Effect of Corporate Governance Mechanisms on Cost of Debt of Listed Consumer Goods Companies in Nigeria

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ABSTRACT

This study examined effect of corporate governance mechanisms on cost of debt of listed consumer goods companies in Nigeria. Specifically, the study examined the effect of board size, board gender diversity, board independence, board meeting and audit committee size on cost of debt. *Ex-post facto* design was employed as data were extracted from published audited annual financial reports of 16 sampled listed consumer goods companies on the Nigerian Exchange Group for a period of ten (10) years covering 2012-2021. The data collected were processed and subjected to series of tests to ascertain the data validity and reliability for analysis; these include; correlational test, variance inflation factor and normality test. Regression post estimation was conducted using heteroskedasticity test. Panel data analysis was employed and multiple regression analysis was conducted and the Ordinary Least Square (OLS) model was found most appropriate to test the formulated hypotheses. The study found that Board side (BS) has significantly reduces cost of debt; board gender diversity (BD) insignificantly increase cost of debt; board meeting (BI) significantly reduces cost of debt; board meeting (BM) significantly reduces cost of debt and audit committee size (ACS) significantly reduces cost of debt of consumer goods companies listed on the NGX Group. Therefore, the study recommends amongst others that the board should comprise more experienced directors with widely varied experience in all aspects of the business. Specifically, the board should be made up more directors with sufficient level of financial literacy and professionalism which they will come to bear in ensuring that finances derived from either debt or equity sources are rightly managed.

Keywords: board side, board gender diversity, board meeting, board meeting and cost of debt

INTRODUCTION

A company's ultimate goal is to maximize the wealth of its shareholders by generating profit and improving the value of their shares. In actualizing company goals, the company must be able to effectively manage its finances which may be derived from either equity or debt. The company has several alternatives in funding, one of which is using debt. Debt is one way to obtain funds from external parties, namely creditors. Funds provided by creditors in terms of funding of the company incur debt costs for the company, where the cost of debt is the interest rate received by creditors as a suggested rate of return (Al-Rawashdeh, 2019). It is also the expected rate of return for the debt holder and is usually calculated as the interest expenses relative to the total amount of the company's financial liability (Abdelkader, Lamia, Mohamed, Ali, Ahmed & Monia, 2020).

Consequently, debt financing has been an issue of concern by company's world in recent times due to benefits and costs associated with it. Some companies such as the consumer goods companies choose their optimal debt ratio by balancing the associated benefits and cost. Traditionally, tax savings that occur because interest is deductible have been modeled as a primary benefit of debt (Kraus & Litzenberger, 1973). This tax shield has made debt financing to be relatively cheaper, since interest on borrowed funds is allowable deductions before corporate tax is being charged on company's profit (Kulaya & Woraphon, 2020).

Ghouma, Ben-Nasr, and Yan (2017) further argued that the second advantage of debt financing is its monitoring role since highly geared companies tend to pay significant attention to debt market reaction. The study of Ghouma, Ben-Nasr, and Yan (2017) justified a preference for debt financing over equity on the ground that the signalling attributes of debt assist in reducing asymmetry information between companies' managers and investors which in effect reduces the future cost of financing. Therefore, firms can maximize shareholders' wealth via a reduction in the overall cost of capital by using more debt capital than equity capital while also taken into consideration the risks and return of each of these financing vehicles.

However, the utilization of debt financing by companies needs close monitoring of its performance from the management (Putri, 2019). Also to ensure the actualization of shareholders core objective of wealth maximization, some structures are set within the organization to ensure effective utilization of organizational resources in creating and distributing benefits to its various stakeholders. One of such key structure is corporate governance mechanism.

Corporate governance (CG) is that structure within the organization that has potentialities of affecting firm value by increasing future cash flows due to its effort to reduce managers and majority shareholders ability to extract personal benefits. Letza (2017), stated that good CG disclosure and more transparent firm can protect their principals' interest and reduce inefficiencies that arises as a result of unethical practices and also help to eradicate the problem of information asymmetries, which may further decrease the company's cost of debt thereby improving the overall firm value. That's, when timely, transparent and quality information is made available to both directors and outsiders (majority shareholders and creditors), the likelihood of executives using firms private statistics for their personal interests that shift risk to rather than share risk with outside shareholders will not manifest which in turn, may drastically reduce the problem of information asymmetry between directors and outside investors (minority shareholders and creditors)

Therefore, corporate governance mechanisms such as better and timely disclosure, independent non-executive members working on the board, audit committee size, board size, board meeting and gender diversity (Budiharjo, 2019) are expected to be transparent in their dealings in order to reduce the risk of investors and firms cost of debt in several ways. First, better corporate governance mechanisms discharge their responsibility of monitoring the controlling shareholders or managers actions, thus minimizing the risk of expropriation. Secondly, better corporate governance mechanisms can also reduce information asymmetry between the controlling shareholders and other outside investors thereby signaling information that will lower the level of uncertainties associated with the expected cash flows. Lastly, better corporate governance disclosure reduces monitoring cost of outside investors, and thus, they are likely to demand a lower required rate of return, which may improve the overall firm value (Adekoya, 2012; Lombardo & Pagano, 2002; and Verrecchia, 2001).

Consequently, discussion on corporate governance mechanism and cost of debt has attracted a considerable number of empirical attentions in countries and companies worldwide due to the sudden collapse of high profile entities world over in the early 2000s. The most reckoned ones that experienced such includes; Enron, Vivendi Universal, Worldcom and Ahold or Parmalat. Nigeria is not immune to these corporate scandals that can lead to the collapsing of such organization as typical example in this direction is the falsification of financial reports by a company under food and beverages sub-of Nigerian listed companies Cadbury Nigeria. This has triggered concerned of finance providers, creditors, shareholders, government and other stakeholders regarding the involvement of corporate governance mechanisms (board size, board independence, chief executive officer duality, audit committee size, board meeting) in supervising, monitoring and eradication of unethical practices by organisational management to ensure transparency and accountability.

