by the agency theory and stakeholders' theory to evaluate the linkage between board of directors, ownership and profitability of cement manufacturing firms in Nigeria. this is because, Fama and Jensen (1983) argue that outside directors have the incentive to act as monitors of management because they want to protect their reputations as effective, independent decision makers. An independent board of directors has fewer conflicts of interest in monitoring managers, even if the presence of outside directors entails additional costs to the firm (fees, travel expenses, etc); moreover, as De Andres and Vallelado (2008) highlight, an excessive proportion of non-executive directors could damage the advisory role of boards, since executive directors facilitate the transfer of information between directors and management and give information and knowledge that outside directors would find difficult to gather. After the recent corporate scandals, policymakers and regulators worldwide have called for greater independence of boards of directors from the top management of firms (Aguilera, 2005; Dalton and Dalton, 2005).

2.7 Summary

Based on the foregoing, theoretical arguments on corporate governance studies have investigated the relationships between corporate governance mechanisms and different aspect of corporate performances. This study is also designed to empirically test the impact of corporate governance mechanisms (board of directors' size, composition and managerial ownership) on the profitability of listed cement companies in Nigeria. Therefore in this chapter, relevant literature on corporate governance and the firm performance were presented and discussed. It also presented conceptual literature and then, a historical overview of corporate governance and a review of the corporate governance mechanisms. It further reviewed the empirical studies on corporate governance and firm performance. The chapter ended with a discussion of theoretical frameworks of corporate governance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the methods and technique adopted to achieve the research objectives are presented and discussed. This chapter discusses the research design, population and sample of the study, sources and method of data collection for the study and the technique of data analysis. It also presents the measurements and definition of the variables of the study and the models as well as the justification of the methods used in the study.

3.2 Research Design

The study employs correlation research design to investigate the effect of corporate governance (board of directors' size, board of directors' composition and managerial shareholding), on the profitability (ROE and ROA) of listed cement firms in Nigeria. This design is chosen because the aim of correlation research design is to investigate the relationships between variables and to observe the impact of the independent variable(s) on the dependent variable, so as to establish the causal relationship or otherwise among the variables. Thus, the design is in agreement with the objectives of this study which involved the assessment of the effect of corporate governance on the profitability of listed cement firms in Nigeria.

3.3 Population and Sample of the Study

The population of this study consists of all the five quoted cement firms (Ashaka cement Plc, Dangote Cement Plc, Cement Company of Northern Nigeria Plc, Lafarge (WAPCO) Cement Nigeria Plc, and Nigerian Cement Company Plc). However, due to the non-availability of data of Nigerian Cement Company, the company is excluded, thus, reducing the number of the firms from 5 to 4 firms. This constitutes the sample of the study; the study will cover the period of ten years (2003-2012).

3.4 Sources and Method of Data Collection

The study makes use of secondary sources of data due to the fact that the estimation of the model of the study requires the use of quantitative data. Therefore, the source of data collection for the study involves the financial statements of the 4 sample cement firms for all the years covered by the study (2003-2012). Specifically, the data for the board of directors' size, composition and managerial shareholding are sourced from the qualitative reports of the financial statements; while the data for the profitability are sourced from income statements and the statements of financial positions.

3.5 Technique of Data Analysis

This study adopts multiple regressions using fixed and random effects method of data analysis. The choice of this method as a tool of data analysis in this study is informed by the effectiveness of the technique in testing relationships among theoretically related variables in a panel data, and estimating the effects of one variable on the other (Gujarati, 2004). Moreover, the use of fixed and random effects regression model is also due to the classical assumptions of OLS which do not usually hold in panel data,

in view of this the study carried out some robustness test to deal with the effects of Serial correlation, Multicollinearity, and Heteroskedasticity.

For instance, Granger and Newbold (1974) and Gujarati (2004) state that, the presence of these factors (Serial correlation, Multicollinearity, and Heteroskedasticity) usually biased the OLS estimators and thus, any conclusion drawn from the results will be spurious. Therefore, estimation with OLS after addressing the problem of Serial correlation, Multicollinearity, and Heteroskedasticity is capable of producing estimators that are Best Linear Unbiased Estimators (Gujarati, 2004). The analysis is conducted using Statistics/Data Analysis Software (STATA).

3.6 Variables Measurement and Models Specification

The measurements of the main variables of concern of the study are presented in table 3.1 as follows;

Table 3.1 Variables Measurement

Variables	Measurement
Dependent Variables	
Return on Equity	Measured as the ratio of profit before tax to total owners equity
Return on Assets	Measured as the ratio of profit after tax to total assets
Independent Variables	
Board Size	Measured as the total number of directors sitting on the board of a firm

Board Composition	Measured as the proportion of external/non-executive/independent directors sitting on the board of a firm
Managerial Shareholding	Measured as the total proportion of shareholding by managers of a firm

3.6.1 Models Specification

In order to test the hypotheses formulated in this study and to achieve the objectives of the research, the following models are used;

$$ROE_{it} = \alpha + \beta_1 BSIZ_{it} + \beta_2 BCOM_{it} + \beta_3 MSHH_{it} + \beta_4 FSIZ_{it} + \varepsilon_{it} \dots \dots \dots i$$

$$ROA_{it} = \alpha + \beta_1 BSIZ_{it} + \beta_2 BCOM_{it} + \beta_3 MSHH_{it} + \beta_4 FSIZ_{it} + \varepsilon_{it} \dots \dots \dots ii$$

Where;

