Corporate Governance Indicators and Their Effects on Firms' Value

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***Abstract*:-The paper examined the effects of corporate governance indicators on firms' value and for in-depth analysis made use of secondary data obtained from the published annual reports and accounts of 20 quoted companies on the Nigeria Stock Exchange for Eight financial years -2009 to 2016.The collected data were analyzed using least square regression t – test statistic at 5% level of significance with the aids of Statistical Package for Social Sciences (SPSS). The study showed that positive relationship exists between corporate governance indicators represented by board size, executive compensation, financial disclosure and transparency and profitability as measure of firms' value. The study therefore suggests that steps should be taken for mandatory compliance with the code of good corporate governance while an effective legal framework that specifies the rights and obligations of a firm, its directors and other stakeholders should be developed.**

***Keywords*: Corporate governance, Stakeholders, Firms value, Board Size, Executive Compensation.**

I. INTRODUCTION

The directors of the company must always make decisions objectively in the best interest of the company's business and the shareholders. They have the responsibility to run the company successfully and bring in profit for the shareholders, they have to do this ethically within the framework of laws and regulations that governs the running of a company.

Corporate governance exists to protect the shareholders of a company. It also aims to preserve the reputation of the company and its business against any fraudulent act committed by its directors and officers. An enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. Thus, the concept indicates rules and regulations that ensure that a company is governed in a transparent and in an accountable manner such that the firm survives and meets the expectations of its shareholders, creditors and other stakeholders.

Once a company is incorporated the structures are automatically put in place and the company assumes a legal personality different and distinct from its shareholders and directors. These structures include the shareholders, a board of directors, and the managing director, the chairman of the board and other officers of the company. The functions of the various agencies within the company are clearly defined. This implies that only companies that are incorporated can be subject to corporate governance.

The law that governs the incorporation of a company and prescribes the structures to be put in place is corporate law. There are several rules, models and theories of corporate governance that are useful in the management of a corporation. In the context of Nigeria the law is Companies and Allied Matters Act, 1990. Where the company is a public company, apart from complying with the rules of corporate law, it must in addition comply with the provisions of the rules of the Stock Exchange and Securities and Exchange Commission Act. Therefore the rules of corporate law and securities law form the basis of any good corporate governance. With the growth of the pension scheme and the increasing collective bargaining, industrial law became an important component of corporate governance in the area of institutional investors and corporate social responsibility.

The development of the corporate governance in Nigeria is a recent phenomenon compared to the developed countries. Indeed, the evolution of corporate governance issues started to receive greater attention worldwide as a result of: the recognition that a firm's corporate governance affects its economic performance: the lessons of the global financial crises ranging from East Asia in the late nineties; and the American corporate crisis with the collapse and scandals of big corporations like Enron, World.com and Andersen in 2001-2002.

In Nigeria, the collapse of some banks in the early nineties triggered the active development of corporate governance. The collapse of these financial institutions was largely attributed to poor corporate governance practices such as:

- Insider-related credit abuses;
- Poor risk management;
- Weak internal control systems and
- Inadequate disclosures.

All these combined to result in loss of employment, personal savings and erosion of public confidence in the financial system.

Good corporate governance is necessary to facilitate effective firms' management in the current global and dynamic environment. Several events are therefore responsible for the heightened interest in corporate governance both in developed and developing countries most importantly the potential increase in shareholders' wealth associated with good corporate governance.

1.1 Statement of Problem

Firms need to be well governed in order to attain their goals and objectives.

Poorly governed corporations do not only pose a risk to themselves, they do to others and could indeed pose a threat to the economy. This has adversely affected the firms' value and their performance. Awoyemi (2009) identified poor corporate governance as one of the major factors in virtually all known instances of firm distress in the country. Therefore, this paper considered how appropriate corporate governance can be put in place so as to reduce the incidence of corporate failures, poor internal control system, poor corporate structure, indiscipline both on the part of management and workers, with the overall aim of enhancing firms' value.

1.2 Objectives of the Study

The main objective of the study is to find how best management structure can be constituted as way of improving organisation performance and building its reputation. To achieve this primary objective, the following secondary objectives also need to be achieved.

- To evaluate the impact of board structure on firm value.
- To know the significance of executive compensation as a form of corporate governance on firm's profitability.
- To measure the contributing effects of interest and financial disclosure and transparency as a form of corporate governance indicators on firm value.

