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Corporate Governance and the Financial Performance of Quoted Agricultural Firms in Nigeria

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ABSTRACT

The study examined the effect of corporate governance on the financial performance of quoted agricultural firms in Nigeria. This study covered a period of six years from 2018 to 2023.The study was anchored on Agency theory and Stakeholder theory. The study adopted ex-post facto research design. The population of the study consisted of five (5) quoted agricultural firms in Nigeria while the sample size consisted of five (5) agricultural firms that are listed on the Nigerian Exchange Group (NXG). The study made use of secondary data and the data were sourced from Nigerian Exchange Group (NXG). Ordinary Least Square (OLS) regression technique was the technique of data analysis adopted. The results of the study showed that audit committee has a positive and significant effect on net profit margin of quoted agricultural firms in Nigeria, board size has a positive and significant effect on net profit margin of quoted agricultural firms in Nigeria while board independence has a positive and significant effect on net profit margin of quoted agricultural firms in Nigeria. The study concluded that corporate governance has a significant and positive effect on financial performance of quoted agricultural firms in Nigeria. The study recommended that management of agricultural firms should ensure that enough attention is given to the size and independence of audit committee.

Keywords: Corporate Governance, Financial Performance, Audit Committee, Board Size, Board Independence, Net Profit Margin

INTRODUCTION

The significance of corporate governance for the financial and economic development of firms and society at large has garnered significant public attention in recent times. With nations all over the world developing rules and codes of practice to promote governance, the need for strong corporate governance has become increasingly critical. (Joshua, Efiong, & Imong, 2019). Olawuni (2023) claims that corporate governance, which is commonly understood to be the direction and management of firms, is focused on the board's duties as the body that has last say over how well a business performs. Corporate governance frameworks aim to encourage efficient resource use and equally require accountability for the stewardship of those resources. They also seek to ensure a balance between the economic and social goals of a business, as well as between individual and communal goals. Consequently, a strong corporate governance framework is thought to be the best instrument for ensuring and defending the rights of investors and their capital, which enhances financial performance (Adbel & Basheer, 2016).

The word "performance" is frequently used to evaluate an organization's work and competitiveness. The most important indicator of a company's profitability is its performance (Matar & Eneizan, 2018). Financial performance, then, primarily displays the results of a company sector as well as the sector's overall financial health during a specific time period. A company's financial performance demonstrates how successfully it

makes use of its resources to maximize shareholder wealth and profitability. It assesses the financial health of an organization over a certain time frame (Matar & Eneizan, 2018). However, it has been established in literature that corporate governance practice has a role to play in the financial performance of organizations. Kalu (2016), for instance, pointed out that the main goals of good corporate governance are to increase responsibility and performance within the organization and to generate long-term value for shareholders by keeping an eye on the individuals in charge of the resources that investors own. In order to support the organization's performance, the supporting goals include making sure the board of directors has an appropriate balance of power, assigning the board responsibility for risk monitoring and management, guaranteeing the independence of the external auditors, raising investor confidence and transparency in the company's operations to spur growth, and making sure the business is operated legally and ethically (Kalu, 2016). Furthermore, it has been demonstrated by Agbaeze and Ogosi (2018) that corporate governance enhances investor trust, drawing foreign capital to businesses specifically and the economy overall, ultimately improving financial performance. Enhancing performance and ensuring corporate entities adhere to the establishment and upkeep of a business environment that inspires managers and entrepreneurs to optimize firm operational efficiency, returns on investment, and long-term productivity growth is the goal of corporate governance. The company's improved profitability and increased cash flows are the ultimate results of these corporate governance advantages.

Moreover, Sumner and Webb (2015) established that good corporate governance maximizes the profitability and long term value of a company for its shareholders. It also leads to higher firm performance; hence, investors are willing to pay a premium. In particular, the Audit Committee plays a key role in monitoring the company's financial reporting process, review of its accounts, Internal Accounting controls, audits and risk management practices as part of corporation governance. An audit committee is thought to be essential for preserving a company's transparency. Members of the audit committee are also members of the board of directors, which is in charge of developing plans to strengthen the company's finances. According to Bhardwaj and Rao (2015), the audit committee would therefore be in a better position to develop strategies that will improve the performance of the company if they presented a genuine image of the financial statements to the CEO and members of the board of directors.