ROE_{it} = return on equity of firm I in year t

ROA_{it} = return on assets of firm I in year t

$BSIZ_{it}$ = board of directors' size of firm I in year t

$BCOM_{it}$ = board of directors' composition of firm I in year t

$MSHH_{it}$ = managerial shareholding of firm I in year t

$FSIZ_{it}$ = firm size of firm I in year t, controlling for the size differential in the firms (measured as natural log of total assets)

α = intercept

β_1 - β_4 = coefficients and ε = error term or residual

3.7 Justifications of the Methods and Technique

This study employed quantitative research methodology using correlation research design to examine the effect of corporate governance on profitability of listed cement firms in Nigeria. The choice of this method is informed by the fact that it is efficient in examining the relationships between variables and to observe the impact of the independent variable(s) on the dependent variable, so as to establish the causal relationship. This is therefore consistent with the aim and objectives of this study. On the other hand, the study employed panel multiple regression technique of data analysis. This technique is chosen because it is effective in estimating quantitatively the impact of one variable on another.

3.8 Summary

This chapter presented and discussed the research design adopted for the study, population and sample of the study, method and sources of data collection, and the technique of data analysis. The models adopted for the study as well as the justification of the methods used in the study were also discussed. The study adopted correlation research design, while the secondary sources of data for the period of ten years (2003-2012) will be used. The population of the study comprised of 5 quoted cement firms out of which 4 firms succeeded as sampled for the study. The study employed multiple regression technique (fixed and random effects) for data analysis.

CHAPTER FOUR

RESULTS PRESENTATION, ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter analyses and interprets the results obtained from the tests conducted on the data collected for the study. This is followed by drawing relevant inferences from the analysis as well as the test of hypotheses formulated for the study. The chapter begins with the discussion of the descriptive statistics of the data collected, and then the correlation matrix of the variables of the study. The presentation of the regression results and the test of hypotheses are then conducted. The chapter ends with the discussions of the major findings from the analysis as well as policy implications of the findings.

4.2 Descriptive Statistics

The description of the data collected for the study is presented and discussed in this section; the summary of the descriptive statistics of the data collected is presented in Table 4.1 as follows;

Table 4.1: Summary of Descriptive Statistics

VARIABLES	Min	Max	Mean	SD	Skewness	Kurtosis	N
ROE	-1.6562	0.5937	0.1506	0.4143	-2.7390	11.5524	40
ROA	-0.2117	0.3552	0.1001	0.1162	-0.2868	3.1637	40
BSIZ	8	13	11.0750	1.6546	-0.5333	1.8922	40
BCOM	0.7500	0.9167	0.8317	0.0463	-0.0551	2.2939	40
MSHH	0.0002	0.0932	0.0074	0.0204	3.4575	13.6828	40
FSIZ	21.9565	27.1839	24.0961	1.2657	0.6001	3.0496	40

Source: STATA Output (Appendix 1)

The results of descriptive statistics from Table 4.1 shows that one of our measures of profitability, return on equity (ROE) has a minimum value of -1.6562 and 0.5937 as the maximum value. The average value of the ROE is 0.1506 with standard deviation of 0.4143, signifying that the data deviate from the mean value from both sides by 0.4143. This implies that on average the profitability of the sample listed cement firms in Nigeria is 15.06% return on equity, during the period covered by the study, and the profitability deviate from the mean by 41.43%. It also implies a wide dispersion of the profitability from the mean because the standard deviation is higher than the mean. The kurtosis value of 11.5524 shows that most of the values are higher than the mean, and thus the data did not meet the Gaussian distribution assumption. The coefficient of Skewness -2.7390 implies that the data is negatively skewed, and thus, the data does not meet the symmetrical distribution criterion.

The table also indicates that the minimum and maximum values of the other measure of profitability, return on assets (ROA) are -0.2117 and 0.3552 respectively, with the mean value of 0.1001 and standard deviation of 0.1162. This indicated that on average the profitability of the sample listed cement firms in Nigeria is 10.01% return on assets, during the period covered by the study, and the profitability deviate from the mean by 11.62%. The kurtosis value of 3.1637 also shows that the values are higher than mean, thus the data did not meet the Gaussian distribution. On the other hand, the coefficient of Skewness -2.868 implies that the data is negatively skewed, and thus, the data does not meet the symmetrical distribution.

The summary statistics from Table 4.1 with respect to board of directors' size shows a minimum and maximum value of 8 and 13 respectively. On average, the sample

cement firms have 11 as size of the board, from the mean value of 11.075 with the standard deviation of 1.6546. This implies that the size of the board of sample cement firms deviate from the mean by 1.6546. The coefficient of Skewness -0.5333 implies that the data is negatively skewed, and therefore does not conform to the symmetrical distribution requirement. Moreover, the coefficient of Kurtosis of 1.8922 indicates that the variable does not meet the Gaussian distribution criterion.

The table also indicates that the sample listed cement firms in Nigeria have on average 83.17% as composition of non-executive/external/independent directors (BCOM) in their boards, from the mean value of 0.8317 with standard deviation of 0.0463. The minimum and maximum values are 0.7500 and 0.9167 respectively. The negative value of skewness -0.0551 indicates that the data is negatively skewed, that is, the mean is less than the mode, and thus, the variable does not meet the symmetrical distribution requirement. This is also evidenced by the coefficient of kurtosis of 2.2939, implying that the Gaussian distribution is not met.

