CORPORATE GOVERNANCE AND THE FINANCIAL PERFORMANCE OF QUOTED CEMENT COMPANIES IN NIGERIA

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(M.Sc./ADMIN/1053/2009-2010)

Being an M.Sc. Thesis submitted to the Department of Accounting, Ahmadu Bello University, Zaria, in partial fulfillment of the requirements for the award of Master of Sciences (M.Sc.) Degree in Accounting and Finance

June, 2012

DECLARATION

I hereby declare that this thesis has been carried out by me and that it is a record of my own effort under the supervision of Dr. Hassan Ibrahim. It has not been previously presented in any institution for the award of any M.Sc. degree to the best of my knowledge. All materials used have been duly acknowledged.

…… …….. ……..

Aliyu Mohammed **Signed** **Date**

CERTIFICATION

This research titled ***Corporate Governance and the Financial Performance of Quoted Cement Companies in Nigeria***; is certified and approved by the following under listed supervisory committee.

……	**……..**	**……**
Chairman, Supervisory committee	**Signed**	**Date**
……	**……..**	**……**
Member, Supervisory Committee	**Signed**	**Date**
……	**……**	**……**
Head of Department	**Signed**	**Date**
……	**……**	**……**
Dean, Postgraduate School	**Signed**	**Date**

DEDICATION

This thesis is dedicated to Almighty Allah the beneficent the merciful.

ACKNOWLEDGEMENTS

Special thanks and praises goes to almighty Allah who made everything possible in His own time because His mercy is without bounds.

I wish to express my profound gratitude to my parents and the entire family for their support and constant prayers.

My unreserved gratitude also goes to my supervisor Dr. Hassan Ibrahim for taking me on board and for mentoring me academically. His guidance through the years I spent under his supervision is greatly appreciated. This work is better for his inputs and directions regarding Corporate Governance in Nigerian Cement Companies. I am greatly indebted to Dr. Ahmed Bello (HOD) for his encouragement and support throughout the period of the study.

My special thanks goes to Dr. Salisu Mamman, Dr. A. B. Dogarawa, Dr. Salisu Abubakar, Dr. Shehu Usman Hassan, Haj. N.M. Aisha, Mal Umar Abubakar, Mr. Akenet, Mr. Silva, Mal Hamisu Sulieman Kargi, Dr. L. Chechet, , and the entire staffs of the Department of Accounting . A. B .U. Zaria.

My unquantifiable appreciation also goes to Mal. Lukman Lawal and Mal. Mutallib Anifowose for their contributions .

I equally appreciate the immense efforts of my senior colleagues who took time to add value to this thesis. Some of whom were; Ahj. Mustapha Halidu (Director, School of Management Studies) Dr. Kajang Thomas John , My (HOD) Ahj. I.A. Dogara, Ahj. Ahmed Mohammed Birning Gwari, Mal. Abdullah Aminu Babangida, Mal. Kabir Ahmed, Mal. Abdulsalam Zubairu and all those whose names were not mentioned.

I’m indeed grateful to the entire staff Department of Accounting, Nuhu Bamalli Polytechnic and the Polytechnic at large.

Finally, I wish to express appreciation to my friends, my family and especially my parents for their prayers, support, and understanding

Aliyu Mohammed

June, 2012.

Abstract

Despite the volume of empirical works, there is no consensus on the impact of corporate governance on firm performance generally. This lack of consensus has produced a variety of ideas on how Corporate governance influences firm performance. This study examine the relationship between five corporate governance mechanisms (board size, board composition, composition of audit committee, managerial shareholding and institutional shareholding) and three firm performance measures- dividend per share, (DPS), return on capital employed, (ROCE), and net asset per share, (NAPS), of a sample of four listed cement firms in Nigerian, between 2004 and 2010.Only secondary data is used in the study. Multiple Regressions of OLS is used as a tool of estimation. The results provide evidence of a positive association between performance variable and corporate governance surrogate of Managerial shareholding and institutional shareholding whereas, board size, board composition and composition of audit committee have significant negative relationship with the financial performance of the sampled firms. Consequently, the study recommends, among others, that Boards should comprise of a mix of executive and non-executive directors majority of who should be non-executive directors. Also, board size should composed 5-10 members relative to the scale and complexity of the firm's operations without compromising independence, compatibility, integrity and availability of members to attend meetings.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Effective corporate governance has been identified to be critical to all economic transactions especially in emerging and transition economies (Dharwardkar 2000). However, at varying levels of agency interactions, market institutional conditions that reduce informational imperfections and facilitate effective monitoring of agents impinge on the efficiency of investment. Likewise, corporate governance has assumed the centre stage for enhanced corporate performance.

Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance.

Financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria such as Adelphia, Enron, World Com, Commerce Bank and recently XL Holidays have shaken investors' faith in the capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. This has brought to the fore once again the need for the practice of good corporate governance .Effective corporate governance reduces "control rights" shareholders and creditors on managers, increasing the probability that managers invest in positive net present value projects. (Shleifer and Vishny, 1997). Thus, the relationships of the board and

management, according to Al-Faki (2006), should be characterized by transparency to shareholders, and fairness to other stakeholders. This will in effect mitigate the agency cost as predicted by Jensen and Meckling (1976).

Corporate performance is an important concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. Good corporate performance keeps the organization in business and creates a greater prospect for future opportunities. In the present changing economic environment, the corporate sector must brace up to the challenges of globalization where firms that cannot adapt to modern business culture may not survive. It is therefore important for firms to find out the best corporate practices in other parts of the world and how they can integrate these into their business culture to enhance their performance.

The mechanisms that is of concern in this study can be divided into five: striking a balance between outside and inside directors; promoting insider (i.e., managers and directors) shareholding; keeping the size of the board reasonably low; encouraging ownership concentration; and encouraging the firm to have a reasonable amount of leverage in the expectation that creditors might take on a monitoring role in the firm in order to protect their debt holdings.

1.2 Statement of the Problem

Corporate governance is considered to involve a set of complex indicators, which face substantial measurement error due to the complex nature of the interaction between governance variables (such as board size, board composition, Managerial shareholding etc) and firm performance indicators (return on assets, return on equity, Earnings per share etc) (Babatunde

and Olaniran, 2009). Nevertheless, previous empirical studies have provided the nexus between corporate governance and firm performance, (Sanda, Mikailu and Garba ; 2005; Kajola, 2008, Roger 2008, Hassan 2011, Lenee and Obiyo 2011, Agrawal and Knoeber 2012). However, despite the volume of the empirical work, there has been no consensus on the impact of corporate governance on firm performance generally. Consequently, this lack of consensus has produced a variety of ideas (or mechanisms) on how corporate governance influence firm performance.

In addition, despite the renewed interest in issues of corporate governance in the African continent, relevant empirical studies are many in Nigeria (which include the studies of Oyejide and Soibo, 2001; Adenikinju and Ayorinde, 2001 and Sanda*, e'tal .20*05) Kajola, 2008; Tahir 2010; Owuigbe 2011 and Hassan 2011). However, none of these focused specifically on the Nigerian cement industry; hence this study intends to reduce the knowledge gap.

1.3 Objectives of the Study

The main objective of this study is to investigate the effects of corporate governance on the financial performance of quoted cement companies in Nigeria.

The specific objectives are to:

i) assess the impact of (Board Size , Board Composition , Composition of Audit Committee, Managerial Shareholding and Institutional Shareholding) on the Dividend Per Share of quoted cement companies in Nigeria;

ii) examine the impact of (Board Size , Board Composition , Composition of Audit Committee, Managerial Shareholding and Institutional Shareholding) on the Return On Capital Employed of the companies and;

iii) evaluate the impact of (Board Size , Board Composition , Composition of Audit Committee, Managerial Shareholding and Institutional Shareholding) on the Net Asset Per Share of quoted cement companies in Nigeria.

1.4 Research Hypotheses

In line with the objective of the study, the following hypotheses have been in null form;

H_{01}: Corporate governance has no significant effect on the Dividend Per Share of quoted cement companies in Nigeria.

H_{02}: Corporate governance has no significant effect on the Return On Capital Employed of quoted cement companies in Nigeria.

H_{03}: Corporate governance has no significant effect on the Net Asset Per Shares of quoted cement companies in Nigeria.

1.5 Scope of the Study

The scope of this study shall comprise of all listed cement firms in Nigeria as at December, 2003. The sector was selected as population because of the important of the sector to economy development of the nation especially in the area of job creation in the recent time. The period to be covered by this study is 7 years (i.e. 2004 to 2010). A seven-year period is considered because the Securities and Exchange Commission (SEC) code of corporate governance was not readily available in Nigeria until 2003. The code has been the document that provides the benchmark for the period. The components of Corporate Governance considered are: board composition, board size, institutional shareholding, managerial shareholding and composition of audit committee. However, other aspects of corporate governance not mentioned

are outside the scope of this study because of non-availability of data. Whereas financial performance will be measured by ROCE, DPS and NAPS as these can easily be extracted from the firms' financial statements.

1.6 Significance of the Study

The results of this study will enrich the literature in several ways. First, the study will show whether or not corporate governance mechanisms are significant financial performance determinants in the Nigerian cement industry. Second, it will provide empirical support for agency theory, because it will show whether or not a relationship exists between financial performance and governance mechanisms, consistent with the prediction of agency theory.