1.3 Research Questions:

- Does board structure have any value on firms' corporate governance?
- Is there any significant difference between executive compensation as a form of cooperate governance and firm's value (profitability)?
- What are the contributing effects of interest and financial disclosure and transparency as indicators of corporate governance on firm's value?

1.4 Research Hypothesis

H_{01}: There is no significant relationship between board structure and firm's value

H_{02}: Executive compensation as an indicator of corporate governance and firm's value (profitability) are not related

H_{03}**:** Interest and financial disclosure and transparency as indicators of corporate governance and firm's value are not related.

1.5 Justification for the Study

This study will help the shareholders and other stakeholders to know the factors that affect firm value and the best way a company can be transparently managed by the directors to guide against business failures, reduction in firm's value and defrauding of shareholders business.

II. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

The concept of Corporate Governance is primarily concerned with the process of customs, policies, system, laws and regulations as being applied in organizations. In this regard, it is defined as the structure of relationships within the entity for making decisions and implementation. (Alo, 2007).

Corporate Governance also refers to how organization is managed, that is, how the resources of an organization are employed in pursuance of the set goals of the organization (Chienjien, 2010).Corporate Governance includes corporate discipline, transparency, independence, accountability, fairness, social responsibility, timely and accurate disclosure of all material matters relating to a company including the situation of financial performance, ownership and governance arrangements. Good corporate governance regulates the relationship between organizations stakeholders, their boards' members and management team (Hassan 2010).

Corporate governance is the broad term that has to do with the manner in which right and responsibility are shared amongst owners, managers and shareholders of a given organization. In essence, the exact structure of the corporate governance of any given organization will determine what right, responsibility and privileges that are extended to each of the corporate stake holders and to what degree each stakeholder may enjoy or exercise their right (Awoyemi 2009).

Good corporate governance is the rules and practices that govern the relationship within the managers and shareholders of corporations, as well as stakeholders such as employees and creditors, which contribute to growth and financial stability by underpinning market confidence, financial market integrity and economic efficiency (OECD 2004).

John and Senbet, (1998) defined corporate governance comprehensively by saying "It deals with the mechanisms that the stakeholders of a joint-stock company, whose shares are publicly traded, apply control over the people within the organization and the management to ensure the protection of their interests.

Siebens (2002) defines "corporate governance as both the knowledge and the art of weighting divided interests of all the stakeholders. In other words, it is the effort of balancing the relationships of power. The importance of corporate governance has been realized all over the world with the integration and liberalization of financial markets".

Another view by Tricker (1984) "the governance role is not concerned with the running of the business of the company *per se*, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries".

Corporate governance may be seen to be concerned with the process by which corporate entities operating in the country, particularly Limited Liability Companies are governed. It is the exercise of power over the enterprise direction, the supervision and control of enterprise actions, the concern for the effect of the enterprise on other parties, the acceptance of a duty to be accountable and self-regulating within the status and jurisdiction of the relevant authority.

Good corporate governance ideally, provides a level of disclosure and transparency regarding the conduct of corporations and their boards of directors that enables the supervision of their accountability while ensuring that they comply with their legal obligations and remissions are accountable to shareholders and responsible to stakeholders including employees, suppliers, creditors, customers and communities, and act responsibly regarding the environment.

2.1 Importance of Corporate Governanace

Importance of corporate governance relates to its contribution to economic growth. Effective corporate governance promotes the efficient use of resources both within the firm and country (Gregory and Simms, 1999).

Increased access to financing: It increases access to external financing by firms. "Better creditor rights and shareholder rights have been shown to be associated with deeper and more developed banking and capital markets" (Claessens, 2003).This in turn can lead to larger investment, higher growth, and greater employment creation.

Higher firm valuation: It assists companies in attracting lower-cost investment capital. Thus firm value is affected positively from the quality of the corporate governance. This makes more investments attractive to investors, also leading to growth and more employment.

Better operational performance: It promotes the efficient allocation and use of resources both within the company and the larger economy leading to better operational performance.

Reduced risk of financial crises: Good corporate governance is associated with a reduced risk of financial crises. The quality of corporate governance affects firms' behaviour in times of economic shocks. Good corporate governance help to manage, mitigate risk, protect and enhance the company's reputation.

Better relations with other stakeholders: One of the main principles of corporate governance is that firm's management should be really in a good relationship with all stakeholders. All kind of corporations must deal with all their participants such as stakeholders, stakeholder representatives, and financiers other than stakeholders (debt holders, bondholders, and creditors),government, regulators and policymakers

2.2 Basic Principles of Corporate Governanace

Equality

Equality means the equal treatment of stakeholders by the management in all activities of the company and thus aims to prevent all possible conflicts of interest.