Table 4.1 also indicates that, the minimum and maximum values of managerial shareholding (MSHH) are 0.0002 and 0.0932 respectively, with the mean value of 0.0074 and standard deviation of 0.0204. This implies that on average there is about 0.74% of total shares of listed cement companies in Nigeria is owned by the managers/Directors. The coefficient of Skewness 3.4575 implies that the data is positively skewed, and therefore does not conform to the symmetrical distribution requirement. Moreover, the coefficient of Kurtosis of 13.6828 also indicated that the MSHH variable did not meet the Gaussian distribution criterion. Lastly, the table shows that the average firm size (FSIZ) is 24.0961 with standard deviation of 1.2657,

and minimum and maximum value of 21.9565 and 27.1839 respectively. The coefficient of Skewness 0.6001 implies that the data is positively skewed, and therefore does not conform to the symmetrical distribution requirement. The coefficient of Kurtosis of 3.0496 also indicated that the FSIZ variable did not meet the Gaussian distribution criterion. Therefore, presented the descriptive statistics of the data collected for the variables of the study which to a large extent suggested that the data is not normally distributed, the results of the correlation among the variables is discussed in the following section.

4.3 Correlation Results

The summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 4.2 as follows;

Table 4.2 Summary of Coefficient of Correlation

VARIABLES	ROE	ROA	BSIZ	BCOM	MSHH	FSIZ
ROE	1					
ROA	0.3269 (0.0395)	1				
BSIZ	-0.2967 (0.0630)	-0.2182 (0.1761)	1			
BCOM	0.8278 (0.0000)	0.2578 (0.1083)	-0.4363 (0.0049)	1		
MSSH	0.8081 (0.0000)	0.4458 (0.0039)	-0.2936 (0.0659)	0.6929 (0.0000)	1	
FSIZ	-0.5080 (0.0008)	-0.2686 (0.0938)	0.2622 (0.1022)	-0.4427 (0.0042)	-0.3557 (0.0243)	1

P-Values in Parentheses

Source: STATA Output (Appendix 3)

Table 4.2 presents the Pearson correlation results of the corporate governance variables (board size, board composition and managerial shareholding) and the

profitability (return on equity and return on assets) in the listed cement firms in Nigeria. The table shows that there is a significant negative relationship between board size (BSIZ) and profitability (ROE) from the correlation coefficient of -0.2967, at 10% significant level, from the p-value of 0.06830. The result from the table also indicates that there is a significant positive relationship between board composition (BCOM) and profitability (ROE) from the correlation coefficient of 0.8278 which is significant at 1% level of significance (p-value of 0.0000). This implies that, the composition of non-executive/external/independence directors in the board of directors of listed cement companies in Nigeria, has improved the profitability of the firms during the period covered by the study.

Table 4.2 also shows that there is a significant positive relationship between managerial shareholding (MSHH) and profitability (ROE) from the correlation coefficient of 0.8081, at 1% level of significance, from the p-value of 0.0000. This implies that, holding shares by the managers/directors in the listed cement companies in Nigeria, improved the profitability of the firms during the period under review. The result from the table also indicates that there is a negative relationship between firm size (FSIZ) and profitability (ROE) from the correlation coefficient of -0.5080 which is significant at 1% level of significance (p-value of 0.0008).

Table 4.2 on the other hand shows that there is a significant negative relationship between board size (BSIZ) and profitability (ROA) from the correlation coefficient of -0.2182, but is not significant at all levels of significance, from the p-value of 0.1761. The result from the table also indicates that there is a positive relationship between board composition (BCOM) and profitability (ROA) from the correlation coefficient

of 0.2578 which is significant at all levels of significance (p-value of 0.1083). This implies that, the composition of non-executive/external/independence directors in the board of directors of listed cement companies in Nigeria, likely improved the profitability of the firms during the period covered by the study, although not statistically significant.

The results from the table also show that there is a significant positive relationship between managerial shareholding (MSHH) and profitability (ROA) from the correlation coefficient of 0.4458, at 1% level of significance, from the p-value of 0.0039. This suggests that the holding of shares by the managers/directors in the listed cement companies in Nigeria, improved the profitability of the firms during the period under review. The result from the table also indicates that there is a negative relationship between firm size (FSIZ) and profitability (ROA) from the correlation coefficient of -0.2686 which is significant at 10% level of significance (p-value of 0.0938).

Following the analysis of the relationships between the corporate governance variables (board size, board composition and managerial shareholding) and the profitability (return on equity and return on assets) in the listed cement firms in Nigeria, the study made as analysis of the regression results of the models of the study. From which the hypothesis of the study are tested and the conclusion is drawn about the impact of corporate governance and profitability of listed cement companies in Nigeria.

4.4 Presentation of Regression Results and Hypotheses Testing

In this section, the regression results of the corporate governance variables and profitability of listed cement companies in Nigeria are presented and analyzed. The hypotheses formulated for the study are also tested from the results as presented in Table 4.3 below;

Table 4.3 Summary of Regression Result of the Models of the Study

Model One		Model Two	
Variables	Statistics	Variables	Statistics
R² Within	0.7187	R²	0.8134
R² Between	0.9379	Wald Chi2	174.33
R² Overall	0.8152	Prob>Chi2	0.0000
Wald Chi2	154.37	Hausman Test	Suest
Prob>Chi2	0.0000	Random Effect Test:	2.28
		Chi2	
Hausman Test: Chi2	0.39	Prob>Chi2	0.1314
Prob>Chi2	0.9835		

Source: STATA Output (Appendix 8, 9, 14, 15 & 16)

In line with the panel nature of the data used in this study, the model of the study is subjected to other robust regression models (Fixed and Random Effects) in addition to OLS, due to the need posted by the classical assumptions of the OLS regression model with regard to panel data. The results in Table 4.3 presents the regression results of model one and two; random effects regression models is chosen for model one, because the Hausman Specification Test Chi2 of 0.39 with Prob>Chi2 value of 0.9835 (not significant at 5% level or below) suggested that the Random Effect model is best suitable for the model.