The rising cost of debt has been an issue of concern globally. This issue is worst in developing countries like Nigeria where the capital market is underdeveloped and faces multiple challenges such as, inadequate market infrastructure, weak or inappropriate regulation and supervision and lack of reliable information on the issuers which can hinder investors to actively participate in the capital market. This has been a fundamental issue in the rising cost of debt because, more participation of investors in companies securities has the tendency to reduce the company's cost of debt while the lesser the participation the higher the cost of debt.

Consumer goods companies earn huge amounts from their activities and if these companies activities are strictly monitored by better corporate governance mechanisms, the risk of uncertainty surrounding the expected future cash flows, monitoring cost, agency cost and the problem of information asymmetry will be highly mitigated. This will therefore trigger investors to participate more actively by paying more on such companies' securities in the capital market. As a result, these companies will benefit from lower cost of debt that will further raise the firm's value contribute to the development of the economy. However, the perceived inability of these corporate governance mechanisms to meet their core objectives of companies in the consumer goods sector listed on the Nigerian exchange group over the years, despite increase in their profit figures has served as a source of concern for this study.

Consequently, several studies such as Wasiu and Muideen (2020); Nibedita (2017); Li, Dong, Liu, Huang and Wang (2016) and Nikkar and Azar (2015) who conducted their study in the area failed to utilized a representative sample size and a wide range of period that will enable the researcher to have an in-depth knowledge of the issues in the area under investigation, since this will improve result validity that may further enhanced quality decision making by the concern stakeholders, hence the need for a study that will bridge this gap by addressing the identified gaps appropriately.

More so, researchers like putrid (2019) and Ngatno, Endang and Arief (2021) study focused on financial institutional sector neglecting non-financial sector like consumer goods sector. Thus the findings of such studies become very difficult to be generalized within the different industry and country. This will be as a result of regulatory differences such as the protection of outside investors against expropriation by managers or controlling shareholders, risk of uncertainty surrounding expected future cash flows, agency cost, monitoring cost, and the problem of information asymmetry. Hence, the effect of corporate governance mechanism may vary from industry to industry and country to country. There is need to investigate whether corporate governance mechanism will be able to influence the cost of debt. It is in view the above that this study seeks to examine the effect of corporate governance mechanism on cost of debt of listed consumer goods companies in Nigeria.

This study therefore specifically seeks to; examine the effect of board size, gender diversity, board independence, board meeting and audit committee size on cost of debt of listed consumer goods companies in Nigeria.

Research Hypotheses

In respect to the above stated objectives, the following hypotheses are formulated in null form to guide the study:

H0$_1$: Board size has no significant effect on cost of debt of listed consumer goods companies in Nigeria.

H0$_2$: Gender diversity has no significant effect on cost of debt of listed consumer goods companies in

Nigeria.

H0$_3$: Board independence has no significant effect on cost of debt of listed consumer goods companies in Nigeria.

H0$_4$: Board meeting has no significant effect on cost of debt of listed consumer goods companies in Nigeria.

H0$_5$: Audit committee size has no significant effect on cost of debt of listed consumer goods companies in Nigeria.

REVIEW OF RELATED LITERATURE

This section presents the review of relevant literature on the effect of corporate governance mechanism on cost of debt. The section discusses the conceptual framework, theoretical framework, review of empirical studies and gaps identify from the empirical works.

Conceptual Framework

This section explicitly examines the concepts of cost of debt, corporate governance and corporate governance mechanisms.

Cost of Debt

Cost of debt can be defined as the cost that companies incur when obtaining external financing from lenders or other debt providers (Mario, 2014). Cost of debt is the effective rate of interest a firm pays on its debts or is the return that a company provide to it debt holders and creditors. Cost of debt can also been seen as the monetary price of servicing the interest and principal payments of obligation used to raise capital for a company. It is an integral part of discounted valuation analysis, which calculates the present value of a firm by discounting future cash flows by the expected rate of return to its equity and debt holders. The cost of debt measurement is very useful in understanding the overall rate a company is paying for the type of debt financing. This metric will also give investors an indication of the risk level of the enterprise relative to others, as riskier firms typically have higher debt costs.

There are different measures of cost of debt employed by different researchers in their various studies. The most common proxy for the cost of debt used in prior studies is the yield spread. The yield spread is basically the weighted average debt yield to maturity in excess of the duration equivalent to treasury yield. Other researchers have utilized yield to maturity on the first debt issue of year t+1 to proxy for cost of debt (Ertugul & Hedge, 2008; Claessens & Yurtoglu,2013; and Kulaya & Woraphon, 2020). This yield to maturity represents the effective rate of interest that equates the present value of the principal and interest payments with the amount paid by the lender. Other measures of cost of debt include the average interest on a firm's debt and the total interest cost to the firm on its first debt issue of year t+1. Cost of debt is also computed as interests expenses charged during the year divide by the average short and long term debt during the same year, multiplied by 100 (Piot & Missonier-Piera, 2009; Zulkufly, 2013; Putri, 2019 and Abdelkader, Lamia, Mohamed, Ali, Ahmed & Monia, 2020). More so, Wasiu and Muideen (2020) and Bacha (2019) captured cost of debt by the proportion of the cost of debt on total debt.

Corporate Governance Mechanism

Corporate governance as a concept has been viewed and defined by various authorities giving at different meanings and connotation. From the point of view of Emmanuel Kachikwu (2017), "Corporate governance are intended to regulate the conduct of directors, accountability to shareholders, recognition of the interest of other stakeholders and the need to encourage investment to flow where it could be most productive by raising in this case, the Nigerian corporate governance standards to best international practices in comparable jurisdictions. This would appear to be the reason and purpose of corporate governance (Ogunsanwo, 2019). Corporate governance embodies the integrity of an organization. It represents what the organization stands for in the conduct of its business dealings, which directly reflects the person of the individual member of the board as any act of these individuals is deemed to be that of the organization when such act can be viewed as bad or good." He goes further to say that effective corporate governance anchors ultimately on "meeting the demands" of all participating stakeholders in the fortune (or otherwise of every corporate entity (Ogunsanwo, 2019). The greatest of the stakeholders are the owners – shareholders, who submit their governance authority to the Board of Directors (BOD) on behalf of the company (CAMA 1990, Section 244).