Transparency

Transparency aims to disclose company related financial and non-financial information to the public in a timely, accurate, complete, clear, construable manner and easy to reach at low cost, excluding the trade secrets and undisclosed information.

Accountability

It means the obligation of the board of directors to account to the company as a corporate body and to the shareholders. It is usually used with concept of answerability, blameworthiness, liability, and other terms which are associated with account-giving.

Responsibility

It defines the conformity of all operations carried out on behalf of the company with the legislation, articles of association and in-house regulations together with the audit thereof.

2.3 Theoretical Framework

Agency Theory

Agency relationship was first pointed out by M. Jensen and W. Meckling in 1976.They explained that "an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". They also add that "If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal".

In this theory, shareholders (owners or principals) of the company hire the agents to oversee the affairs of the company. Principals charge the running of the business to the managers (Clarke, 2004). Managers might have more information about the company than the principals and they might not be controlled. In this situation, managers might be self-interested and only think of their utility while managing company. The goals or expectation of agent and principal might be different and this conflict brings to agency problem.

Stakeholders Theory

Stakeholder theory was first introduced in Strategic Management. A Stakeholder Approach (Freeman, 1984) states that a company holds corporate accountability to a wide range of stakeholders. The basic definition of stakeholder theory is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman 1984).The general perspective of this theory is that the big companies which can affect the society pervasively should be accountable to all parts of society, not only to their shareholders.

Stakeholders are not only being affected by companies but also they are effective on companies by holding a stake in the company rather than simply a share. Friedman states that main groups of stakeholders are customers, employees, local communities, suppliers and distributors, shareholders. In addition other individuals also considered to be stakeholders in the literature of Friedman (2006) are media, the public in general, business partners, future generations, past generations, academics, and competitors.

Stewardship Theory

Stewardship theory is explained by Davis, Schoorman & Donaldson (1997) as being able to protect and maximize shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximized”. In this theory, company executives and managers that are workıng for shareholders are called stewards. Unlike agency theory, stewards protect company and make profit for the shareholders. It is not on the perspective of individualism as agency theory (Donaldson & Davis, 1991), they aim to achieve firms’ targets and integrate their goals as the top of management. Stewardship perspective comes up with the fact that stewards are satisfied and motivated when organization achieves its targets.

2.4 Empirical Framework

A review of empirical studies on corporate governance and financial performance showedthe contributions of various authors highlighted as follows:

Chienjien (2010) in his study identified four Board Characteristics (BC), such as Board Composition (BC), BoardSize (BS), Board Ownership (BO), Chief Executive Officer (CEO) having an impact on corporatefinancial performance and these characteristic are said to be independent variables. The Ordinary Least Square test(OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Findings from the study showed a strong positive association between director’s stock holding and firms’ performance in Corporate Governance principles application.

However, a negative association was observed between Return on Equity (ROE) and CEO duality. The study suggested that large board size should been couraged and the composition of outside directors as members of the board should be sustained and improved upon to enhance corporate financial performance. The study used a survey research design; population of the study which was made up of companies listed on the floor of the Nigerian stock exchange. A sample of 30 quoted companies for theperiod of 2007 year end was used.

Similarly, Kajola, (2008) in his research on corporate governance and firm performance: the case study of Nigerian listed firms examined the relationship between four corporate governance mechanisms which included BS, BC, CEO status and Audit Committee (AC) to firm performance. ROE and Profit Margin (PM) were used to assess performance of the firm. A sample of 20 Nigerian listed firms from 2000 to 2006 was selected, while panel methodology and Ordinary Least Square method of estimation were used. The results provided evidence of positive significant relationship between ROE and BS as well as Chief Executive Officer.

In another view Samiu and Temitope(2005), in their study – Audit Quality (AQ), Corporate Governance and firm characteristics in Nigeria took the population of the study to be the companies listed on the floor of the Nigerian Stock Exchange. Samples of 58 audited financial reports of quoted companies for the period of 2007 were used. The data collected were analyzed using both descriptive and inferential statistics, of which descriptive method described information relating to AC and CEO duality. The study used frequency count, mean, standard deviation, minimum and maximum values variables, while information relating to the composition of outside director, members of the boards, audit committee composition was collected from the companies’ annual reports. Results from the study concluded that non-executive directors, ownership, size and leverage significantly have relationship with audit quality.