For model two of the study, the results from the Table based on the Hausman specification test suggested SUEST (Seemingly Unrelated Regression Estimators). To determine the appropriate model, Breusch and Pagan Lagrangian Multiplier Test for Random Effects was applied (Chi2 value of 2.28, with Prob>Chi2 value of 0.1314), the test indicated the absent of significant variation in the panel, and thus OLS can be applied. The study therefore applied the SUEST on the OLS. Based on these evidences, this study used Random Effects Regression Results for model one, and Seemingly Unrelated Regression results for model two of the study, as contained in Table 4.3. This is because of the panel nature of the data used in the study.

The results from table 4.3 indicate that the corporate governance variables (board size, board composition, managerial shareholding and firm size) explained around 81.52% of the variations in the profitability (return on equity) of the listed cement firms in Nigeria, from the overall coefficient of multiple determinations (R^2 value of 0.8152). The Table also shows that the model is fitted as shown by the Wald Chi2 of 154.37 which is at 1% level of significance (as indicated by the P-value of 0.0000). The Table also shows that the corporate governance variables (board size, board composition, managerial shareholding and firm size) explained around 81.34% of the variations in the profitability (return on assets) of the listed cement firms in Nigeria, from the coefficient of determination (R^2 value of 0.8134). The Table also shows that the model is fitted as evident by the Wald Chi2 of 174.33 which is significant at 1% level of significance (as indicated by the P-value of 0.0000).

The following section presents and discusses the robustness tests conducted on the data of the variables collected for the study.

4.4.1 Results of Robustness Test

In this section, the results of collinearity test and heteroskedasticity are presented and discussed, as shown by Table 4.4 as follows;

Table 4.4 Result of the Robustness Test of the Models of the Study

Model One			Model Two		
Multicollinearity Test			Multicollinearity Test		
Variables	VIF	TV	Variables	VIF	TV
BCOM	2.32	0.4318	BCOM	2.32	0.4318
MSHH	1.94	0.5167	MSHH	1.94	0.5167
FSIZ	1.26	0.7934	FSIZ	1.26	0.7934
BSIZ	1.24	0.8034	BSIZ	1.24	0.8034
Hetttest: Chi2	1.00		Hetttest: Chi2	0.22	
Prob>Chi2	0.3164		Prob>Chi2	0.6404	

Source: STATA Output (Appendix 5, 6, & 11)

The classical assumption of OLS regression model assumed that the error terms are normally distributed and independent (that is the error terms are uncorrelated); the explanatory variables are not perfectly correlated (absence of multicollinearity); the variance of the error terms is constant (Homoskedastic). When these assumptions are not been met, the estimators are biased and cannot be used in drawing any inference. However, the results from Table 4.4 proved the absence of perfect multicollinearity among the independent variables, because the smallest tolerance value (TV) is 0.4318, while the highest Variance Inflation Factor (VIF) is 2.32. The rule of thumb for the Tolerance Value is that any value of 0.1 and below implies the presence of multicollinearity in the estimates, while for the Variance Inflation Factor a value of 10

and above is an indication of perfect multicollinearity which means that the variables are perfectly correlated.

The evidence from Breuch Pagan/Cook-Weisberg coefficient of 1.00 with p-value of 0.3164 confirms the absence of the effects of heteroskedasticity, that is, there is constant variance in the residuals in model one. For model two, evidence from Breuch Pagan/Cook-Weisberg coefficient of 0.22 with p-value of 0.6404 confirms the absence of the effects of heteroskedasticity, that is, there is constant variance in the residuals. Moreover, Breuch Pagan/Cook-Weisberg test is also an evidence of the absence of serial correlation which indicates there is constant variance in the residuals.

Following the robustness of the results, the regression coefficients of the two models are used in the testing the hypotheses formulated in this study.

4.4.2 Hypotheses Testing

Table 4.5 Regression Coefficients of the Models Study

Model One (Random)			Model Two (Seemingly Unrelated Coef.)		
Variables	Coefficients	P-Values	Variables	Coefficients	P-Values
BSIZ	0.0951	0.276	BSIZ	-0.0219	0.328
BCOM	0.0982	0.000	BCOM	0.0861	0.000
MSHH	0.6423	0.000	MSHH	0.7057	0.000
FSIZ	-0.5898	0.054	FSIZ	-0.5746	0.045
CONSTANT	0.3922	0.713	CONSTANT	1.5834	0.000

Source: STATA Output (Appendix 8 & 16)

Table 4.5 shows that the board of directors size (BSIZ) has a positive impact on the profitability (ROE) of listed cement companies in Nigeria as indicated by the coefficient of 0.0951 which is not significant at all levels of significance (from the P-

value of 0.276). On the other hand, the results indicated that the board of directors size (BSIZ) has a negative impact on the profitability (ROA) of listed cement companies in Nigeria as indicated by the coefficient of -0.0219 which is also not significant at all levels of significance (from the P-value of 0.328). These results suggested that the board size of the listed cement companies in Nigeria has no significant impact on the profitability of the listed cement companies in Nigeria. Based on these, the study failed to reject the null hypothesis one (H_{01}) which states that, Board of directors' size has no significant impact on the profitability of quoted cement companies in Nigeria. Therefore, the study infers that Board of directors' size has no significant impact on the profitability of quoted cement companies in Nigeria.