Corporate Governance Mechanisms and Cost of Debt

Effective corporate governance that is tailored towards improving financial reporting quality according to Bacha (2019) is expedient to protect capital providers from agency cost. Diamond and Verrecchia 1991 argue that the transparency of financial reporting reduces information asymmetry and increases investor demand for shares, which, by the way, improves the firm's liquidity and reduces its financing cost. The relationship that exists between corporate governance mechanism and cost of debt can be perceived in some of the CG mechanisms or variables used in the study as explained below;

Board Size and Cost of Debt

Board Size is the number of directors that exist on the board which includes the executive and the non-executive directors. The board of directors comprises of the directors on the corporate governance that is installed to execute the task of the business entity towards achieving its set goals and objectives by deciding the utilization of resources entrusted with them by the principals. For the objective of any business concern to, therefore, be achieved, the role of the board of directors cannot be taken for granted. One of the key roles performed by a board of directors according to (Fama & Jensen, 1983; Jensen, 1993) is the monitoring role which helps in aligning the interest of the directors with that of the shareholders by monitoring and controlling agency cost.

There are two schools of thoughts – small and large board size, but there is no agreement on which of them is better. Researcher in the first school of thought is of the opinion that small board size contributes more to the success of a company (Khaled, 2014). He argued that large board is slow in decision making and time wasting. The second school of thought argues that large board size improve company performance. Large board size enables board to gather more information. However, the number of directors on board seems to have influence on firm performance. (Akpan & Amran, 2014)

As important as the board of directors is, its size is equally one of the determinants of its effectiveness in performing the monitoring role towards reducing agency cost. A larger board is argued by Chinelo and Iyiegbuniwe (2018) to comprise higher expertise with a wide range of experiences of the business world that facilitate effective and efficient decision making as the CEO cannot dominate a larger board. The collective strength of its members is higher and can resist the irrational decisions of a CEO (Pfeffer, 1972; Zahra & Pearce, 1989). As good as a larger board is in reducing the dominance of the CEO and by implication in reducing agency problem; it is however associated with higher agency cost as remuneration will be paid to many directors which thus increases agency cost of monitoring. Smaller board size may also be efficient in decision making and is also associated with less agency costs among directors (Yermack, 1996, Wasiu & Muideen, 2020).

Gender Diversity and Cost of Debt

Gender diversity is refers to non-concentration of board members on a single set of gender which could either be neither male nor female. Gender diversity is considered as one of the important characteristics of an effective board (Milliken & Martins, 1996). In contrast to males, females on the board are found to be more independent, diligent, and responsible (Li & Li, 2020) and their presence increases the discussion and exchange of ideas among the group.

Contextually, a larger board can provide better monitoring of management action and better expertise (Ali, Ramiz, Rizwan & Rridzwana, 2022). Relatedly, a more diverse board is considered an effective monitor of management's action by creditors and such companies are perceived as more financially stable and worthy of investment due to better monitoring and low agency conflicts (Zaid, Wang, Abuhijleh, Issa, Saleh & Ali, 2020).

Therefore, the presence of females on the board decreases information asymmetry between managers and investors and therefore, makes it easier for the firm to access more debt. The agency theory suggests that the agency conflict between the shareholders and managers can be reduced if the task for the decision making and controlling are entrusted to different persons. The presence of female directors on board, may meet the desired level of governance and supplement the board characteristics, which increase the debt holders confidence and consequently increase the debt availability to the firm.

Board Independence and Cost of Debt

Board independence is one of the important aspects of corporate governance that must be paid significant attention to the board to be effective and efficient in achieving its goals. The proportion of nonexecutive directors on the board is one of the benchmarks for measuring board efficiency as independent non-executive directors who are independent of the management are believed to bear independent judgment on the board which helps in protecting the interest of different business stakeholders such as shareholders. Therefore, agency cost is expected to be minimal with the board of this structure.

Board Meeting and Cost of Debt

Board meeting is the number of times board meetings are held per financial year of a corporation. The main responsibility of directors is to come up with business strategy of the company and ensure its implantation by management in compliance with rule and regulations in order to maximize shareholders wealth (Nikomborirak, 2001). The frequency of board meetings empirically has mixed results in terms of its impact to companies cost of debt. The more often board meetings were held and the better was the cost of debt of the firms. (Joseph, Madugba & Okpe, 2015).

Audit Committee Size and Cost of Debt

Audit Committee as stipulated by Nigerian Companies and Allied Matters Act (CAMA), 1990 should be a 6-member audit committee (3 member representing the shareholders and 3 representing the management/directors). According to Thuraisingam (2013), number of members on the committee floats from 2 to 5 directors though not significant with performance. Osundina (2016) also discovered a positive relationship but insignificant. Kajola (2008) empirical studies revealed audit committee has an insignificant relationship with performance. In contrast, Narwal and Jindal (2015) result indicated that audit committee members have significantly negative impact on profitability.

THEORETICAL REVIEW

The study employed stewardship theory.

Stewardship Theory

Stewardship theory, propounded by Donaldson and Davis in 1991, is a corporate governance perspective that contrasts with the traditional agency theory. Stewardship theory suggests that managers, as stewards of the firm, are inherently motivated to act in the best interests of shareholders. Unlike the agency theory, which assumes a principal-agent relationship with potential conflicts of interest, stewardship theory posits that managers are more likely to prioritize the long-term success of the company, viewing it as an extension of their own interests. Stewardship theorists argue that when managers identify with the organization and its objectives, they are more likely to engage in pro-social behaviour, leading to enhanced corporate performance.