In addition to the above, it is hoped that shareholders and regulatory authorities, such as Securities and Exchange Commission, and the Nigerian Stock Exchange, would find the outcome of the study beneficial as it will give them clues, as to the existence, nature and extent of the effect of Corporate Governance on financial performance of the listed firms in the cement industry in Nigeria. This will help them in their various policy formulation and implementation. Board of Directors would find the study useful as this would help them to appreciate the need to use Corporate Governance as a tool for enhancing the corporate decision- making activities. It is therefore hoped that this research will stimulate further empirical studies on corporate governance and firm financial performance in Nigeria.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Companies have long recognized that good governance generates positive returns to a firm and boost confidence. Thus, the nature of corporate governance structures of a firm has critical impact on the responsive ability of a firm to external factors that impinge on its performance. It must pointed out that the concept of corporate governance has been a priority on the policy agenda in developed market economies for over a decade especially among very large firms Agrawal and Knoeber (2012).

2.2 The Concept of Corporate Governance

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (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 an organization depends on the underlying soundness of its individual components and the connections between them.

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 the even earlier Smith (1776). According to Zingales (1998) allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organisational structure

among others can all be thought of as institutions that affect the process through which quasi-rents are distributed. He therefore defines corporate governance as a complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm. Corporate governance could be defined as "ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors (Mayer, 1997). Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Deakin and Hughes, 1997). It has also been defined by Keasey (1997) to include 'the structures, processes, cultures and systems that engender the successful operation of organizations'. From the foregoing analysis, corporate governance is represented by the structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control. It must also be indicated that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies.

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). 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).

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, the U.S. savings and loan debacle of the 1980s, East- Asian economic and financial crisis in the second half of 1990s (Flannery, 1996). 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 and Chamlou, (2000).

Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Deakin and Hughes, 1997). It has also been defined by Keasey (1997) to include 'the structures, processes, cultures and systems that engender the successful operation of organizations'. From the foregoing analysis,it can be argued that corporate governance is represented by the structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control. It must also be indicated that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Corporate governance is concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Such measures are necessitated by the separation of ownership from management, an increasingly vital feature of the modern 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) define 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.

A similar concept is suggested by Caramanolis- Cötelli (1995) who regards 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 the 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 as stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers, and other interested parties. Hart (1995), closely shares this view 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 organisation – 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 and 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 and Hart, 1986, Hart and Moore, 1990, Hart, 1995).

On the whole, 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 fulfil 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 Polly Peck, BCCI), media allegations of excessive executive pay (for example, Byrne, Grover and 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 (see Bittlingmayer, 2000 for a description of this regulation). Finally, there has been a considerable amount of debate over comparative corporate governance structures, especially between the US, Germany and Japan models (see Shleifer and Vishny, 1997, for a survey of this debate) and a number of initiatives taken by stock market and other authorities with recommendations and disclosure requirements on corporate governance issues.

Going by the above analysis, one can conclude that Corporate Governance is a system of checks and balances designed to ensure that corporate managers are just as vigilant on behalf of long-term shareholder value as they would be if it was their own money at risk. It is also the process whereby shareholders-the actual owners of any publicly traded firm-assert their ownership rights, through an elected board of directors and other officers and managers they appoint and oversee.

In the heels of corporate scandals including the Enron debacle in 2002, a series of sweeping changes are being sought, such as forcing boards to have a majority of independent directors, granting audit committees power to hire and fire accountants, banning sweetheart loans to officers and directors, and requiring shareholder's approval for stock option plans. More specifically, the following principles constitute good governance: In order to avoid conflict of interest, a company's board of directors should include a substantial majority of independent directors (that is directors who do not have financial or close personal ties to the company or its executives); a company's audit, nominating, and compensation committees should consist entirely of independent directors; a board should obtain shareholders' approval for any actions that could significantly affect the relationship between the board and shareholders, including the adoption of anti-takeover measures; companies should base executive compensation plans on pay for performance, and should provide full disclosure of these plans and in order to avoid abuse in the use of stock options (and executive perquisites), all employee stock option plans should be submitted to shareholders for approval. Klock , Mansi and Maxwell (2005).

2.4 Corporate Governance Mechanisms and the Performance of Firms

There is a large body of empirical research that has assessed the impact of corporate governance on firm performance for the developed markets. Studies have shown that good governance practices have led the significant increase in the economic value added of firms, higher productivity and lower risk of systematic financial failure for countries. The studies by Shleifer and Vishny (1997), John and Senbet (1998) and Hermalin and Weisbach (2003) provide an excellent literature review in this area. It has now become an important area of research in emerging markets as well. There are some empirical studies that analyse the impact of different corporate governance practices in the cross-section of countries. Review of empirical literature

on the relationship between the various corporate governance mechanism and corporate financial performance is presented here under;

2.4.1 Board Composition and Corporate Financial Performance

Board composition refers to the number of independent non-executive directors on the board relative to the total number of directors. An independent non-executive director is defined as an independent director who has no affiliation with the firm except for their directorship (Clifford and Evans, 1997). There is an apparent presumption that boards with significant outside directors will make different and perhaps better decisions than boards dominated by insiders. Fama and Jensen (1983) suggested that non-executive directors can play an important role in the effective resolution of agency problems and their presence on the board can lead to more effective decision-making. However, the results of empirical studies are mixed. A number of studies, from around the world, indicate that non-executive directors have been effective in monitoring managers and protecting the interests of shareholders, resulting in a positive impact on performance, stock returns, credit ratings, auditing, etc. Dehaene (2001) find that the percentage of outside directors is positively related to the performance of Belgian firms. Connelly and Limpaphayom (2004) find that board composition has a positive relation with profitability and a negative relation with the risk-taking behaviour of life insurance firms in Thailand. Rosenstein and Wyatt (1990) find a positive stock price reaction at the announcement of the appointment of an additional outside director, implying that the proportion of outside directors affects shareholders' wealth. Bhojraj and Sengupta (2003) and Ashbaugh-Skaife, Collins and Kinney (2006) also find that firms with greater proportion of independent outside directors on the board are assigned higher bond and credit ratings respectively. Furthermore, Sullivan (2000) examines a sample of 402 UK quoted companies and reports that non-executive

directors encourage more intensive audits as a complement to their own monitoring role while the reduction in agency costs is expected. There is also a fair amount of studies that tend not to support the positive effect of board composition on firm financial performance. Some of the studies report a negative and statistically significant relationship with Tobin's Q (e.g. Agrawal and Knoeber, 1996; Yermack, 1996) while others find no significant relationship between accounting performance measures and the proportion of non-executive directors (e.g. Vafeas and Theodorou, 1998; Weir, Laing and mcKnight, 2002; Haniffa and Hudaib, 2006).

The study by Yermack (1996) provides an inverse relation between board size and profitability, asset utilisation, and Tobin's Q which conform this hypothesis. Brown and Caylor (2004) add to this literature by showing that firms with board sizes of between 6 and 15 have higher returns on equity and higher net profit margins than do firms with other board sizes.

Furthermore, based on a large survey of firms with non-executive directors in the Netherlands, Hooghiemstra and van Manen (2004) conclude that stakeholders are not generally satisfied with the way non-executives operate. Haniffa (2006) summarize a number of views expressed in the literature which may justify this non-positive relationship, such as that high proportion of non-executive directors may engulf the company in excessive monitoring, be harmful to companies as they may stifle strategic actions, lack real independence, and lack the business knowledge to be truly effective (Baysinger and Butler, 1985; Patton and Baker, 1987; Demb and Neubauer, 1992; Goodstein, Gautum and Boeker, 1994).

2.4.2 Board Size and Corporate Financial Performance

This is considered to be a crucial characteristic of the board structure. Large boards could provide the diversity that would help companies to secure critical resources and reduce

environmental uncertainties (Pfeffer, 1987; Pearce and Zahra, 1992; Goodstein , 1994). But, as Yermack (1996) said, coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases. Thus, as an extra member is included in the board, a potential trade-off exists between diversity and coordination.

Jensen (1993) appears to support Lipton and Lorsch (1992) who recommend a number of board members between seven and eight. However, board size recommendations tend to be industry-specific, since Adams and Mehran (2003) indicate that bank holding companies have board size significantly larger that those of manufacturing firms.

A review of the empirical evidence on the impact of board size on performance shows mixed results. Dehaene (2001) find that board size is positively related to company performance. However, the results of Haniffa (2006) are inconclusive. Using a market return measure of performance, their results suggest that a large board is seen as less effective in monitoring performance, but when accounting returns are used, large boards seem to provide the firms with the diversity in contacts, experience and expertise needed to enhance performance. Yermack (1996) finds an inverse relationship between board size and firm value; in addition, financial ratios related to profitability and operating efficiency also appear to decline as board size grows. Finally, Connelly and Limpaphayom (2004) find that board size does not have any relation with firm performance.

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards. Jensen (1993) and Lipton & Lorsch (1992) argue that large boards are less effective and are easier for the CEO to control. When a

board gets too big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by, and increase the accountability of, individual directors. Empirical research supports this. For example, Yermack (1996) documents that for large U.S. industrial corporations, the market values of firms with smaller boards more highly. Eisenberg Sundgren and Wells (1998) also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms, which suggests that board-size effects can exist even when there is less separation of ownership and control in these smaller firms. Mak & Yuanto (2003) echo the above findings in firms listed in Singapore and Malaysia when they find that firm valuation is highest when board has five directors, a number considered relatively small in these markets.