The results from Table 4.5 show a positive significant impact of board composition (BCOM) on the profitability (ROE) of listed cement companies in Nigeria, from the coefficient of 0.0982 which is significant at 1% level of significance (from the p-value of 0.000). That is, the composition of non-executive/independence/outside directors in the board of listed cement companies in Nigeria is significant in improving their profitability, return on equity during the period under review. The results on the other hand, show that board composition (BCOM) has a significant positive impact on the profitability (ROA) of listed cement companies in Nigeria, from the coefficient of 0.0861 which is significant at 1% level of significance (from the p-value of 0.000). That is, the composition of non-executive/independence/outside directors in the board of listed cement companies in Nigeria is significant in improving their profitability, return on assets during the period under review. Based on these, the study therefore rejects the second null hypothesis (H_{02}) which states that Board of directors'

composition has no significant impact on the profitability of quoted cement companies in Nigeria. The study therefore infers that, Board of directors' composition has significant positive impact on the profitability of quoted cement companies in Nigeria during the period covered by the study.

Moreover, the results from Table 4.5 shows that the managerial shareholding (MSHH) has a significant positive impact on the profitability (ROE) of listed cement companies in Nigeria, from the coefficient of 0.6423 which is significant at 1% level of significance (from the p-value of 0.000). That is, the equity share ownership by managers/directors in the listed cement companies in Nigeria is significant in improving their profitability, return on equity during the period under review. Similarly, the results from Table 4.5 also shows that the managerial shareholding (MSHH) has a significant positive impact on the profitability (ROA) of listed cement companies in Nigeria, from the coefficient of 0.7057 which is significant at 1% level of significance (from the p-value of 0.000). Based on this, the study therefore rejects the second null hypothesis (H_{03}) which states that Insider/Managerial shareholding has no significant impact on the profitability of listed cement companies in Nigeria. The study therefore infers that, managerial shareholding has significant positive impact on the profitability of quoted cement companies in Nigeria during the period covered by the study.

The results from Table 4.5 shows that the firm size (FSIZ) has significant impact on the profitability (ROE) of listed cement companies in Nigeria, from the coefficient of -0.5898 which is significant at 5% level of significance (from the p-value of 0.054). The results on the other hand, show that the firm size (FSIZ) has significant impact on

the profitability (ROA) of listed cement companies in Nigeria, from the coefficient of -0.5746 which is significant at 5% level of significance (from the p-value of 0.045).

4.5 Discussion of Major Findings

From the tests conducted on the data collected and the analyses of the results this study found after controlling for firm size that corporate governance variables (board size, board composition, managerial shareholding and firm size) explained around 81.52% of the variations in the profitability (return on equity) of the listed cement firms in Nigeria. The study on the other hand found that the corporate governance variables (board size, board composition, managerial shareholding and firm size) explained around 81.34% of the variations in the profitability (return on assets) of the listed cement firms in Nigeria. This indicated that corporate governance is critical to the financial performance of the listed cement companies in Nigeria.

Specifically, from the hypotheses tests the study found that, the board size of the listed cement companies in Nigeria has no significant impact on the profitability (return on equity and return on assets) of the listed cement companies in Nigeria. The study also found that the board composition (BCOM) has a significant positive impact on the profitability (return on equity and return on assets) of listed cement companies in Nigeria. That is, the composition of non-executive/independence/outside directors in the board of listed cement companies in Nigeria is significance in improving their profitability, return on equity during the period under review.

Moreover, the study found that the managerial shareholding (MSHH) has a significant positive impact on the profitability (return on equity and return on assets) of listed

cement companies in Nigeria. That is, the equity share ownership by managers in the listed cement companies in Nigeria is significant in improving their profitability.

4.6 Policy Implications of the Findings

This study focuses on the impact of corporate governance on the profitability of listed cement companies in Nigeria. The results and findings from the analysis conducted in the study have implications to policy makers, and management of quoted cement firms in Nigeria. The findings in respect of board of directors' size imply that, the argument on the large or small size of the board does not matter in respect of the profitability of the cement companies in Nigeria. That is, policy makers need not to emphasize on the size of the board. However, based on the findings, managers or policy makers are to emphasize on the board composition, that is, the higher composition of non-executive/outside/independent directors in the boards of listed cement companies in Nigeria, the higher the profitability of the firm.

Moreover, the findings implied that managerial ownership in the cement companies in Nigeria should be encouraged, because board composition and managerial shareholding have significantly improved the profitability of the listed cement companies in Nigeria.

4.7 Summary

This chapter presented the results as well as the discussions, analysis and interpretations of the results; it presented the descriptive statistics of the data collected, the correlation matrix of the variables of the study, the regression results of the models of the study and the test of hypotheses of the study. The chapter ended

with the discussions of the major findings from the analysis as well as policy implications of the findings.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Firms' profitability is a vital factor that relates to the way and manner in which financial resources available to a firm are judiciously used to achieve the overall corporate objective of an organization. Profitability keeps organization in business and creates a greater prospect for future opportunities. The main objective of this study is to examine the impact of corporate governance on the profitability of listed cement companies in Nigeria. The specific objectives include; determining the impact of board of directors' size on the profitability of listed cement companies in Nigeria, examining the effect of board of directors' composition on the profitability of listed cement companies in Nigeria, assessing the impact of managerial shareholding on the profitability of listed cement manufacturing companies in Nigeria.