In the context of the relationship between corporate governance mechanisms and the cost of debt, stewardship theory implies that firms with effective governance structures characterized by strong managerial stewardship are likely to experience lower costs of debt. Lenders and creditors perceive lower risk when there is confidence in the management’s commitment to maximizing shareholder value and acting responsibly. Stewardship-oriented firms are seen as less prone to engaging in opportunistic or value-destructive behaviour, reducing the perceived financial risk for creditors. Consequently, such firms may be able to secure debt financing at more favourable terms, leading to a lower cost of debt and potentially contributing to the overall financial health of the organization.

Empirical Studies

Literature abounds on the effect of corporate governance and cost of debt.

Tolu and Onipe (2023) conducted a study to examine the effect of corporate governance mechanisms such as; board size, board gender, audit committee independence, and institutional ownership on cost of capital of 13 listed consumer goods companies in Nigeria from 2007 to 2021. This study employed secondary data sourced from the annual audited financial reports of listed consumer goods companies in Nigeria. A pooled ordinary least-square multiple regression analysis was used to examine the effects. This study reveals that board size, board gender, audit committee independence and firm size negatively and significantly affect cost of capital of consumer goods companies in Nigeria. Also, the study finds that institutional ownership and leverage negatively and insignificantly affect cost of capital of consumer goods companies in Nigeria. Based on these findings, this study recommends that, companies with small board size should increase their board size as allowed by the Code of Corporate Governance. Gender equality is encouraged for those with zero women participation, independent directors should form the larger portion of the audit committee independence for transparency and ethical conduct to ensure compliance with the relevant regulations and standards to attract investors.

Sanyaolu and Isiaka (2022) investigated the influence of corporate governance on the cost of debt in Nigeria. The study used a sample of six publicly traded food and beverage companies for ten years, from the fiscal years 2008 to 2017, for a total of 60 firm-year observations. The findings of the ordinary least squares (OLS) test revealed that, although board size and board independence positively and considerably influenced cost of debt (COD), director salary adversely and significantly impacted COD, while leverage was inconsequential.

Wasiu and Muideen (2020) carried out their study to investigate the effect of corporate governance on the cost of debt of listed food and beverage companies in Nigeria from 2008 to 2017. The study employed ex-post facto research design where secondary source of data collection was adopted and the data were gotten from the audited annual reports and accounts of the selected six food and beverage companies. Multiple regression involving fixed effect model was used to analyzed the collected data. The result revealed significant positive effects of board size and board independence on the cost of debt while the director's remuneration exerts negative but no significant effect on the cost of debt. Leverage as a control variable for the study was also found to have no significant negative influence on the cost of debt. The secondary source of data collection adopted by the study and technique of data analysis employed are appropriate for the study but the sample size of six food and beverage companies are quite minimal for the study's generalization considering the number consumers goods listed on the NSE.

METHODOLOGY

This study adopts ex-post facto research design. The adaptation of this research design is premised by its ability to permit the examination of independent variables of corporate governance in retrospect for their possible relationship between dependent variable which is cost of debt used in the study.

The population of this study consists of all the twenty (21) consumer goods companies listed on the Nigerian exchange group (NGX) as at 31st December, 2021. The study shall employ a filtering method to select the fifteen consumer goods companies to constitute the sample size of the study. Data for the study were obtained from audited financial reports and accounts of the listed consumer goods companies for the period of 2012 to 2021. The data is panel in nature because it is collected from sixteen (16) consumer goods companies for a period of ten (10) years.

Techniques of Data Analysis

To achieve the objectives of the study, panel data analysis was used to assess the nature and extent to which the independent variable (board size, board composition, chief executive officer duality, audit committee size and board meeting) relate with the dependent variable (cost of debt) for consumer goods companies listed on Nigerian group of companies. Panel regression analysis shall be employ to evaluate whether the independent variables predict the given dependent variable.

Definition of Variables

This study dependent and independent variables are highlighted below:

Dependent Variable

The dependent variable for this study is cost of debt. Cost of debt is refers to as the return a company provide to it debt holders or creditors. For the purpose of this study, we defines the cost of debt as the average interest rate on the firm's debt, calculated as interest expenses for the financial year divided by the average short and long term debt during the same year, multiplied by 100.

Independent Variables

The independent variable is corporate governance mechanisms measured as board size measured by total number of members on the board, board composition measured by the ratio of non-executive directors to total number of members on the board, gender diversity which is computed as number of female directors on the board divided by total board size, audit committee size measured as a number of members in the audit committee and board meeting measured as number of meetings held by the board during the financial year as extracted from the published financial statement of selected consumer goods sector companies.

Table Summary of Measurement of Variables

S/N	Variable	Measurement and Sources of Variables	
	Independent Variables	**Measurement**	**Sources**
1.	Board Size (BS)	Total number of members on the board	Briano-Turrent & Rodríguez-Ariza (2016) Warrad & Khaddam (2020) Oluwatosin, Obiamaka, Ibukunoluwa, & Adeyemi (2022) and Farwis, Siyam, Nazar, & Aroosiya (2021).
2.	Board Independence (BI)	Ratio of non-executive directors to total board members.	Khan, Tanveer, & Malik (2017) Oluwatosin, Obiamaka, Ibukunoluwa, & Adeyemi (2022) and Haruna, Ame, Oyedokun, and Jaji (2019).
3.	Board Diversity	Number of female directors on the board divided by total board size	Ali, Ramiz, rizwan & Ridzwana (2022), Nekhili, Gull, Chtioui & Radhouane (2020)
4.	Audit Committee Size (ACS)	Number of members in the audit committee.	Farwis, Siyam, Nazar, & Aroosiya (2021).
5.	Board Meeting (BM)	Number of meetings held by the board during the financial year.	Oluwatosin, Obiamaka, Ibukunoluwa, & Adeyemi (2022), Farwis, Siyam, Nazar, & Aroosiya (2021). Chou, Chung, & Yin, (2013). Hoque, Islam, & Azam (2013).
	Dependent Variable	**Measurement**	**Sources**
6.	Cost of debt (COD)	Computed as Interests expenses charged during the year divided by the average short and long term debt during the same year, multiplied by 100.	Piot and Missonier-Piera (2009) Zulkufly (2013). Fields, frarser and Subrahmanyam (2010). Putri (2019) Abdelkader, Lamia, Mohamed, Ali, Ahmed, Monia (2020),
	Control Variables	**Measurement**	**Sources**
7	Profitability	Return o Assets	Ali, Ramiz, rizwan & Ridzwana (2022)
8	Firm Size	Log of Total Assets	Farwis, Siyam, Nazar, & Aroosiya (2021).
9	Firm Age	Number of years from incorporation	Chou, Chung, & Yin, (2013).