Likewise, Tanko and Kolawole (2010), in their study “Corporate Governance and firms performance in Nigeria, used secondary data based on financial statements of companies from chosen samples, which were randomly selected from companies registered in the stock exchange list. ROE, Net Profit Margin (NPM), Sales Growth (SG), Dividend Yield (DY) and Stock Prices as key variables were used to define the performance of the firm. On the other hand, Corporate Governance was measured based on board independence, board size, and audit independence, ownership of the company and progressive practices of the company. The study found that averages of 30 percent of board members are outsiders which suggested that these boards are relatively not independent. They therefore show weak relationship in that direction. The study concluded that the more the outsiders on a company’s board, the better the performance in terms of Return on equity. The study also recommended the composition of directors to be more of outsiders as there is a relationship between the composition of directors to the performance of firm. To avoid duality issues, the study suggested that the positions of CEO and the Board Chairman be separated.

This study is necessary to validate the literature on the relationships between corporate governance and firms using board size and executive compensation to represent corporate governance indicators.

III. RESEARCH METHODOLOGY

The methodology of research adopted to achieve the main objective of this paper is both descriptive and historical. The paper made use of secondary and primary data. The primary data used was derived from the interactions of researcher with the companies' staffs on their impression about the practice of corporate governance in their companies. Secondary data was obtained and computed from the Companies published annual reports and accounts covering the periods of eight (8) financial years, from years 2009 to 2016 of 20 quoted companies quoted on Nigeria Stock Exchange. The collected data were analyzed using least square regression t – test statistic at 5% level of significance with the aids of Statistical Package for Social Sciences (SPSS).

IV. PRESENTATION, INTERPRETATION AND DISCUSSION OF THE RESULTS OF FINDING

This section deals with the presentation, interpretation and discussion of the results of finding for the research study. The main aim of the research work is to evaluate the impact of corporate governance indicators on firm value.

Meanwhile, the results of the research findings would provide information on the descriptive statistics and F-test statistics used to analyse the hypotheses formulated for the study.

4.1 Test of Hypothesis One (H_{01})

Objective one: To evaluate the impact of board structure on firm's value.

Research Question one: Does board structure have any impact on firm's value?

Hypothesis One (H_O1): There is no significant relationship between board structure and firm's value

Model I

Log $y = \alpha 0 + \alpha log x1 + \varepsilon$------------------------------------ (1)

Here, y = firm's value. This is measured by using average earning per share of the twenty selected firms for the financial years 2009- 2016

$$\alpha 0, \alpha 1\ are regression coefficients$$

X =Board structure. This is measured by using board size of each of the twenty firms selected.

$$\varepsilon = error term$$

Table 1

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1077.590	1	1077.590	7.166	.015
Residual	2706.659	18	150.370		
Total	3784.249	19			

Source: Researcher Framework, 2018

Table 2

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Ln BS	35.487	13.256	.534	2.677	.015
(Constant)	-56.022	29.337		-1.910	.072

Source: Researcher Framework, 2018

Table 3

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.534	.285	.245	12.263

Source: Researcher Framework, 2018

4.2 Interpretation and Discussion of the result of Hypothesis one

In table 2, the P-value for the F-statistics calculated of 0.015 is less than its critical value of 0.05. For this, the null hypothesis is rejected. This shows that there is significant relationship between board structure and firms value. This further implies that board structure and firms value are related and an efficient board structure would not only enhance the firm value but would also maintain and enshrine the firm corporate governance.

Also, the t-statistics to test the significance of firm value on board size from table 2 revealed a p-value of 0.015 which is less than the critical value of 0.05. For this, it is concluded that board size is significant on firm earning per share as a measure of firms' value.

4.3 Test of Hypothesis Two

Research objective two: To know the significance of executive compensation as an indicator of corporate governance on firms' profitability.

Research Question two: Is there any significant relationship between executive compensation as a form of cooperate governance and firms' value (profitability)?

Research hypothesis two (Ho2): Executive compensation as an indicator of corporate governance has no influence on firm's value (profitability).