2.4.3 Institutional Shareholding and Corporate Financial Performance

The role that the institutional investors can play in the corporate governance system of a company is a controversial question. While some believe that the institutional investors must interfere in the corporate governance system of a company, others believe that these investors have other investment objectives to follow. Those who believe that institutional investors need not play a role in the corporate governance system of a company, argue that the investment objectives and the compensation system in the institutional investing companies often discourage their active participation in the corporate governance system of the companies. Wharton, Lorsch and Hanson (1991) argue that institutional investors need not take active interest in the corporate governance of a company because the institutional investors have their primary fiduciary responsibility to their own investors and beneficiaries, which can lead to a conflict of interest with their acting as owners. Similarly, Drucker (1976) has once commented that ,it is their job to invest the beneficiaries' money in the most profitable investment. They have no business trying

to manage. If they do not like a company or its management, their duty is to sell the stock (Emphasis added). Shleifer and Vishny (1986) observe that institutional investors by virtue of their large stockholdings would have greater incentives to monitor corporate performance since they have greater benefits of monitoring. Most of the reports on corporate governance have emphasized the role that the institutional investors have to play in the entire system. The Cadbury committee (1992), for example, states that because of their collective stake, we look to the institutions in particular, with the backing of the Institutional Shareholders' Committee, to use their influence as owners to ensure that the companies in which they have invested comply with the code.

2.4.4 Managerial shareholding and Corporate Financial Performance

Jensen and Meckiling (1976) suggest that the holding of shares by the managers of a firm helps to align the interests between shareholders and managers. 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. This action leads to an increase in firm's value and also the managers' private wealth. Kesner (1987) investigates the relationship between members of the board of directors and six performance measures (profit margin, return on equity, return on assets, earning per share, stock market performance, and total return to shareholders). The results illustrate that a proportion of shares held by board members is positive and significant to only two of the performance measures (the profit margin and return on assets). Vance (1964) also reports that the managerial shareholding is positively related to the profit margin. Similarly,

Pfeffer (1972) finds that the managerial shareholding is positively related to profit margin and return on equity.

Morck et al (1988) argue that the relationship between managerial ownership and its performance is 'non-linear'. That is, at a certain level of managerial shareholding, managerial shareholders can 'entrench' the controlling power over the firm's activities, leaving external or small shareholders with diff icultly in controlling the actions of such ownership. Short (1994) supports this notion and suggests that implicitly assuming the 'linear' relationship between managerial ownership and firm performance in the previous research possibly brings misleading results. This is because there may be the opposite relationship between managerial shareholding at a certain level and firm performance. Morck et al (1988) investigate that whether or not there is a non-linear relationship between managerial ownership and firm performance (as measured by firm's market value and a profit rate) for 456 of the Fortune 500 firms in 1980. To capture this relationship, they categorize managerial shareholding into three different levels: 0% -5%, 5%-25%, and beyond 25%. The results revel that there is a positive relationship between managerial ownership holding at 0% to 5% and the firm's value. After that, a negative relationship is found at 5% to 25% of managerial shareholding, and then the relationship becomes positive again (but not significant) beyond 25% of shareholding. In the profit rate regression, they report that there is only a significant positive relationship between managerial ownership holding at 0% - 5% and the profit rate.

McConnell and Servaes (1990) investigate the effects of managerial ownership on the firm's value. In their study, instead of fixing the level of managerial ownership, as had been conducted in Morck (1988) study, they adopt managerial shareholding and managerial shareholding square as ownership variables. To do so, they draw upon a sample of 1,173 firms in 1976 and 1,093

firms in 1986. The results show that a positive relationship exists between managerial ownership holding at 0% to approximately 50% of shareholding and firm performance. Beyond 50%, a negative relationship between them is found. McConnell and Servaes therefore suggest that the impact of managerial ownership on the firm's value is nonlinear. Short and Keasy (1999) also investigate whether there is a non-linear relationship between managerial ownership and firm performance, based on return on shareholders' equity and market value, in the case of UK. Their study adopts the cubic model1 to investigate this relationship. With this model, the coefficients of managerial ownership variables (DIR, DIR2, and DIR3) will be able to determine their turning points (indicating the maximum and the minimum points of the managerial performance). Short and Keasy also suggest that the performance (as measured by return on shareholders' equity) is positively related to managerial shareholding in the 0% to 15.58% range, negatively related in the 15.58% to 41.84% range, and becoming positively related again beyond 41.48%. In the market return (as measured by Tobin's Q) regression, they suggest that Tobin's Q is positively related to managerial shareholding in the 0% to 12.99% range, negatively related in the 12.99% to 41.99% range, and turning positive again when managerial shareholding exceeds 41.99%.

Han and Suk (1998) examined the non-linear relationship between insider ownership of 301 firms and average stock returns during 1988 to 1992. To capture the potential of the non-linear relationship, the inside ownership and inside ownership squared variables are applied. The inside ownership in this study consists of not only the board members, but also the officers, beneficial owners and principal stock holders owning ten percent or more of the firm's stock. The results show that the inside ownership is positively related to the stock returns. In contrast, the inside ownership square is negatively related. The minimum turning point is found at 41.8% of insider

shareholding. They conclude that "as insider ownership increases, stock returns increase. But excessive insider ownership rather hurts corporate performance" (p. 153).

In the case of Thailand, Wiwattanakantung (2001) examines the relationship between managerial shareholders and firm performance in 1996. Managerial shareholding is classified into three levels (25% □□ 50%, 50% □ 75% and beyond 75%). This study compares these three levels of managerial shareholders with non-managerial controlling shareholders. The study reports that there is a non-linear relationship between managerial shareholders and firm performance based on the return on assets and the sales to asset. It is reported that , managerial shareholders who control between 25%-50% of outstanding shares have poorer returns on assets and sales to asset compared to non-managerial controlling shareholders.

2.4.5 Composition of audit committee and Corporate Financial Performance

Given the requirement for firms to have an audit committee, any differential in performance related to governance will be related to the differences in AC characteristics. The key AC attributes indentified in the literature fall into four categories: size and structure, proportion of internal and external members, experience and education.

The size of Board and AC increases with the number of meetings (Raghunandan and Rama (2007). This increase in meeting frequency and number of members is argued to provide more effective monitoring and hence better firm performance. However, larger audit committees can also lead to inefficient governance, thus yielding more frequent AC meetings (Vafeas, 1999). Sharma, Naiker and Lee (2009) find evidence that the number of AC meetings is negatively associated with multiple directorships, audit committee independence, and an independent AC chair. They find a positive association between the higher risk of financial misreporting and AC

size, institutional and managerial ownership, financial expertise and independence of the board. They argue that the number of members on AC and number of meetings potentially impact on firm performance. The independence of the board is strongly linked with the level of monitoring of management and reduction in agency costs (Fama and Jensen 1983). Similarly, the independence of the AC also facilitates more effective monitoring on financial reporting (Beasley 1996; Carcello and Neal 2003b) and external audits (Carcello and Neal 2003a; Abbott, Parker, and Peters 2004a; Abbott, Parker, and Peters 2002). However, independence has a downside risk. Being completely independent from management, could mean that the independent audit committee members are more likely to make objective decisions and require less negotiations and deliberations and thus require fewer meetings negatively impacting the level of monitoring. Klein (2002) reports a negative correlation between earnings management and audit committee independence. Anderson (2004) find that entirely independent audit committees have lower debt financing costs.

2.5 Theoretical Framework.

Literature on corporate governance mechanisms and firm financial performance has identified the agency theory, stakeholder theory and the stewardship theories as the three prominent theories of corporate governance which are discussed below:

2.5.1 Stakeholder Theory.

In describing Stakeholder Theory, Clarkson (1994) states that the firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stake holders by converting their stakes into goods and services. This view

is supported by Blair (1995) who proposes that the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders.

Consistent with this view, Porter (1992) recommends to US policy makers that they should encourage long-term employee ownership and encourage board representation by significant customers, suppliers, financial advisers, employees, and community representatives. He also recommends that corporations should seek long-term owners and give them a direct voice in governance (that is relationship investors) and nominate significant owners, customers, suppliers, employees, and community representatives to the board of directors.

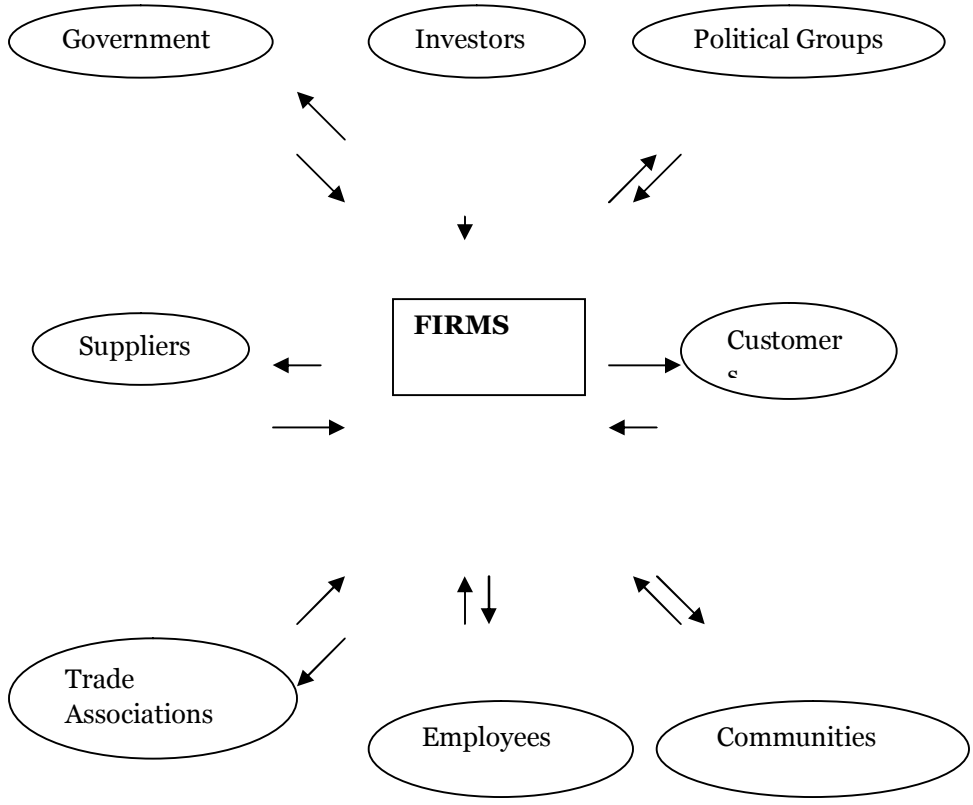
One of the original advocates of stakeholder theory, Freeman (1984), identified the emergence of stakeholder groups as important elements to the organization requiring consideration. Freeman further suggests a re-engineering of theoretical perspectives that extends beyond the owner-manager-employee position and recognizes the numerous stakeholder groups.