Source: Researcher’s compilation 2023

Model Specification

To test for correlation between cost of debt and corporate governance mechanisms of consumer goods companies listed on Nigerian Group of Companies, the study adopted the regression model of Sharif, Ali and Jan (2015) as stated below:

$Y=\beta o+\beta x+\mu i\ldots$ (1)

Where Y= cost of debt computed as Interests expenses charged during the year divided by the average short and long term debt during the same year, multiplied by 100.
X=coefficient of corporate governance mechanisms

μi=Error term

The equation can further be expressed as:

Cost of debt) =f (corporate governance mechanisms) +C. (2)

The equation is therefore presented as;

$$KD_{it}=\alpha+\beta_1 BS_{it}+\beta_2 BI_{it}+\beta_3 BD_{it}+\beta_4 BM_{it}+\beta_5 ACS_{it}+\beta_6 PRO_{it}+\beta_7 SIZE_{it}+\beta_8 AGE_{it}+\mu_{it}$$

Where;

α = shows the unknown intercept for every entity (n entity-specific intercepts)

BS	=	board size
BI	=	board independence
BD	=	board diversity
BM	=	board meeting
ACS	=	audit committee size
PRO	=	profitability
SIZE	=	firm size
AGE	=	firm age
$\beta_{1-}\beta_8$	=	coefficients
μ	=	Error term in the equation
i	=	the company i, in time t
t	=	time period

DATA PRESENTATION AND ANALYSIS

Data relating to the effect of corporate governance mechanisms on cost of debt of consumer goods companies listed on Nigerian exchange group were obtained from the audited financial reports and accounts of the listed consumer goods companies for a period of ten (10) years (2012-2021). Data were collected on cost of debt (KD), board size (BS), board female gender diversity (BG), board independence (BI), board meetings (BM), audit committee size (ACS), profitability (PRO), firm size and firm age from 16 companies listed on the Nigerian exchange group (see appendices section for details).

Descriptive Statistics

The descriptive statistics of the dataset from the sampled listed consumer goods companies in Nigeria presents a summary statistics of all variables used in the study as presented in table 1. It provides information relating to the number of observation, mean, standard deviation, minimum and maximum values of variables used in the study.

Table 1: Descriptive Statistics of the Study Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
KD	160	4.58275	4.5706	0	34.6
BS	160	10.3500	2.8904	4	18
BD	160	15.8622	10.8618	0	50
BI	160	70.9995	13.6456	38.46	93.33
BM	160	4.7125	1.2151	1	11
ACS	160	5.7500	0.9383	2	9
PRO	160	16.3918	23.9918	-43.25	121.76
SIZE	160	7.2215	2.0303	4.81	31
AGE	160	39.4275	14.1974	17	71

Source: Results from STATA

Table 1 presents the number of observation (Obs) to be consistently 160 for all the study variables. This indicates that data employed for the study were of panel characteristics, since it includes data from 16 companies for a period of ten (10) years each. Also presented in Table 1 are the mean, standard deviation (Std. Dev.), minimum (Min) and maximum (Max) values of all the study variables.

Cost of debt (KD) revealed a mean, standard deviation, minimum and maximum values of 4.58, 4.57, 0.00 and 34.6 respectively. This indicates that during the period under investigation, the average value of KD of the companies stood at N4.58 with variation in this sum amounting to N4.57. The results also indicates that during the period, the minimum value of KD of the companies stood at 0.00k, while the maximum stood at N34.6. The results imply that KD consistently varied among the companies that formed the study and this explains the close variation between mean and standard deviation recorded. However, with companies recording as low as 0k zero cost of debt and others as high as N34.6, there ought to be strong forces acting behind the cost debt the companies and corporate governance mechanisms is perceived to be prominent. The board size (BS) which is measured as the total numbers of directors of a company including the chairman, vice chairman, chief executive officer/managing director, executive directors, non-executive directors or independent directors but excluding the company secretary of the company shows a minimum number of 4 and maximum number of 18. This shows that the total number of directors that constitute the board of the studied companies ranges in unit to tens. Also, the mean value of the board size is 10.35 with a standard deviation of 2.89. That is, on average, the company have a mean value of 10 members of directors and a standard deviation of 2.89 which is approximately 3 members of directors. Board gender diversity (BG) as presented in Table 1 revealed a mean, standard deviation, minimum and maximum values of 15.86, 10.86, 0, and 50 respectively. This indicates that during the study period, the average proportion of BD stood at about 15.86 with variations to the tune of 10.86. It also indicates that the minimum value of BD during the studied period stood at about 0 while the maximum stood at 50. This implies that during the studied period, there are situation where some companies do not have female directors while some have high proportion of female directors at about 50percent. Regarding board independence of the studied companies (BI), the Table 1 revealed a mean, standard deviation, minimum and maximum values of 71.00, 13.65, 38.46, and 93.33 respectively. This indicates that during the studied period, the average proportion of BI stood at about 71.00 with variations to the tune of 13.65. It also indicates that the minimum proportion of BI during the studied period stood at about 38.46 while the maximum stood at 93.33. This implies that during the studied period, the level of independence directors on the board of some companies stood as low as 39percent while some have high level of independence directors at about 93percent. Additionally, board meetings (BM) have a mean value of 4.7 which suggests that on the average, audit committee meets almost five times on annual basis. The minimum and maximum values of BM during the studied period are 1 and 11 respectively. This shows that at least the audit committee of the sampled companies meets once a year to consider their deliberations.