Correlation research design was adopted and fixed and random effect regression technique of data analysis is employed. From the tests conducted on the data collected and the analyses of the results the study found that the corporate governance variables (board size, board composition, managerial shareholding and firm size) explained around 81.52% of the variations in the profitability (return on equity) of the listed cement firms in Nigeria. The study on the other hand found that the corporate governance variables (board size, board composition, managerial shareholding and firm size) explained around 81.34% of the variations in the profitability (return on assets) of the listed cement firms in Nigeria. This indicated that corporate governance is critical to the financial performance of the listed cement companies in Nigeria.

Specifically, from the hypotheses tests the study found that, the board size of the listed cement companies in Nigeria has no significant impact on the profitability (return on equity and return on assets) of the listed cement companies in Nigeria.

The study also found that the board composition (BCOM) has a significant positive impact on the profitability (return on equity and return on assets) of listed cement companies in Nigeria. That is, the composition of non-executive/independence/outside directors in the board of listed cement companies in Nigeria is significant in improving their profitability, return on equity during the period under review. Moreover, the study found that the managerial shareholding (MSHH) has a significant positive impact on the profitability (return on equity and return on assets) of listed cement companies in Nigeria. That is, the equity share ownership by managers/directors in the listed cement companies in Nigeria is significant in improving their profitability.

5.2 Conclusion

In line with findings from this research, the study conclude significant positive relationships between corporate governance variables and the profitability (return on equity and return on assets) of the listed cement firms in Nigeria. The study also concludes that, the board size of the listed cement companies in Nigeria has no significant impact on the profitability (return on equity and return on assets) of the listed cement companies in Nigeria.

It is also concluded that the board composition has a significant positive impact on the profitability (return on equity and return on assets) of listed cement companies in Nigeria.

Moreover, the study concludes that the managerial shareholding has a significant positive impact on the profitability (return on equity and return on assets) of listed cement companies in Nigeria. All after controlling for firm size.

5.3 Recommendations

Based on the conclusions from this research, the following recommendations are offered;

- i. The regulators of listed cement companies in Nigeria should increase surveillance, and supervision to ensure effective compliance with the code of best practices on corporate governance. This will help safeguard the monitoring and control of the cement companies and improve their profitability in return.
- ii. The regulators and the board of directors of listed cement companies in Nigeria should not concentrate on the size of the boards, but rather an optimal board that could significantly impact on their performance.
- iii. The boards of directors of listed cement companies in Nigeria should encourage and emphasize higher composition of external/non-executive/independent directors in their boards. This is because they are found to be positively and significantly related with the profitability of their firms.

- iv. The boards of directors of listed cement companies in Nigeria should encourage and emphasize higher equity share ownership by the managements and board members. This is because ownership by the managers/directors is significant in improving the profitability of their firms.
- v. The study also recommends that when making policy on corporate governance, differing size of companies should be considered as it has significant influence on firm's profitability.

5.4 Limitations of the Study

The findings from this study are limited to the listed cement companies in Nigeria. Moreover, there are many mechanisms of corporate governance mechanisms, but this study is restricted to board of directors' size, board of directors' composition and managerial shareholding, therefore, the findings cannot be generalized to other corporate governance mechanisms.

5.5 Area of Further Research

In view of the extensive nature of corporate governance, and the scope of this research, the study suggests that further researchers in this area should expand the scope to include other corporate governance mechanisms like audit committee composition and independence, institutional shareholding and board independence.

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APPENDIX

```
. xtset id year, yearly
      panel variable: id (strongly balanced)
      time variable: year, 2003 to 2012
      delta: 1 year
```

1 DESCRIPTIVE STATISTICS

```
. su roe roa bsiz bcom mshh fsiz, detail
```

roe				
	Percentiles	Smallest		
1%	-1.656203	-1.656203		
5%	-.8126878	-1.001717		
10%	-.0914927	-.6236584	Obs	40
25%	.086452	-.1603499	Sum of Wgt.	40
50%	.2034024		Mean	.150605
			Std. Dev.	.4143118
75%	.3643198	Largest		
		.5040225	Variance	.1716542
90%	.486185	.5380131	Skewness	-2.73904
95%	.5630405	.5880679	Kurtosis	11.55241
99%	.5937027	.5937027		

roa				
	Percentiles	Smallest		
1%	-.211722	-.211722		
5%	-.1028118	-.1214176		
10%	-.0483999	-.0842061	Obs	40
25%	.0361652	-.0670692	Sum of Wgt.	40
50%	.0895205		Mean	.1001088
			Std. Dev.	.1161932
75%	.1830148	Largest		
		.2555949	Variance	.0135009
90%	.247157	.2560677	Skewness	-.286832
95%	.2606143	.2651609	Kurtosis	3.163656
99%	.3552712	.3552712		

bsiz				
	Percentiles	Smallest		
1%	8	8		
5%	8	8		
10%	9	8	Obs	40
25%	9	9	Sum of Wgt.	40
50%	12		Mean	11.075
			Std. Dev.	1.654636
75%	12	Largest		
		13	Variance	2.737821
90%	13	13	Skewness	-.5333363
95%	13	13	Kurtosis	1.892157
99%	13	13		