Conversely, Oyerogba (2016) proposed that a board with twelve members may be deemed suitable, however some academics supported a smaller board with seven members. The idea was that while a larger board initially encourages important board responsibilities, eventually a larger board will have coordination and communication issues, which will reduce the organization's efficacy and performance. In conclusion, Joshua, Efiong, and Imong (2019) demonstrated a positive and noteworthy correlation between board size and performance. It was also noted that there were positive and significant correlations between return on asset and the size of the board and the audit committee. As a result, the audit committee's size and the size of the board both accurately predict success as determined by return on assets.

LITERATURE REVIEW

Theoretical Review

This study is anchored on Agency theory and Stakeholder theory. These theories are discussed in this section as follow:

a. Agency Theory

Sociology, politics, economics, management, marketing, accounting, and administration are just a few of the social and management disciplines that have used agency theory. In 1976, Jensen and Meckling proposed the theory of agency. The notion saw the organization's firm as the hub of contracts between its various stakeholders. When it comes to what is in the best interests of the organization, Jensen and Meckling noted

that executives and owners may hold different views. The objective of agency theory is to determine optimal contract between the principal and the agent. The agent tries to maximize personal gains by satisfying principal's economic objectives and as such the agent's commitment level is a function of perceived reward value for satisfying principal's objectives. The agency theory is based on the agency relationship.

Jensen and Meckling (1976) pointed out that an agency relationship is one in which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. Perhaps, the most recognizable form of agency relationship is that of an employer and employee. Other examples include state (principal) and ambassador (agent); constituents (principal) and elected representative (agent); organization (principal) and lobbyist (agent); or shareholders (principal) and board of directors (agent). Thus, the relationship between the principal and the agent based on the contract is a focal point of agency theory. Colbert and Jahera (2017) state that agency theory aims to explain why there is a loss of wealth or value whenever one party works on behalf of another. This is how it usually works in a corporation: the shareholders (the principals) engage management (the agent) to run the company.

Historically, the existence of an audit, whether internal or external, has been attributed to this agency connection between management and shareholders. According to agency theory, people typically choose courses of action that will benefit them. This is a natural outgrowth of the fundamental economic notion of unfulfilled desires. Individuals, according to the notion, will aim to maximize their own personal utility and prefer more to less. A fundamental conflict of interest occurs when managers are employed to represent the interests of owners; shareholders appoint managers in the hopes that the managers will enhance the wealth of the shareholders.The manager would like to make decisions which will benefit him or her. Any decision made by management which leads to a loss in wealth or foregone wealth to the shareholders represents an agency cost. Any activity undertaken by shareholders to protect against less-than-optimal decisions also represents an agency cost. This theory applies to this study because it describes various corporate governance processes, their function in an organization's efficient operation, and how they affect the organization's performance or the accomplishment of its objectives. This makes sense for the subject matter of the conversation (business governance and financial performance).

b. Stakeholder Theory

Compared to the agency theory, the stakeholder theory has been seen as an improvement and provides more evidence for the idea of corporate governance in firms. This theory acknowledges stakeholders in addition to the organization's owners or shareholders. The individuals or groups that both influence and are influenced by an organization are collectively referred to as stakeholders. Therefore, shareholders, creditors, employees, consumers, rivals, suppliers, and the community are all considered stakeholders.

According to the stakeholder theory, businesses have a social duty to take into account the interests of all parties who may be impacted by their decisions (Branco & Lucia, 2007). As a result, managers now have an increased obligation to guarantee that no stakeholder experiences short- or long-term dissatisfaction. The idea behind stakeholder theory is that companies should be managed for the good of all stakeholders, not just their owners' bottom line. Rusconi (2009) proposed that the core normative tenets of the stakeholder theory are the recognition that stakeholders are individuals or organizations with rightful interests in the substantive and procedural aspects of business operations and that the interests of all stakeholders are inherently valuable.