Audit committee size (ACS) has a mean value of 5.75 which also suggests that on the average, audit committee sizes are expected to be approximately 6 members on the board. The minimum and maximum values of ACS during the studied period are 2 and 9 respectively. This implies that the audit committee size of the sampled companies must at least be made up of 2 qualified auditors who are knowledgeable enough to discharge their audit responsibilities appropriately.

Additionally, profitability has a mean value of 16.3918 with deviation of 23.9918 which is greater than the mean. This indicates a wide variation in profitability among the sampled companies. The table also disclosed profitability with minimum and maximum values of -43.25 and 121.76 respectively. Furthermore, firm size on average stood at 7.2215 with standard deviation of 2.0303 which is lower than the mean, this implies that there exists low variation in size among the sampled companies under consideration. The table further revealed minimum and maximum values of size as 4.81 and 31 respectively. Finally, the table showed that firm age on average was 39.44 years with deviation of 14.19 indicating a low variation in age among the sampled companies. Minimum and maximum age of the companies was disclosed to be 17 and 71 respectively.

Correlations Statistics

In order to explain the level of relationship existing between the independent variables, the correlations statistics is employed. As a result, table 2 presents correlation values among the independent variables themselves. The correlations statistics also revealed the relationships existing among all the study variables. This is obtained from pearson correlation result.

Table 2: Correlation Matrix:

	BS	BD	BI	BM	ACS	PRO	SIZE	AGE
BS	1.0000							
BD	-0.0938	1.0000						
BI	0.0201	-0.0485	1.0000					
BM	0.0611	0.3616	-0.0665	1.0000				
ACS	0.3664	0.0921	-0.1243	0.0689	1.0000			
PRO	0.1833	-0.1737	-0.0776	-0.0544	0.0770	1.0000		
SIZE	0.1028	-0.1386	-0.1493	-0.0439	0.0912	0.0364	1.0000	
AGE	0.1772	0.1493	0.0351	0.2829	0.0810	0.1329	-0.0586	1.0000

Source: STATA

Table 2 presents the strength and type of relationship existing between the variables under investigation. A correlation coefficient which is 0.91 and above is considered very high, 0.71-0.90 is considered high, 0.41-0.70 is considered moderate, 0.21-0.40 is considered low and less than 0.20 is considered very low. The result revealed a coefficient negative value of BG as -0.0938. This indicates that there is a very high and negative relationship existing between BG and cost of debt KD. This implies that an increase in board gender diversity will lead to a very high decrease in cost of debt of the companies under investigation. The result also revealed a correlation coefficient of -0.0485 of BI against KD. This indicates that there is a very low and negative relationship existing between BI and KD. This implies that an increase in board independence will lead to a very low increase in cost of debt of the sampled consumer goods companies listed on Nigerian exchange group. The result also revealed a negative coefficient value of BM as -0.0665. This indicates that there is a moderate and negative relationship existing between BM and KD. This implies that an increase in board independence will lead to a moderate decrease in cost of debt of the companies under investigation. Also, ACS revealed a positive coefficient value of 0.0689. This shows that there is a moderate and positive relationship between ACS and KD which implies that, an increase in audit committee size will lead to a moderate increase in cost of debt of companies under investigation.

Regression Results

In order to determine the effect of corporate governance mechanisms on cost of debt of listed consumer goods companies, the OLS regression technique was employed for the study. Table 3 OLS (Robust SE) regression results of the study model.

Table 3: OLS (Robust SE) Regression Results

KD	Coef.	t	P>t
BS	-0.1582	-1.98	0.042
BD	0.0058	0.68	0.497
BI	-0.2214	-4.47	0.000
BM	-0.4542	-3.45	0.001
ACS	-0.2668	-4.13	0.000
PRO	-0.0095	-0.64	0.522
SIZE	0.0095	0.35	0.728
AGE	-0.0033	-3.28	0.002
Constant	0.6801	2.10	0.039
Number of Obs	160		
R-Square	0.6284		
F-statistic (8,151)	3.1		
Prob(F-statistic)	0.0000		

Source: Results from STATA

Table 3 presents the fixed effect regression results for the study model. It revealed the coefficients (Coef.), t statistics (t) and the p-values (P>t) for all the independent variables of the study model. It also revealed the R-Square, F-statistics and P-value for the general regression results. The F-Statistics which depicts the joint significance of all estimated parameters in predicting the dependent variable in a OLS regression model revealed a value of 3.1 with a p-value of 0.0000, which is significant enough to conclude that the model is fit for analysis. The R-Square in Table 4.8 which represents the coefficient of determination revealed a value of 0.6284. This indicates that 62.84 percent of the total variations in KD is jointly explained by BS, BG, BI, BM and ACS. This implies that the independent variables of the study can only account for 62.84 percent of the changes in the dependent variables, while the remaining 37.16 percent are explained by other variables not included in this model. This implies that corporate governance mechanisms used in this has little influence on cost of debt.

Table 3 also presents a statistical measure of the average functional relationship between the dependent and independent variables of the study in terms of coefficients, t-values and p values respectively. The results revealed a negative coefficient of -0.1582 for board size, indicating that board size (BS) reduces cost of debt (KD) of listed consumer goods companies in Nigeria. This implies that a unit increase in board size will lead to 15.82 percent reduction in cost of debt (KD) of listed consumer goods companies in Nigeria. Board gender diversity (BD) as presented in Table 3 revealed a positive coefficient of 0.0058. This indicates positive relationship existing between board gender diversity (BG) and cost of debt (KD) such that a unit increase in board gender diversity will lead to an increase in cost of debt by 0.58 percent. More so, board independence (BI) revealed a coefficient of -0.2214. This indicates a negative relationship existing between board independence (BI) and cost of debt (KD). This implies that a unit increase in board independence will lead to a decrease in cost of debt of the sampled consumer goods companies by 22.14 percent. Furthermore, board meetings (BM) revealed a coefficient of -0.4542. This indicates that there is a negative relationship existing between BM and KD. This implies that a unit increase in board meetings will lead to a decrease in cost of debt of the sampled consumer goods companies in Nigeria by 45.42 percent. Audit committee size as presented in Table 3 revealed a coefficient value of -0.2668. This indicates a negative relationship existing between ACS and KD. This implies that a unit increase in audit committee size will lead to a decrease in cost of debt of the sampled consumer goods companies in Nigeria by 26.68 percent.