Freeman (1984) defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Freeman (1993) as cited in Freeman (1999), suggests,

> if organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose. That is, stakeholder management is fundamentally a pragmatic concept. Regardless of the content of the purpose of the firm, the effective firm will manage the relationships that are important.

Sundaram and Inkpen (2004) also suggest that "stakeholder theory attempts to address the question of which groups of stakeholder deserve and require management's attention" Donaldson and Preston (1995) provide a diagrammatical representation of the stakeholder model, which is reproduced in Figure 3. This diagram reflects the number of groups with interests in (or relationships with) the firm. They explained that under this model, all person or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another.

Figure 2.1: The Stakeholder Model



Source: Donaldson and Preston (1995)

Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognisant of the myriad participants who seek multiple and sometimes diverging goals (Donaldson and Preston 1995).

Nevertheless, Sundaram and Inkpen (2004) posit that wide- ranging definitions of the stakeholder are problematic. In addition, the authors argue that empirical evidence supporting a link between stakeholder theory and firm performance is lacking. Finally, identifying a myriad of stakeholders and their core values is an unrealistic task for managers (Sundaram and Inkpen, 2004b).

2.5.2 Stewardship Theory

In the stewardship, managers are good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders returns (Donaldson and Davis 1994, hereafter referred to as (D & D). Their arguments support the investment of business schools in the development of management skills and knowledge. It also reinforces the social and professional kudos of being a manager.

Whereas agency theorists view executives and directors as self-serving and opportunistic, stewardship theorists, reject agency assumptions, suggesting that directors frequently have interests that are consistent with those of shareholders. Donaldson and Davis (1991) suggest an alternative "model of man" where "organisational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses". They observed that where managers have served a corporation for a number of years, there is a "merging of individual ego and the corporation" . Equally, managers may carry out their role from a sense of duty. Citing the work of Silverman (1970), Donaldson and

Davis argued that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige. Davis, Schoorman and Donaldson, (1997) argued that a psychological and situational review of the theory is required to fully understand the premise of stewardship theory. Stewardship theory holds that there is no inherent, general problem of executive motivation (Cullen, Kirwan and Brennan, 2006). This would suggest that extrinsic incentive contracts are less important where managers gain intrinsic satisfaction from performing their duties.

"A steward protects and maximises shareholders' wealth through firm performance, because, by so doing, the steward's utility functions are maximised" Davis, Schoorman and Donaldson, (1997) cited in Cullen, Kirwan and Brennan, (2006). The stewardship perspective suggests that the attainment of organizational success also satisfies the personal needs of the steward. The steward identifies greater utility accruing from satisfying organizational goals than through self-servingn behaviour. Stewardship theory recognises the importance of structures that empower the steward, offering maximum autonomy built upon trust. This minimizes the cost of mechanisms aimed at monitoring and controlling behaviours (Davis, Schoorman and Donaldson, 1997).

Daily et al. (2003) contend that in order to protect their reputations as expert decision makers, executives and directors are inclined to operate the firm in a manner that maximizes financial performance indicators, including shareholder returns, on the basis that the firm's performance directly impacts perceptions of their individual performance. According to Fama (1980), in being effective stewards of their organization, executives and directors are also effectively managing their own careers. Similarly, managers return finance to investors to establish a good reputation, allowing them to re-enter the market for future finance (Shleifer and Vishny, 1997).

Muth and Donaldson (1998) described stewardship theory as an alternative to agency theory which offers opposing predictions about the structuring of effective boards. While most of the governance theories are economic and finance in nature, the stewardship theory is sociological and psychological in nature.

2.5.4 The Simple Finance Model

In the finance view, the central problem in corporate governance is to construct rules and incentives (that is, implicit or explicit contracts) to effectively align the behaviour of managers (agents) with the desires of principals (owners), (Hawley and Williams, 1996). The rules and incentives considered are generally only those within the existing US system of publicly traded firms with unitary boards. The rules and incentives in the finance model refer to those established by the firm rather than to the legal/political/regulatory system and culture of the host economy, or the nature of the owners.

2.5.5 The Political Model

The political model recognises that the allocation of corporate power, privileges and profits between owners, managers and other stakeholders is determined by how governments favour their various constituencies. The ability of corporate stakeholders to influence allocations between themselves at the micro level is subject to the macro framework, which is interactively subjected to the influence of the corporate sector.

According to Hawley and Williams (1996) the political model of corporate governance has had immense influence on corporate governance developments in the last five to seven years. However, Hawley and Williams focus their discussion only on the micro aspects of how

shareholders can influence firms. Firms have also been influential in moulding the US political/legal/regulatory system over the last few centuries. Miller (1968) quotes Frankfurter as saying that the history of US constitutional law is the history of the impact of the modern corporation upon the American scene.

Roe (1994) provides an elaboration on the historical evolution of the political model and like Black (1990) and others, argues that the finance model relies on the market for corporate control, was primarily the result of the political traditions of federalism/decentralisation dating back to the American Revolution. These traditions have been subjected to substantial changes. After the Revolution, there was concern that newly won political freedoms could be lost through foreigners gaining control of corporations (Grossman and Adams, 1993). As a result, the life of all corporate charters was limited to 50 years or less until after the Civil War. These charters did not provide limited liability for the owners. Most states adopted a ten-year sunset clause for bank charters, and sometimes they were as short as three years. Early state legislators wrote charter laws and actual charters to limit corporate authority, and to ensure that when a corporation caused harm, they could revoke the charter, hence, during the late 19th century, corporations subverted state governments and according to Friedman (1973), corporations bought and sold governments.

2.5.6 Agency Theory

The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, Dalton and Canella (2003) point to two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea.

In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It "provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system" (Davis, Schoorman and Donaldson, 1997:24). In her assessment and review of agency theory, Eisenhardt (1989) outlines two streams of agency theory that have developed over time: Principal-agent and positivist.

- Principal-agent relationship: Principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to any agency relationship e.g. employer employee or lawyer-client.

  Eisenhardt describes such research as abstract and mathematical and therefore less accessible to organisational scholars. This stream has a greater

  interest in general theoretical implications than the positivist stream.

- Agency theory and the firm: a positivist perspective: Positivist researchers

  have tended to focus on identifying circumstances in which the principal and agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt, 1989). This stream has focused almost exclusively on the principal-agent relationship existing at the level of the firm between shareholders and managers. For example, Jensen and Meckling (1976), who fall under the positivist stream, propose agency theory to explain, inter alia, how a public corporation can exist given the assumption that managers are self-seeking individuals and a setting where those managers do not bear the full effects of their actions and decisions.