bcom				
	Percentiles	Smallest		
1%	.75	.75		
5%	.75	.75		
10%	.7692308	.75	Obs	40
25%	.8090909	.7692308	Sum of Wgt.	40
50%	.8333333		Mean	.8317492
			Std. Dev.	.0463327
75%	.8675214	Largest		
		.8888889	Variance	.0021467
90%	.8888889	.8888889	Skewness	-.0551137
95%	.9027778	.9166667	Kurtosis	2.293924
99%	.9166667	.9166667		

mshh

Percentiles		Smallest		
1%	.0002416	.0002416		
5%	.0002783	.0002605		
10%	.0007279	.000296	Obs	40
25%	.0008785	.0007279	Sum of Wgt.	40
50%	.0012682		Mean	.0074028
75%	.001839	Largest	Std. Dev.	.0203601
90%	.0121368	.0143895		
95%	.0660406	.0494206	Variance	.0004145
99%	.0931875	.0826606	Skewness	3.457483
		.0931875	Kurtosis	13.68278

fsiz

Percentiles		Smallest		
1%	21.95645	21.95645		
5%	22.21031	22.01646		
10%	22.65367	22.40415	Obs	40
25%	23.14081	22.56716	Sum of Wgt.	40
50%	24.01324		Mean	24.09609
75%	24.7469	Largest	Std. Dev.	1.265734
90%	25.74738	25.74987		
95%	26.85414	26.71982	Variance	1.602082
99%	27.1839	26.98845	Skewness	.6001154
		27.1839	Kurtosis	3.049593

.

2. RESULTS OF THE TEST FOR NOEMAL DATA

. swilk roe roa bsiz bcom mshh fsiz

Variable	Shapiro-wilk w test for normal data				
	Obs	W	V	Z	Prob>z
roe	40	0.69650	11.997	5.229	0.00000
roa	40	0.97863	0.845	-0.355	0.63873
bsiz	40	0.94215	2.287	1.741	0.04087
bcom	40	0.96612	1.339	0.614	0.26946
mshh	40	0.36569	25.073	6.780	0.00000
fsiz	40	0.96240	1.486	0.834	0.20221

3 CORRELATION RESULTS

. pwcorr roe roa bsiz bcom mshh fsiz, star (0.05) sig

	roe	roa	bsiz	bcom	mshh	fsiz
roe	1.0000					
roa	0.3269* 0.0395	1.0000				
bsiz	-0.2967 0.0630	-0.2182 0.1761	1.0000			
bcom	0.8278* 0.0000	0.2578 0.1083	-0.4363* 0.0049	1.0000		
mshh	0.8081* 0.0000	0.4458* 0.0039	-0.2936 0.0659	0.6929* 0.0000	1.0000	
fsiz	-0.5080* 0.0008	-0.2686 0.0938	0.2622 0.1022	-0.4427* 0.0042	-0.3557* 0.0243	1.0000

4 OLS REGRESSION RESULTS: MODEL ONE

. reg roe bsiz bcom mshh fsiz

Source	SS	df	MS			
Model	100.819301	4	25.2048252	Number of obs =	40	
Residual	22.8589673	35	.65311335	F(4, 35) =	38.59	
Total	123.678268	39	3.17123764	Prob > F =	0.0000	
				R-squared =	0.8152	
				Adj R-squared =	0.7941	
				Root MSE =	.80815	

roe	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bsiz	.0951278	.0872566	1.09	0.283	-.0820125	.2722681
bcom	.0981998	.0219155	4.48	0.000	.053709	.1426906
mshh	.6422991	.1493215	4.30	0.000	.3391603	.945438
fsiz	-.5898467	.3062876	-1.93	0.062	-1.211644	.0319503
_cons	.3922198	1.066908	0.37	0.715	-1.773718	2.558157

5 TEST FOR HETEROSKEDASTICITY: MODEL ONE

. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance
Variables: fitted values of roe

chi2(1) = 1.00
Prob > chi2 = 0.3164

6 TEST FOR COLLINEARITY


```
. xtreg roe bsiz bcom mshh fsiz, re
```

```
Random-effects GLS regression           Number of obs   =       40
Group variable: id                     Number of groups =        4

R-sq:  within = 0.7187                  Obs per group:  min =       10
        between = 0.9379                  avg =      10.0
        overall = 0.8152                  max =       10

Random effects u_i ~ Gaussian           wald chi2(4)    =    154.37
corr(u_i, X) = 0 (assumed)              Prob > chi2     =     0.0000
```

roe	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
bsiz	.0951278	.0872566	1.09	0.276	-.075892	.2661476
bcom	.0981998	.0219155	4.48	0.000	.0552462	.1411534
mshh	.6422991	.1493215	4.30	0.000	.3496343	.934964
fsiz	-.5898467	.3062876	-1.93	0.054	-1.190159	.0104661
_cons	.3922198	1.066908	0.37	0.713	-1.698881	2.48332
sigma_u	0					
sigma_e	.77203404					
rho	0	(fraction of variance due to u_i)				

```
. est store random
```

9 HAUSMAN SPECIFICATION TEST RESULT: MODEL ONE

```
. hausman fixed random
```

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b) fixed	(B) random		
bsiz	.0551771	.0951278	-.0399507	.0975305
bcom	.1139624	.0981998	.0157626	.0165234
mshh	.6119209	.6422991	-.0303782	.
fsiz	-.9762001	-.5898467	-.3863534	.4910108

b = consistent under H₀ and H_a; obtained from xtreg
 B = inconsistent under H_a, efficient under H₀; obtained from xtreg

Test: H₀: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)⁽⁻¹⁾](b-B)
 = 0.39
 Prob>chi2 = 0.9835
 (V_b-V_B is not positive definite)