Test of Hypotheses

The hypotheses formulated for this study are tested in this section of the study. Each of the hypotheses is tested using the p-values as presented in Table 3 of the study. For each of the hypothesis, if the p-value is less than 0.05 ($p<0.05$), the null hypothesis is rejected in favour of the alternative hypothesis.

HO_1: *BS has no significant effect on the KD of consumer goods companies listed on the NGX Group.*

Results presented in Table 3 revealed a p-value of 0.043 for BS which is less than the significant level of 0.05 with negative t-value of -1.98 which falls within the non-rejection region of ±1.96. The null hypothesis which states that BS has no significant effect on the KD of consumer goods companies listed on the NGX Group is therefore rejected. It is therefore concluded that increase in board size leads to significant reduction in cost of debt of consumer goods companies listed on the NGX Group.

HO_2: *BD has no significant effect on the KD of consumer goods companies listed on the NGX Group.*

Results presented in Table 3 revealed a p-value of 0.497 for BD, above the significant level of 0.05, with positive t-value 0.68 which is outside the non-rejection of ±1.96. The null hypothesis which states that BD has no significant effect on the KD of consumer goods companies listed on the NGX Group is accepted. It is therefore concluded that board gender diversity has a positive insignificant effect on the cost of debt of consumer goods companies listed on the NGX Group.

HO_3: *BI has no significant effect on the KD of consumer goods companies listed on the NGX Group.*

Results presented in Table 3 revealed a p-value of 0.000 for BI which is below the significant level of 0.05, with negative t-value of -4.47 within the region of non-rejection of ±1.96, the null hypothesis which states that BI has no significant effect on the KD of consumer goods companies listed on the NGX Group is therefore rejected. It is therefore concluded that board independence has significant effect in reducing cost of debt among the sampled consumer goods companies listed on the NGX Group.

HO_4: *BM has no significant effect on the KD of consumer goods companies listed on the NGX Group.*

Results presented in Table 3 revealed a p-value of 0.001 for BM which is below the significant level of 0.05, with negative t-value of -3.45 within the region of non-rejection of ±1.96. Therefore, the null hypothesis which states that BM has no significant effect on the KD of consumer goods companies listed on the NGX Group is rejected. It is therefore concluded that board meetings significantly reduces cost of debt of consumer goods companies listed on the NGX Group.

HO_5: *ACS has no significant effect on the KD of consumer goods companies listed on the NGX Group.*

Results presented in Table 3 revealed a p-value of 0.000 for ACS which is below the significant level of 0.05, with negative t-value of -4.13 within the region of non-rejection of ±1.96. The null hypothesis which states that ACS has no significant effect on the KD of consumer goods companies listed on the NGX Group is therefore rejected. It is therefore concluded that audit committee size significantly reduces cost of debt of consumer goods companies listed on the NGX Group.

DISCUSSION OF FINDINGS

This study examined the effect of corporate governance mechanism on cost of debt of listed consumer goods companies in Nigeria. Specifically, the study considered corporate governance mechanisms variables like board size, board gender diversity, board independence, board meetings and audit committee size on cost of debt of listed consumer goods companies in Nigeria.

The first hypothesis of the study which states that BS has no significant effect on cost of debt of listed consumer goods companies in Nigeria was tested first. The findings from the study revealed that board size has a negative significant effect on the cost of debt of consumer goods companies listed on the NGX Group. This implies that an increase in size of members on the company’s board will lead to reduction in the company’s cost of debt significantly. This is because the more number of board member, the better decision making which translate to improve financial reporting, thus reducing information asymmetry which has influence on risk premium of the company by the board members due to its size. This is similar to the findings Wasiu & Muideen (2020) who examined the effect of corporate governance on the cost of debt of listed food and beverage companies and found that board size positively and significantly affect cost of debt of listed food and beverage companies. More so, the is consistent to that of Hossein, Saeid, And Morteza (2014), whom also found that board size has positive significant relationship with debt expenses. However, the findings of this study antagonized with that Amrah (2011) whose study found that the relationship between board size with cost of debts is negative and also not significant.

In relation to whether BD has significant effect on the KD of consumer goods companies listed on the NGX Group, findings from the study revealed that board gender diversity has a positive insignificant effect on the cost of debt of consumer goods companies listed on the NXG Group. The positive insignificant relationship implies that, the dominance of a particular gender on the board will rather lead to insignificant increase in the company’s cost of debt. This implies that a board that is dominant of a particular gender on the management board might be influenced by other stakeholders due to the inherent natural weakness or limitations of the gender in taking into consideration relevant decisions that may reduce the cost of debt. Also, dominance of a particular gender representation in the top management team will impede the collective knowledge of the group by reducing systematic biases, and offers distinctive social networks and cultural experience by challenging the assumptions held by opposite gender. More so, female directors are said to independent and tough monitors than their male counterparts, and their presences ensure better attendance and low agency conflicts. This can also reduce the agency conflicts articulated by the agency theory since the tough monitoring by female directors will minimize the risk of information asymmetry between controlling shareholders and other outside investors, to eradicate the risk of uncertainty surrounding the expected future cash flows among the consumer goods companies. The findings of this study is in agreement with that of Aris, Yusof, Xuan, Zaidi, and Mohamed (2021) whose findings revealed that board's gender has a negative debt-to-equity relationship and is statistically significant at 1% percent. On the other hand, the regression result is contrary with the findings of Jaradat (2015) who study found that diversity of board gender has significant effect on any decision making of firm such as strategic decision, management decision as well as financing decision.