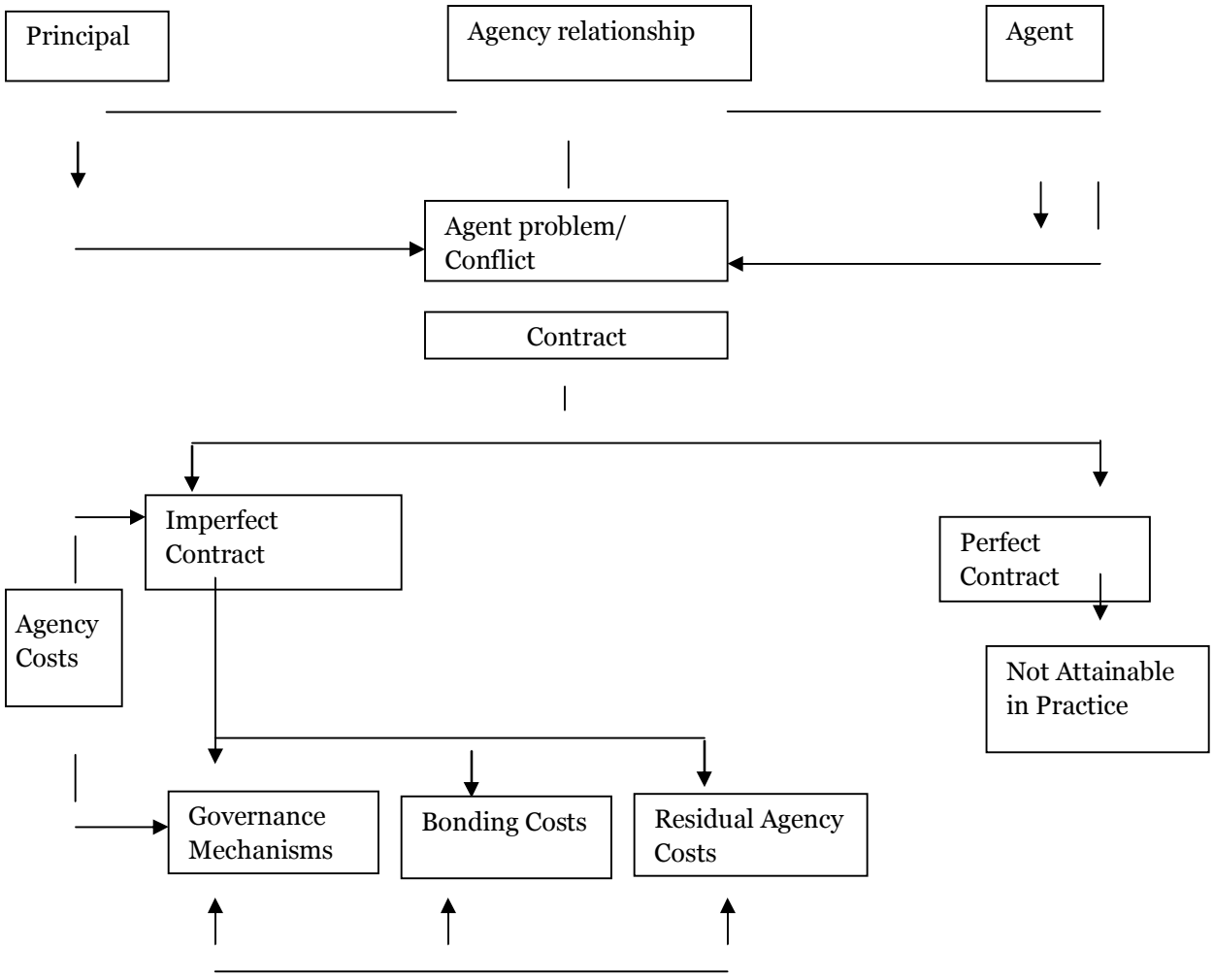
The agency relationship explains the association between providers of corporate finances and those entrusted to manage the affairs of the firm. Jensen and Meckling (1976:308) define the

agency relationship in terms of "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". Agency theory supports the delegation and the concentration of control in the board of directors and use of compensation incentives. The board of directors monitors agents through communication and reporting, review and audit and the implementation of codes and policies.

Eisenhardt (1989 :58) explains that the agency problem arises when "(a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing". The problem is that the principal is unable to verify that the agent is behaving appropriately. Shleifer and Vishny (1997) explain the agency problem in the context of an entrepreneur, or a manager, who raises funds from investors either to put them to productive use or to cash out his holdings in the firm. They explain that while the financiers need the manager's specialized human capital to generate returns on their funds, the manager, since he does not have enough capital of his own to invest or to cash in his holdings, needs the financier's funds. But how can financiers be sure that, once they sink their funds, they get anything back from the manager? Shleifer and Vishny further explained that the agency problem in this context refers to the difficulties financiers have in assuring that managers do not expropriate funds and/or waste them on unattractive projects.

Drawing on the work of Jensen and Meckling (1976), Fama and Jensen (1983) seek to explain the survival of organizations characterized by the separation of ownership and control and to identify the factors that facilitate this survival. Their paper is concerned with the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions.

Fig2.3: ***Agency Theoretical Perspective***



Source: Cullen , Kirwan and Brenan (2006)

In summary, under the dominant paradigm, the agency relationship between shareholders (principals) and managers (agents) is thwarted by conflict. The agency problem arises primarily from the principals' desire to maximize shareholder wealth and the self-interested agents attempt to expropriate funds. Contracts partly solve this misalignment of interest. In a complex business environment, contracts covering all eventualities are not attainable. Where contracts fail to achieve completeness, principles rely upon internal and external governance mechanisms to

monitor and control the agent. Writing and enforcing contracts and the operation of governance mechanisms give rise to agency costs. Further, the inherent residual loss, arising when the agent does not serve to maximize shareholder wealth, adds to the agency costs.

The agency theory posits that the control function of an organization is primarily exercised by the board of directors. With regard to the board as a governance mechanism, the issues that appear most prominent in the literature are board composition, board size, audit committee composition , managerial shareholding and institutional shareholding and financial performance variables.

2.6 Summary of the Chapter

This chapter reviewed the literature on issues, concepts, models and theories related to corporate governance and firms' financial performance. The review indicated that there are no consensus as regard the relationship between financial performance and corporate governance. The chapter that follows discusses the methodology adopted for the research. It examines, among other issues, the methods of data collection, sample design, model development, and techniques of data analysis.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methods of data collection; techniques of data analysis employed in the research and defined the population and the sample of the study. In addition it justifies all the methods and techniques adopted in the study.

3.2 Research Design

The study employed descriptive research approach. It is a correlation study that examined the relationship between Corporate Governance Variables i.e., Board Size (BS), Board Composition (BC), Composition of Audit Committee (AC), Managerial Shareholding (MS) and Institutional Shareholding (IS) and Financial Performance i.e, DPS, ROCE and NAPS of listed Cement Companies in Nigeria.

3.3 Population and Sample of the Study

The population of the study consists of five quoted cement firms in Nigeria. The companies are Ashaka cement Plc, Benue Cement Company Plc, Cement Company of Northern (Nigerian) Plc, Lafarge (WAPCO) Cement Nigeria Plc, and Nigerian Cement Company Plc. A sample of four firms is used as a result of availability of data, dropping Nigerian Cement Company Plc, representing 80% of the entire population.

3.4 Method of Data Collection

Secondary data was collected from the fact book of Nigeria Stock Exchange and websites of the listed Cement Companies in Nigeria. The data collected was for both the corporate governance variables and financial performance variables.

3.5 Data Analysis Technique

The data collected was analyzed using both descriptive statistics and inferential statistics (using the Ordinary Least Squares-OLS-regression). The result is computed using SPSS.

Multiple regression analysis is used in order to establish whether the set of independent variables (Corporate Governance variables, on one hand) explain a proportion of the variance in the dependent variable (financial performance variables, on the other hand) and also establishes the relative predictive importance of the independent variables (by comparing beta weights). The multi-variate regression is computed using SPSS.

A model is employed to estimate the combined effects of Corporate Governance proxies on the financial performance of the sampled firms. Along the line of Klapper and Love (2002), Sanda, Mikailu and Tukur (2004), Musa (2006), Tahir (2008), and Hassan (2011) the CG is estimated as a function of the firm's characteristics, which have been defined in this study as Board Size (BS), Board Composition (BC), , Composition of Audit Committee(AC), Managerial Shareholding(MS) and Institutional Shareholding (IS).

This is expressed as CG= f (BS, BC, AC, MS, IS,). On the other hand, financial performance is represented by DPS, ROCE and NPS.

Thus, FP= f (CG), which by expansion becomes:

FP= f (BS, BC, AC, MS, IS,)

The Ordinary Least Squares (OLS) regression that is used to estimate the relationship is as follows:

DPS = γ_0 +γ_1BS + γ_2BC+ γ_3AC +γ_4IS +γ_5MS + ε…… (i)

ROCE = γ_0 +γ_1BS + γ_2BC+ γ_3AC +ISγ_4 +γ_5MS + ε…… (ii)

NAPS = γ_0 +γ_1BS + γ_2BC+ γ_3AC +IS$\gamma_4\gamma_4$ +γ_5MS + ε…… (iii).

Where:

ROCE is return on capital employed

DPS is dividend per share

NAPS is net asset per share

BS= Board Size

BC= Board Composition

AC= Composition of Audit Committee

MS=Management Shareholding

IS= Institutional Shareholding

γ_0 = Constant

$\gamma_{1to}\gamma_5$ = Parameters to be estimated.

ε = error term.

3.6 VARIABLE DEFINITION AND MEASUREMENT

Variables	Definitions	Measurements
BS	Board Size	Number of people on the board of the firm
IS	Institutional Shareholding	Percentage of share of the company being held by the corporate entity (ies)
MS	Managerial shareholding	Percentage of shares held by members of board (directors) disclosed in annual financial reports.
AC	Audit Committee Composition	The ratio of directors to shareholders in the Audit Committee.
BC	Board composition	The proportion of non-executive directors on board, and is calculated as the number of non-executive directors divided by total number of directors.
DPS	Dividend Per Share	Total dividend divided Number of ordinary shares rank for dividend.
ROCE	Return on Capital Employed	Net profit after tax divided by Capital Employed.
NAPS	Net Asset Per Share	Net assets divided by the number of issued shares. This value is basic not adjusted values.

3.7 Summary

As can be noted, the methods and techniques that were adopted in carrying out this research emphasized the use of secondary data. In this process we were able to collect most of the information needed from the use of published reports by the NSE and the selected companies. This body of data was further invigorated by formulating what is thought to be a unique theoretical framework after critically reviewing the views of many authorities that were published in journals and other reliable outlets. The next chapter presents and analyzes the data that was collected using the methods and techniques explained in this chapter.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of data. Multiple Regressions have been used to estimate the influence of the explanatory variables (Board Size, Board Composition, Audit Committee Composition, Institutional Shareholding and Managerial Shareholding) on the explained variable (DPS, ROCE and NAPS). The Ordinary Least Square technique (OLS) is used to estimate the coefficient of regression in the model of the study.