10 OLS REGRESSION RESULTS: MODEL TWO

```
. reg roa bsiz bcom mshh fsiz
```

Source	SS	df	MS			
Model	100.595948	4	25.148987	Number of obs =	40	
Residual	23.0823202	35	.659494862	F(4, 35) =	38.13	
				Prob > F =	0.0000	
				R-squared =	0.8134	
				Adj R-squared =	0.7920	
				Root MSE =	.81209	
Total	123.678268	39	3.17123764			

roa	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bsiz	-.0219676	.0239918	-0.92	0.366	-.0706735	.0267383
bcom	.0860806	.0216376	3.98	0.000	.042154	.1300073
mshh	.7057448	.1637913	4.31	0.000	.3732307	1.038259
fsiz	-.5746087	.306986	-1.87	0.070	-1.197823	.048606
_cons	1.583405	.3050957	5.19	0.000	.9640278	2.202782

11 TEST FOR HETEROSKEDASTICITY RESULTS: MODEL TWO

```
. hettest
```

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of roa
```

```
chi2(1) = 0.22
Prob > chi2 = 0.6404
```

12 FIXED EFFECT REGRESSION RESULTS: MODEL TWO

```
. xtreg roa bsiz bcom mshh fsiz, fe
```

```
Fixed-effects (within) regression
Group variable: id
Number of obs = 40
Number of groups = 4
R-sq: within = 0.7506
between = 0.8979
overall = 0.8025
Obs per group: min = 10
avg = 10.0
max = 10
corr(u_i, xb) = -0.5167
F(4, 32) = 24.08
Prob > F = 0.0000
```

roa	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bsiz	-.0480818	.0249218	-1.93	0.063	-.0988459	.0026822
bcom	.0993123	.0266543	3.73	0.001	.0450192	.1536054
mshh	.7395984	.1522562	4.86	0.000	.4294627	1.049734
fsiz	-1.004399	.532593	-1.89	0.068	-2.089255	.0804577
_cons	1.65987	.309401	5.36	0.000	1.029641	2.290099
sigma_u	.57416063					
sigma_e	.73273199					
rho	.38042573	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(3, 32) = 3.66 Prob > F = 0.0224
```

```
. est store fixed
```

13 RANDOM EFFECT REGRESSION RESULTS: MODEL TWO

```
. xtreg roa bsiz bcom mshh fsiz, re
```

```
Random-effects GLS regression           Number of obs   =       40
Group variable: id                     Number of groups =        4

R-sq:  within = 0.7361                 Obs per group: min =       10
      between = 0.9188                   avg =      10.0
      overall = 0.8134                   max =       10

Random effects u_i ~ Gaussian           Wald chi2(4)    =     152.53
corr(u_i, X) = 0 (assumed)             Prob > chi2     =     0.0000
```

roa	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
bsiz	-.0219676	.0239918	-0.92	0.360	-.0689906	.0250554
bcom	.0860806	.0216376	3.98	0.000	.0436717	.1284895
mshh	.7057448	.1637913	4.31	0.000	.3847197	1.02677
fsiz	-.5746087	.306986	-1.87	0.061	-1.17629	.0270728
_cons	1.583405	.3050957	5.19	0.000	.9854284	2.181382
sigma_u	0					
sigma_e	.73273199					
rho	0	(fraction of variance due to u_i)				

```
. est store random
```

14 HAUSMAN SPECIFICATION TEST RESULTS: MODEL TWO

```
. hausman fixed random
```

	Coefficients		(b-B) Difference	sqrt(diag(v_b-v_B)) S.E.
	(b) fixed	(B) random		
bsiz	-.0480818	-.0219676	-.0261143	.0067447
bcom	.0993123	.0860806	.0132317	.015565
mshh	.7395984	.7057448	.0338536	.
fsiz	-1.004399	-.5746087	-.4297901	.4352183

b = consistent under H₀ and H_a; obtained from xtreg
 B = inconsistent under H_a, efficient under H₀; obtained from xtreg

Test: H₀: difference in coefficients not systematic

```
chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
        = -8.87 chi2<0 ==> model fitted on these
                    data fails to meet the asymptotic
                    assumptions of the Hausman test;
                    see suest for a generalized test
```

15 RANDOM EFFECT REGRESSION RESULTS: MODEL TWO

```
. xttest0
```

Breusch and Pagan Lagrangian multiplier test for random effects

$$\text{roa}[id,t] = x b + u[id] + e[id,t]$$

Estimated results:

	Var	sd = sqrt(Var)
roa	3.171238	1.780797
e	.5368962	.732732
u	0	0

Test: Var(u) = 0

chi2(1) = **2.28**
 Prob > chi2 = **0.1314**

16 SEEMINGLY UNRELATED REGRESSION RESULTS: MODEL TWO

```
. sureg roa bsiz bcom mshh fsiz
```

Seemingly unrelated regression

Equation	Obs	Parms	RMSE	"R-sq"	chi2	P
roa	40	4	.7596433	0.8134	174.33	0.0000

roa	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
roa					
bsiz	-.0219676	.0224422	-0.98	0.328	-.0659536 .0220184
bcom	.0860806	.0202401	4.25	0.000	.0464107 .1257505
mshh	.7057448	.1532127	4.61	0.000	.4054533 1.006036
fsiz	-.5746087	.2871591	-2.00	0.045	-1.13743 -.0117872
_cons	1.583405	.2853909	5.55	0.000	1.024049 2.142761