Furthermore, the result in hypothesis three revealed that board independence has a negative significant effect on cost of debt of consumer goods companies listed in Nigeria. This indicates that the higher the proportion of non-executive directors on the board will be able to perform the supervisory function effectively in accordance with their duties and obligations in the regulations as contained in the code of corporate governance CCG which might variably reduce cost of debt of consumer goods companies significantly. The negative correlation has aligned with the agency theory. Kajananthan (2012) demonstrated that supervisory performance of board independence director highly reduces the conflict between shareholders and companies' directors. Therefore, if companies are controlled effectively, it will create higher creditworthiness of firm that might result in more debt that can be borrowed at low cost. The findings of this in total agreement with that of Ali, Ramiz, Rizwan, and Ridzwana (2022) whose findings revealed that independent board positively affects firms leverage. The findings is also consistent with that of Wasiu & Muideen (2020) who examined the effect of corporate governance on the cost of debt of listed food and beverage companies and found that board independence positively and significantly affect cost of debt of listed food and beverage companies. On the other hand, the findings of this study contradict with that of Hossein, Saeid, And Morteza (2014) whose found that board independence has no significant relationship with debt expense.

On the other hand, the result in hypothesis four revealed that board meetings has a negative significant effect on cost of debt of listed consumer goods companies in Nigeria. This implies that an increase in number of meetings held by the board annually will tremendously reduce the company's cost of debt significantly. This is in tandem with the theoretical perspective which is of the view that the establishment of the board members and its regular meeting should ensure continuous communication between relevant stakeholders. The frequency of meetings indicates active board members that devote time to rectifying any immediate issues and offers a better review and oversight environment, which, in turn, may assist in easy detection and prevention of unethical practices like fraud, misstatement of financial accounts and risk of expropriation and information asymmetry.

Conclusively, the result in hypothesis five revealed that audit committee size has negative significant effect on cost of debt of listed consumer goods companies in Nigeria. This means that an increase in audit committee size will variably reduce cost of debt of the sampled companies significantly. This is because the larger the audit size, the more qualitative the financial reporting as items of material effect in reducing information asymmetry are disclosed in the financial statement, thus reducing the companies risk premium in accessing debt which leads to reduction of cost of debt financing due to the confidence the financing institution has on the company as a result of bridge in information asymmetry. This findings in line with that of Putri (2019) who's study revealed that audit committee side has positive and significant influence on companies cost of debt. The finding of this study contradicts that of Hashim and Amrah (2016) which states that the size of the audit committee negatively affects the cost of debt.

SUMMARY AND CONCLUSION

This study examines the effect of corporate governance mechanisms on cost of debt of consumer goods companies listed on NGX Group. Secondary data were obtained from the published annual reports of the sampled firms. Data obtained covers a period of ten (10) years from 2012 to 2021 and were analysed using panel regression analysis with the aid of Stata. The result of the fixed effect regression indicated that jointly, the explanatory variables accounted for 25.09 percent of the improvement in the cost of debt of consumer goods firms listed in Nigeria. Individually, the study found that:

1. Board size leads to significant reduction in cost of debt of consumer goods companies listed on the NGX Group
2. Board gender diversity has a positive insignificant effect on the cost of debt of consumer goods companies listed on the NGX Group.
3. Board independence has significant effect in reducing cost of debt among the sampled consumer goods companies listed on the NGX Group
4. Board meetings significantly reduces cost of debt of consumer goods companies listed on the NGX Group
5. Audit committee size significantly reduces cost of debt of consumer goods companies listed on the NGX Group

Conclusion

The study provided empirical evidence on the relationship between corporate governance mechanisms (proxied by board size, board gender diversity, board independence, board meetings and audit committee size) and the firm cost of debt (proxied by interest expenses diveded by total liabilities) of listed consumer goods companies in Nigeria.

From the findings, the study concludes that better corporate governance mechanism ensures strict protection of principals interest through established performance monitoring mechanism, reduces inefficiencies that arises as a result of unethical practices, minimize risk of expropriation and also reduces risk of information asymmetry which might also ensures integrity and transparency of the company that will guarantee their credit worthiness from both foreign and internal stakeholders. Corporate governance mechanisms reduce fraud and financial misstatement since unbiased review of financial statement is eradicated by audit committee members and independent directors thereby boosting creditor’s confidence of their suggested rate of return. This may be attributed to the fact that better corporate governance mechanisms are sign that the companies are doing well and it also reduces the risk surrounding the expected future cash flow among companies listed on NGX Group.

Recommendations

In line with the conclusions drawn from the study the following recommendations are made based on the variables that are found to be significant from the regression result.

1. The determination of what an optimal board size should be is still without unanimity. Nevertheless, this study re-affirms that board size is a significant factor in the determination of company’s cost of debt. Hence, it is recommended that Securities and Exchange Commission should take into cognizance what an optimal board size should be in formulating code of corporate governance. That is the board size of the board of directors should be reviewed by making sure that the board is not necessarily overpopulated. Also, the board should comprise more experienced directors with widely varied experience in all aspects of the business. Specifically, the board should be made up more

directors with sufficient level of financial literacy and professionalism which they will come to bear in ensuring that finances derived from either debt or equity sources are rightly managed

2. Board gender diversity is statistically significant, thus the study recommends that the female-male ratio be increased in corporate boards. However, with caution that, the reason for this is not merely for the purpose of gender equity but for the purpose of maximizing the resource capacity of females on the board. Thus companies must select females with core competencies that can improve the collective board productivity.
3. As to board independence, the study recommends that the non-executive directors should be seen both in action and thought to be independent of the management and such independence should reflect in their judgment. Also, their financial literacy should be prerequisites for inclusion in the board structure. In this case, a substantial number of boards of directors should possess adequate accounting knowledge that will translate financing decision of companies. Also, they must serve as a check and balance on the chief executive directors by trying to protect the interest of other stakeholders to the business which will lead to a reduction in the agency problem.
4. The result revealed that board meeting has a negative and significant relationship with cost of debt. Hence, the study recommends that companies should revisit the issue of number of times board of directors meet per-annum and should be increased since only an active board can provide an effective monitoring that will grant them the opportunity to identify and discuss current issues faced by the companies. That is, attention should be focused and targeted not just at the frequency of the board meetings but also on efficiency of board meetings held per-annum.

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