The results are presented in four sections: Section one presents some descriptive statistics from the sample firms. Section two presents the regression results for the cross-section of the firms using the financial performance proxied by ROCE, DPS and NAPS as dependent variables. Section three presents and discusses the findings of the study. Section four provides a summary of the findings.

4.2 Data Presentation

Table 4.1 Present the company's corporate government variables and financial performance variables from 2004-2010.

NAME	YEAR	BODSZ	BODCP	AUDCM	MGTSH	INSSH	DPS	ROCE	NAPS
LAF	2004	13	0.4615	0.5	0.0452	0.7177	-11.3008	-100.172	13.57933
	2005	13	0.4615	0.5	0.0022	0.7177	10.95689	19.56559	9.221743
	2006	13	0.4615	0.5	0.0015	70.55	33.82932	42.84775	10.77997
	2007	13	0.4615	0.5	0.0007	70.55	30.64369	32.5509	11.60974
	2008	11	0.4615	0.5	0.0007	0.6	25.76661	27.81292	14.54859
	2009	11	0.4615	0.5	0.0007	0.6	25.99081	23.88754	14.99846
	2010	11	0.4615	0.5	0.0007	0.6	16.55521	6.641857	10.67683
CCNN	2004	10	0.6	0.5	0.0016	0.8382	15.40103	58.80681	5.527042
	2005	10	0.6	0.5	0.0016	0.8382	3.548144	13.95706	5.834827
	2006	10	0.6	0.5	0.0012	0.8105	-0.43338	-2.26353	7.445027
	2007	10	0.6	0.5	0.0012	0.8105	1.520676	4.404359	7.256087
	2008	9	0.6	0.5	0.0012	0.766	17.40138	38.49005	6.998947
	2009	9	0.6	0.5	0.0012	0.766	17.40138	38.49005	6.998947
	2010	9	0.6	0.5	0.0012	0.766	7.834175	21.69783	5.722982
ASHAKA PLC	2004	11	0.6363	0.3333	0.0008	0.5016	32.91055	34.78512	11.70631
	2005	11	0.6363	0.3333	0.0013	0.5016	35.81087	38.07835	8.458272
	2006	11	0.6363	0.3333	0.0013	0.5016	26.8392	29.07089	8.604537
	2007	11	0.6363	0.3333	0.0013	0.5016	13.04865	14.95048	8.40225
	2008	11	0.6363	0.3333	0.0013	0.5016	13.87404	16.17835	8.744483
	2009	11	0.6363	0.3333	0.0013	0.5016	13.87404	16.17835	8.744483
	2010	11	0.6363	0.3333	0.0013	0.5016	19.47962	21.32022	7.808619
BENEU CEMENT	2004	10	0.6	0.4285	0.0494	0.6967	25.63496	25.63496	-7.19078
	2005	10	0.6	0.4285	0.0494	0.6967	-388.836	-165.62	-1.16584
	2006	10	0.6	0.4285	0.0829	0.7238	21.92978	37.16461	5.720857
	2007	10	0.6	0.4285	0.0829	0.7238	12.33818	13.03438	3.645064
	2008	10	0.6	0.5	0.0829	0.67	28.69719	30.13707	4.610289
	2009	10	0.6	0.5	0.0829	0.67	28.69719	30.13707	4.610289
	2010	10	0.6	0.5	0.0829	0.67	-38.7912	-4.21603	1.461411

Source; Nigerian Stock Exchange publication (2010).

4.3. Descriptive Results

The descriptive statistics of the variables of the study as computed from various annual reports of the sampled firms and fact books of NSE are presented in Table 4.1

Table 4.1.. Descriptive Statistics

Variables	Board Size	Board comp.	Aud. Comm	Inst. Share	Magt. Share	*ROCE*	*NAPS*	*DPS*
Mean	10	0.57	0.44	5.6	0.02	25.8	10	0.69
Standard Deviation	1.16	0.06	0.07	18.3	0.32	30.50	26.91	1.05
Kurtosis	0.32	-0.68	-1.05	11.18	-0.24	7.77	25.9	9.78
Skewness	0.845	-1.05	-0.89	3.52	1.24	-1.84	5.00	2.76
Maximum	13	.64	.50	70.55	.08	88.72	145.02	4.97
Minimum	9	0.46	0.33	0.50	0.00	-91.32	-7.17	0.00
Count	28	28	28	28	28	28	28	28

Source: Author's computation using SPSS

Table 4.1 shows that, on average, DPS, ROCE, and NAPS of the sampled firms is about 25.8, 10 0.69 percent respectively for ROCE, NAPS and DPS. While board size, board composition, composition of audit committee, institutional shareholding, and managerial shareholding have a mean of about 10 members, 0.75, 0.44, 5.6and 0.02 percent respectively. Institutional shareholding has the highest standard deviation of 18.32 signifying its low contribution, whereas board size, composition of audit committee, managerial shareholding and board composition have has lower standard deviation which indicates their significant contribution (Hassan, 2011).

The composition of the audit committee lies between 33 to 50 percent which is not in line with requirement of CAMA that the representation of shareholders on the committee should be three whereas the whole committee should be six. During the period of the study, Ashaka Cement Plc had a ratio 2 directors to 4 shareholder. Likewise Benue Cement Plc for the first 4 years the ratio of the Audit Committee Composition was 2:4. The composition of board size lies between 46

and 64 percent, managerial shareholding lies between 0 and 0.08 percent while institutional shareholding lies between 0.50 and 70.55 percent.

4.4 Corporate Governance and Performance of Cement Firms in Nigeria.

The results of the regression for the impact of corporate governance on the financial performance of listed cement firms in Nigeria are presented in this section. The three hypothesis considered the five corporate governance mechanisms as independent variables and the three financial performance as dependent variables respectively, for the listed cement firms in Nigeria.

4.4.1 Corporate Governance and Dividend Per Share

In this section, the regression equation results of the relationship between Corporate Governance and DPS are presented and discussed. The summary of the results are presented in Table 4.2. and the full results are contained in appendix 1.

Table 4.2. Regression Results on CORPORATE GOVERNANCE and DPS	
Variables	***Coefficients and t-values***
Intercept	**11.544** **(1.322)**
Board Size	**-10.703** **(-1.978)***
Board comp.	**-17.460** **(-2.821)****
Aud. Comm	**-11.440** **(-3.052)****
Inst. Share	**0.310** **(0.387)**
Magt. Share	**0.959** **(3.046)****
R^2	**0.76**
Adjusted R^2	**0.65**
F-Start	**6.976****
Durbin-Watson	**1.224**

Source: Author's computation using SPSS

*T-values are reported in parentheses and the symbol ***, **, * indicates statistical significance at 1%, 5% and 10% respectively.*

Table 4.2 relates DPS (dependent variable) to corporate governance variables (independent variable). The estimated regression relationship for *DPS* model is:

$$DPS = 11.544 - 10.703BS - 17.460BC - 11.440AC + 0.310IS + 0.959\ MS$$

The equation shows that the independent variables except institutional shareholding have significant impact on the dividend per share. While board size is negatively related and statistically significance at 10%, board composition and composition of audit committees have negative relationship with the dependent variable at 5% significant level. This signifies that an increase in these variables would lead to decrease in DPS. Managerial shareholding and

institutional shareholding are positively related with dividend per share. While managerial shareholding has significant impact, institutional shareholding does not. That is, increase in the level of institutional shareholding does not guarantee increase in the performance of the cement firms in Nigeria. Durbin Watson statistics of 1.224 shows absent of auto correlation. The adjusted coefficient of determination (R^2) offers better explanation of the variations in DPS as the value is about 65 percent. Also, the value of the F-statistics is 6.976 with a *p*-value of 0.002, showing fitness of the model.

From the result, the null hypothesis can be rejected. In other words, the result provides evidence that corporate governance of firms in Nigerian cement industry has significant impact on the performance as measured by their dividend per share. The result however, did not supports the finding of Forsberg (1989), Weisbach (1991), Bhagat and Black (2002) and Sanda et al (2005) that corporate governance has no significant impact on firms' financial performance.

4.4.2 Corporate Governance and Return On Capital Employed.

In this section, the result of the regression equation of the independent variable; Corporate Governance of BS; BC; AC; IS and MS, and dependent variable, ROCE is presented. The full results are contained in appendix 2.

Table 4.3. Regression Results on CORPORATE GOVERNANCE ROCE	
Variables	***Coefficients and t-values***
Intercept	**10.407** **(1.589)**
Board Size	**-9.997** **(-2.466)****
Board comp.	**-16.467** **(-4.366)****
Aud. Comm	**-10.884** **(-4.313)****
Inst. Share	**0.294** **(1.786)***
Magt. Share	**0.903** **(5.799)*****
R^2	**0.762**
Adjusted R^2	**0.677**
F-Start	**8.976****
Durbin-Watson	**1.185**

Source: Author's computation using SPSS
*T-values are reported in parentheses and the symbol ***, **,* indicates statistical significance at 1%, 5% and 10% respectively.*

Table 4.4.2 relates ROCE (dependent variable) to corporate governance variables (independent variable). The estimated regression relationship for *ROCE* model is:

$$ROCE = 10.407 - 9.997BS - 16.467BC - 10.884AC + 0.294IS + 0.903\ MS$$

The equation shows that the independent variables have significant impact on the return on capital employed as a proxy for financial performance. Board size, board composition and composition of audit committees have negative relationship with the dependent variable at 5% respectively. This signifies that decrease in these variables would lead to an increase in

dependent variable. Managerial shareholding and institutional shareholding are positively related with ROCE. While managerial shareholding has significant relationship at 1%, institutional shareholding is at 10%. That is, increase in the level of institutional shareholding and managerial shareholding guarantee increase in ROCE of cement firms in Nigeria. Durbin Watson statistics of 1.185 shows absence of auto correlation. The adjusted coefficient of determination (R^2) of approximately 68% offers better explanation of the variations in ROCE occasioned by variation in the independent(CG) variables. Also, the value of the F-statistics is 8.976 with a *p*-value of 0.001, indicates fitness of the model.