Model II

$$y = \alpha 0 + \alpha 1x + \varepsilon - - - - - - - - - - - - - - (2)$$

X =Executive compensation

$$\alpha 0, \alpha 1\ are\ regression\ coefficients$$

y =profitability

$$\varepsilon = error\ term$$

Table 4

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	520.484	1	520.484	213.207	.000
Residual	43.942	18	2.441		
Total	564.426	19			

Source: Researcher Framework, 2018

Table 5

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
profitability in million naira(x)	.571	.039	.960	14.602	.000
(Constant)	1.590	.758		2.097	.050

Source: Researcher's Framework, 2018

Table 6

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.960	.922	.918	1.562
Source: Researcher Framework, 2018			

4.4 Interpretation and Discussion of the results of Research Hypothesis Two

The table 4, revealed the F-test for testing the significance of the hypothesis. From the table, the p-value for the F-test was 0.00 which is less than the critical value of 0.05, for this, the null hypothesis is rejected. This implies that Executive compensation as an indicator of corporate governance has significant influence on firms' value (profitability).

Also, in table 5, the t-statistics for testing the individual regression coefficient of executive compensation on profitability shows a p-value of 0.00 which is less than the critical value of 0.05. For this, it is also inferred that executive compensation is significant on firms' value (profitability).

The coefficient of determination of 0.922 obtained revealed that 92.20% of profitability is explained or caused by executive compensation. Hence, executive compensation is a good predictor for firm's value (profitability).

4.5 Test of Hypothesis Three

Research Objective Three: To measure the contributing effect of interest and financial disclosure and transparency as a form of corporate governance indicators on firms' value.

Research Question: What are the contributing effects of interest and financial disclosure and transparency as indicators of corporate governance on firm's value?

Research Hypothesis Three (HO3): Interest and financial disclosure and transparency as indicator of corporate governance has no significant contribution to firm's value.

Model III

$$y = \alpha 0 + \alpha 1x + \varepsilon ------------- (3)$$

Y=dependent variable. That is, firm's value.

$$\propto 0, \propto 1 \ are\ constant$$

X= Independent variable. That is Interest and financial disclosure and transparency. This is measured by the variation between agree and disagree responses assuming the influence of indifference responses are insignificant.

Table 7

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	845.000	1	845.000	56.333	.017
Residual	30.000	2	15.000		
Total	875.000	3			

Source: Researcher Framework, 2018

Table 8

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
interest and financial disclosure(x)	13.000	1.732	.983	7.506	.017
(Constant)	55.000	4.743		11.595	.007

Researcher framework, 2018

Table 9

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.983	.966	.949	3.873
Source: Researcher's Framework, 2018			

4.5 Interpretation and Discussion of the results of Research Hypothesis Three

The table 7, revealed the F-test for testing the significance of the hypothesis. From the table, the p-value for the F-test is 0.017 which is less than the critical value of 0.05, for this, the null hypothesis is rejected. Therefore, the null hypothesis which stated that interest and financial disclosure and transparency has no significant contribution to firm's value is rejected.

In table, 8the t-statistics for testing the individual regression coefficient of interest and financial disclosure and transparency on profitability shows a p-value of 0.017 which is less than the critical value of 0.05. For this, it is further inferred that interest and financial disclosure and transparency contributes significantly to firms' value (profitability).

Also, the coefficient of determination of 0.922 obtained revealed that 92.20% of profitability is explained or caused by interest and financial disclosure and therefore serve asa good predictor for firms' value (profitability).

4.6 Implication of the Research Study

This study shows that cooperate governance is significant for continuous balancing of firms value. The study also reveals that corporate governance in terms of executive compensation and board structure are necessary for improvement in the firm's value both in the short and long run business cycle.

V. CONCLUSIONS AND RECOMMENDATIONS

Corporate governance is relatively a new concept in Nigeria and despite all efforts by stakeholders to institute sound corporate governance practices, Nigeria has continuously fared poorly in this regard. However, the study concludes by making the following recommendations;

- There is the need for excellent relationship between the board, the management and other stakeholders, which can be achieved by regular consultations and that all stakeholders are carried along.
- The Government and regulators should have zero tolerance to non acceptance of corporate governance practices. Transparency, proper disclosure, control and accountability in the system should be conscientiously encouraged, while there should be sanctions for non compliance. It would therefore imply that the Code of Corporate Practices should legally be binding on public companies in Nigeria.
- The regulators, themselves, should be above board and should lead by example at all times. They should be firm, fair, equitable and transparent in their dealings and policy initiation should always be by consensus.
- All stakeholders' interests should be protected at all times, and encouraged to participate in the corporate governance process.
- There should be regular structured training and attendance of seminars and workshops for senior management in order to strengthen leadership quality.
- There should be compulsory induction training on Corporate Governance for new members of board of directors.

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