From the result, the null hypothesis can be rejected. In other words, the result provides evidence that corporate governance of firms in Nigerian cement industry has significant impact on their performance as measured by their ROCE.

The result however, did not support the findings of Forsberg (1989), Weisbach (1991), Bhagat and Black (2002) and Sanda et al (2005) that corporate governance has no significant impact on firms' financial performance.

4.4.3 Corporate Governance and Net Asset Per Share (NAPS)

The result of the regression equation of the independent variable; Corporate Governance of BS; BC; AC; IS and MS, and dependent variable, NAPS is presented. The full results are contained in appendix 3.

Table 4.4 Regression Results on CORPORATE GOVERNANCE and NAPS.	
Variables	***Coefficients and t-values***
Intercept	**28.689** **(3.962)*****
Board Size	**-0.609** **(-2.225)****
Board comp.	**-23.999** **(-4.824)*****
Aud. Comm	**-21.634** **(-5.098)*****
Inst. Share	**0.017** **(1.820)***
Magt. Share	**45.278** **(7.437)*****
R^2	**0.835**
Adjusted R^2	**0.776**
F-Start	**14.145*****
Durbin-Watson	**1.074**

Source: Author's computation using SPSS
*T-values are reported in parentheses and the symbol ***, **,* indicates statistical significance at 1%, 5% and 10% respectively.*

Table 4.4.3 relates NAPS (dependent variable) to corporate governance variables (independent variable). The estimated regression relationship for NAPS model is;

$$NAPS = 28.689 - 009BS - 23.999BC - 21.634AC + 0.017IS + 45.278\ MS$$

The equation shows that the Corporate Governance variables have significant impact on the Net Asset Per Share as a proxy for financial performance. Board size, board composition and composition of audit committees have negative relation with the NAPS at 5% level of significance respectively. This signifies that decrease in these variables would lead to an increase

in NAPS. Managerial shareholding and institutional shareholding are positively related with NAPS. While managerial shareholding has statistically significant relationship at 1%, institutional shareholding is at 10%. This implies that, increase in the level of institutional shareholding and managerial shareholding guarantee increase in the performance of the firms in Nigeria. Durbin Watson statistics of 1.074 shows absent of auto correlation. The adjusted coefficient of determination (R^2) offers better explanation of the variations in NAPS as the value is about 78 percent. Also, the value of the F-statistics is 14.145 with a *p*-value of 0.000, this shows the fitness of the model.

From the result, the null hypothesis can be rejected. In other words, the result provides evidence that corporate governance of firms in Nigerian cement industry has significant impact on the performance as measured by their NAPS.

The result however, did not support the finding of Forsberg (1989), Weisbach (1991), Bhagat and Black (2002) and Sanda et al (2005) that corporate governance has no significant impact on firms' financial performance.

4.5 Policy Implications of the Research Findings

Irrespective of the relationship between the results of this study and those of previous researches as highlighted above, the findings, in relation to each of the hypotheses considered in the work, have implications for regulatory policy. The results of the study have provided insight into the predictor variables that have important impact in explaining the dependent variable (financial performance) of listed cement firms in Nigeria. The results indicate that board size is an important variable that can be used to explain financial performance of cement firms in Nigeria. The relationship between the board size and all the three dependent variables is negative. The

important feature of this finding is that the financial performance of the cement firms can be controlled by manipulating the board size.

The results also indicate that the composition of audit committee affects the financial performance of listed cement firms. The implication of this finding is that the presence of the shareholders' representative in the committee facilitates their functions and ensures that proper appropriate investment decision making.

The outcome of the analysis also indicates that board composition affects the financial performance of listed cement firms. The relationship between the two variables is negative. The implication of this is that the presence of the non executive directors on the board facilitates their functions and ensures that proper strategic decisional activities in the board room.

Further, the findings of the study also indicate a significant positive relationship between managerial shareholding and financial performance. The implication of this is that the going concern is guarantee if the manager-ownership relationship is encouraged in the cement firms. Another implication of these findings is that the regulatory authorities will have a focus on those governance mechanisms that are really important and they will be addressed in-depth when reviewing the existing code of corporate governance in future.

From the view point of board of directors of firms, these findings should assist in establishing appropriate financial policy guidelines that will militate against financial risk in their various firms.

4.6 Summary

In this chapter, the regression results on the impact of corporate governance on financial performance of listed cement firms in Nigeria were presented and analyzed for the cross-section of the sampled firms used in the study. The analyses have been carried out in three sections.

In section one, some descriptive statistics and correlation results were presented and analyzed. In section two, the regression results dealing with the impact of corporate governance on the financial performance of listed cement firms in Nigeria were presented and analyzed using data collected from the cross- section of the sampled firms used in the study.

The results reveal that all independent variables: board size, composition of audit committee, board composition, institutional shareholding and managerial shareholding are significant in explaining and predicting the financial performance of the firms used in the study. This resulted in the rejection of all the null hypotheses. The results from the research findings were also enumerated and the policy implications were highlighted.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Corporate governance is a philosophy and mechanism that entails processes and structures, which facilitate the creation of shareholder value through management of corporate affairs in such a way that ensures the protection of the individual and the collective interest of all the stakeholders. The study examined the effect of corporate governance on the financial performance of listed cement firms in Nigeria. Specifically, the study examined the impact of corporate governance (BS, BC, AC, MS, and IS) on financial performance (DPS, ROCE, NAPS) of listed cement firms in Nigeria.

These objectives were translated into testable hypotheses for the study as stated in chapter one. The period 2004-2010, was chosen as the time frame for the study, based on the fact that corporate governance as a process was first officially came into effect in 2003 following the release of SEC code of corporate governance and the listed firms were requested to abide by it with effect from 2004. Therefore, firms not listed before 2003 were eliminated from the population of the study.

The study reviewed relevant empirical works, which eventually led to the formulation of a theoretical framework. It was observed that most of the research works on corporate governance were conducted in relation to the performance of firms, especially those in the banking sector and that not much research work has been conducted to find out the impact of corporate governance on the financial performance of cement firms in the country.

The study made use of a statistical model to estimate the combined effects of Corporate Governance proxies on the three financial performances of the sampled firms. In order to test the model, data were collected from the annual reports of the sampled firms and fact book published by the NSE. The variables in the model were estimated using the Ordinary Least Square technique. The study has made use of multiple regressions to test the combine effects of corporate governance mechanisms on financial performance.

The results of the study revealed that the various corporate governance mechanisms have different effects on the financial performance of the sampled firms. Board composition, board size, and audit committee composition have negative relationship on the financial performance of the firms while, managerial shareholding and institutional shareholding have positive effect. The study indicates that board size is an important variable that can be used to explain financial performance of cement firms in Nigeria. The relationship between the board size and all the three dependent variables is negative. The prominent feature of this finding is that the financial performance of the cement firms can be controlled by manipulating the board size.

Based on the study, composition of audit committee affects the financial performance of the listed cement firms.

The outcome of the analysis also indicates that board composition affects the financial performance of listed cement firms. The relationship between the two variables is negative.

In addition, the findings of the study also indicate a statistically significant positive relationship between managerial shareholding and financial performance.

5.2 Conclusions

Based on the findings of the research, the study concludes that the five corporate governance mechanisms analysed in this work have the following effects on the financial performance of the listed cement firms in Nigeria:

i. Board size has significant negative impact on the financial performance. This signifies that an increase in Board size would lead to decrease in DPS, ROCE and NAPS. This signifies that there is an inverse relationship between Board size and DPS, ROCE, NAPS respectively.

ii. The composition of board members has significant negative effect. . This implies that an increase in Board composition would lead to decrease in DPS, ROCE and NAPS. This signifies that there is an inverse relationship between Board size and DPS, ROCE, NAPS respectively.

iii. The existence of shareholders as representatives on the audit committee has significant negative effect.

iv. Managerial shareholding has significant positive effect. With a large proportion of shares in the hands of managers, they may work harder to improve the firm performance.

v. Institutional shareholding has significant positive effect on DPS, ROCE and NAPS respectively.

The overall conclusion of the study is that corporate governance has significant effect on financial performance of listed cement firms in Nigeria. However, while some corporate governance mechanisms such as managerial shareholdings and institutional shareholdings

positively influenced firms' decision to purse financial performance, mechanisms such as board size board composition and audit committee composition encourage negative impact on the performance. The key policy implication of these findings is that regulatory authorities can cyclically use corporate governance mechanisms as a policy instrument to determine the going concern of the firms in cement industry in Nigeria.

5.3 Recommendations

The recommendations of this study are directed at different parties that are involved in monitoring the institutionalization of an effective system of corporate governance in Nigeria. Shareholders of cement firms should seek to positively influence the standard of corporate governance in the companies in which they invest by making sure there is strict compliance with the code of corporate governance.

The Board should have a size of 5-10 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.

The Board 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 three of whom should be independent directors.

Every public company is required under Section 359 (3) and (4) of the CAMA to establish an audit committee. It is the responsibility of the shareholders to ensure that the committee is constituted in the manner stipulated and is able to effectively discharge its statutory duties and

responsibilities. Ashaka Cement plc and Benue Cement Plc. during the period of the study violated this section of the law.

The managerial staff should be encouraged to hold a reasonable number of equity shares of the firms. This study has revealed the existence of significant positive relationship between managerial shareholding and financial performance of the sampled firms. This is important because it is necessary to ensure that the directors themselves take adequate protection of the resources and make adequate investment and operational decisions.

5.4 Limitations of the Study

The result from this study should be used with caution, because of some factors that may hinder its generalization, some of which include the vertical nature of the research: the study uses data from listed cement firms only; therefore the result may not be relevant to those in financial sectors'.

5.5 Suggested Areas for Further Research

i) The same research can be replicated using different corporate governance mechanisms such as board remuneration, board meeting, and board tenure among others.

ii) The same research can be carried out in other enterprises aimed to evaluate their roles for sound development of Nigeria's local industries.

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APPENDIX I

Correlations

		EPS	DPS	NAPS	ROCE	BS	BC	AC	MS	IS
DPS	Pearson Correlation	.271	1	.351	.364	.102	-.113	.056	.197	.106
	Sig. (2-tailed)	.164		.067	.057	.606	.567	.778	.314	.590
	N	28	28	28	28	28	28	28	28	28
NAPS	Pearson Correlation	.635**	.351	1	.235	-.052	-.022	.166	.326	-.004
	Sig. (2-tailed)	.000	.067		.228	.794	.913	.400	.090	.983
	N	28	28	28	28	28	28	28	28	28
ROCE	Pearson Correlation	.078	.364	.235	1	-.025	-.031	.059	.146	.100
	Sig. (2-tailed)	.691	.057	.228		.900	.874	.766	.458	.611
	N	28	28	28	28	28	28	28	28	28
BS	Pearson Correlation	.035	.102	-.052	-.025	1	-.629**	-.081	-.233	.565**
	Sig. (2-tailed)	.861	.606	.794	.900		.000	.683	.232	.002
	N	28	28	28	28	28	28	28	28	28
BC	Pearson Correlation	-.038	-.113	-.022	-.031	-.629**	1	-.601**	.133	-.469*
	Sig. (2-tailed)	.847	.567	.913	.874	.000		.001	.500	.012
	N	28	28	28	28	28	28	28	28	28
AC	Pearson Correlation	.129	.056	.166	.059	-.081	-.601**	1	.155	.209
	Sig. (2-tailed)	.511	.778	.400	.766	.683	.001		.431	.287
	N	28	28	28	28	28	28	28	28	28
MS	Pearson Correlation	.061	.197	.326	.146	-.233	.133	.155	1	-.168
	Sig. (2-tailed)	.758	.314	.090	.458	.232	.500	.431		.392
	N	28	28	28	28	28	28	28	28	28
IS	Pearson Correlation	.026	.106	-.004	.100	.565**	-.469*	.209	-.168	1
	Sig. (2-tailed)	.894	.590	.983	.611	.002	.012	.287	.392	
	N	28	28	28	28	28	28	28	28	28

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
DPS	28	.00	4.97	.6989	1.04719	2.760	.441	9.777	.858
NAPS	28	-7.17	145.02	10.0993	26.90578	5.004	.441	25.905	.858
ROCE	28	-91.32	88.72	25.7629	30.49580	-1.844	.441	7.766	.858
BS	28	9.00	13.00	10.6786	1.15642	.845	.441	.320	.858
BC	28	.46	.64	.5745	.06810	-1.035	.441	-.681	.858
AC	28	.33	.50	.4481	.07190	-.885	.441	-1.045	.858
MS	28	.00	.08	.0208	.03288	1.242	.441	-.239	.858
IS	28	.50	70.55	5.6533	18.32974	3.519	.441	11.182	.858
Valid N (listwise)	28								

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.874[a]	.763	.654	.69330	.763	6.976	6	13	.002	1.224

a. Predictors: (Constant), lnnaps, lnis, lnac, lnms, lnbs, lnbc

b. Dependent Variable: lndps

APPENDIX II

B

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	20.118	6	3.353	6.976	.002[a]
	Residual	6.249	13	.481		
	Total	26.367	19			

a. Predictors: (Constant), lnis, lnac, lnms, lnbs, lnbc

b. Dependent Variable: lndps

coefficients[a]

B		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	11.544	8.731		1.322	.209		
	lnbs	-10.703	5.412	-.998	-1.978	.070	.072	13.968
	lnbc	-17.460	6.189	-2.068	-2.821	.014	.034	29.465
	lnac	-11.440	3.748	-1.927	-3.052	.009	.046	21.871
	lnms	.959	.315	1.104	3.046	.009	.139	7.204
	lnis	.310	.186	.387	1.663	.120	.337	2.966

a. Dependent Variable: lndps

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	lnbs	lnbc	lnac	lnms	lnis	
1	1	5.697	1.000	.00	.00	.00	.00	.00	.00	
	2	1.023	2.360	.00	.00	.00	.00	.00	.32	
	3	.202	5.306	.00	.00	.00	.00	.00	.01	
	4	.060	9.780	.00	.00	.01	.02	.00	.11	
	5	.013	20.792	.01	.00	.00	.00	.20	.00	
	6	.005	33.919	.02	.00	.13	.10	.18	.03	
	7	9.153E-5	249.484	.98	1.00	.86	.87	.61	.53	

a. Dependent Variable: lndps

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-2.8337	1.0588	-.6031	1.02901	20
Residual	-.93771	.90844	.00000	.57348	20
Std. Predicted Value	-2.168	1.615	.000	1.000	20
Std. Residual	-1.353	1.310	.000	.827	20

a. Dependent Variable: lndps

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.873[a]	.762	.677	.66918	.762	8.976	5	14	.001	1.185

a. Predictors: (Constant), lnis, lnms, lnac, lnbs, lnbc

b. Dependent Variable: lnroce

APPENDIX II1

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	20.098	5	4.020	8.976	.001[a]
	Residual	6.269	14	.448		
	Total	26.367	19			

a. Predictors: (Constant), lnis, lnms, lnac, lnbs, lnbc

b. Dependent Variable: lnroce.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	10.407	6.550		1.589	.134		
	lnbs	-9.997	4.054	-.932	-2.466	.027	.119	8.414
	lnbc	-16.467	3.772	-1.950	-4.366	.001	.085	11.747
	lnac	-10.884	2.524	-1.834	-4.313	.001	.094	10.645
	lnms	.903	.156	1.040	5.799	.000	.528	1.892
	lnis	.294	.165	.367	1.786	.096	.401	2.492

a. Dependent Variable: lnroce

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	lnbs	lnbc	lnac	lnms	lnis
1	1	4.880	1.000	.00	.00	.00	.00	.00	.00
	2	1.022	2.185	.00	.00	.00	.00	.00	.38
	3	.064	8.716	.00	.00	.03	.04	.00	.14
	4	.028	13.198	.00	.00	.00	.00	.61	.00
	5	.006	27.531	.03	.00	.20	.18	.08	.02
	6	.000	175.716	.97	1.00	.76	.78	.32	.46

a. Dependent Variable: lnroce

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-2.7926	.9773	-.6031	1.02849	20
Residual	-.94186	.91938	.00000	.57442	20
Std. Predicted Value	-2.129	1.537	.000	1.000	20
Std. Residual	-1.407	1.374	.000	.858	20

a. Dependent Variable:lnroce

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.914[a]	.835	.776	.55785	.835	14.145	5	14	.000	1.074

a. Predictors: (Constant), lnis, lnms, lnac, lnbs, lnbc

b. Dependent Variable: naps.

APPENDIX IV

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.010	5	4.402	14.145	.000[a]
	Residual	4.357	14	.311		
	Total	26.367	19			

a. Predictors: (Constant), lnis, lnms, lnac, lnbs, lnbc

b. Dependent Variable: naps.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	28.689	7.242		3.962	.001		
	lnbs	-.609	.274	-.619	-2.225	.043	.153	6.551
	lnbc	-23.999	4.970	-1.534	-4.829	.000	.117	8.545
	lnac	-21.634	4.244	-1.498	-5.098	.000	.137	7.317
	lnms	45.278	6.088	.967	7.437	.000	.699	1.432
	lnis	.017	.009	.302	1.820	.090	.429	2.329

a. Dependent Variable: naps

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	lnbs	lnbc	lnac	lnms	lnis
1	1	4.258	1.000	.00	.00	.00	.00	.01	.00
	2	.983	2.081	.00	.00	.00	.00	.29	.20
	3	.715	2.440	.00	.00	.00	.00	.41	.22
	4	.033	11.275	.00	.00	.02	.09	.03	.06
	5	.011	19.988	.00	.10	.06	.02	.06	.24
	6	.000	139.578	1.00	.90	.92	.89	.20	.28

a. Dependent Variable: naps

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-2.5524	1.1446	-.6031	1.07631	20
Residual	-.88244	.84560	.00000	.47886	20
Std. Predicted Value	-1.811	1.624	.000	1.000	20
Std. Residual	-1.582	1.516	.000	.858	20

a. Dependent Variable: naps