Conceptual Review

Corporate Governance

According to Wan and Idris (2012), corporate governance is a collection of safeguards that investors use to

prevent themselves from being expropriated (to use assets without authorization) by management, which includes controlling shareholders and managers. Insiders have the ability to simply steal profits, sell output, assets, or securities of a company they control to another company they own at a discount, divert business opportunities for companies, appoint unfit family members to managerial positions, or overpay managers. Corporate governance is "an internal system encompassing policies, processes, and people which serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business savvy, objectivity, and integrity," according to Donovan (2013). According to Andra (2016), corporate governance refers to the framework that governs how firms are run. According to Prowse (2018), corporate governance refers to the laws, conventions, and institutions that regulate how entrepreneurs, directors, and managers conduct their businesses and specify their responsibilities to external investors.Adeola (2018) proposed the following notion of corporate governance: Identifying the actions that require attention; establishing the capacity to carry out necessary tasks; Choosing the best course of action for the necessary tasks; making certain that the necessary tasks are completed; ensuring that actions taken and methods followed adhere to applicable laws and other requirements; informing shareholders on the work completed. It describes the method by which an organization is managed and governed.

Dimensions of Corporate Governance

The dimensions of corporate governance adopted in this study are audit committee and board size. The dimensions are reviewed as follows:

1. Audit Committee

The audit committee oversees the external auditing process and monitors internal control in their capacity as the shareholders' representatives. There have been numerous calls for increased audit committee effectiveness as a result of accounting scandals and worries about the accuracy of financial accounts. Audit committees are regarded as one of the main pillars of corporate governance, according to Jrairah (2014). They play a significant role in ensuring the accuracy of financial statements, improving the efficiency of internal control systems and internal audit responsibilities, and bolstering the independence and effectiveness of the external auditor, all of which contribute to the public's regaining trust in businesses. According to Aldamen (2012), a company's performance is positively correlated with an audit committee made up of directors that have prior executive or financial experience.

2. Board Size

One feature of corporate governance that has been identified by the body of existing research is the size of the board of directors. The total number of directors on the board of any corporate entity is referred to as board size. The number and caliber of directors in a company decide and impact board functioning and corporate profitability, therefore figuring out the right board size for a company is crucial (Ogbechie & Koufopoulos, 2010). According to Dabor (2015), there is no set number of members that constitutes the perfect board size. They claim that differing views have been expressed by different investigators regarding the appropriate number of members for a board. Tornyeva and Wereko (2012) confirmed that the unresolved issue is how to determine the ideal board size because different companies have different needs and because a number of factors are taken into account before appointing someone to the board of a company, including the size, complexity, and nature of the enterprise as well as its stage of development, as well as the diversity of the company's operations, skills requirements, shareholding structure, and regulatory requirements (Okereke, 2023).

3. Board Independence

The Nigerian Securities and Exchange Commission (SEC, 2011) code of corporate governance for public companies states that an independent director is a nonexecutive, non-substantial shareholder whose direct or

indirect shareholdings do not exceed 0.1% of the company's paid-up capital. Furthermore, the director needs to have no prior employment history and no business or professional affiliation with the company.

According to Anderson, Mansi, and Reeb's (2014) argument, a board made up primarily of workers or directors with ties to the firm may be inclined to withhold unfavorable facts in order to obtain immediate personal gain and, as a result, conceal this behavior from the company's stakeholders. The company's independent board of directors is prepared to support the management and stakeholders by providing appropriate oversight and complete disclosure of all information, both financial and non-financial. An independent non-executive director is someone who is not employed by the organization and has no business or other connections, either direct or indirect. The efficacy of managerial oversight and the accuracy of financial accounting may be impacted by the number of independent non-executive directors (Niu, 2016). According to Anderson, Mansi, and Reeb's (2014) argument, a board made up primarily of workers or directors with ties to the firm may be inclined to withhold unfavorable facts in order to obtain immediate personal gain and, as a result, conceal this behavior from the company's stakeholders. The company's independent board of directors is prepared to support the management and stakeholders by providing appropriate oversight and complete disclosure of all information, both financial and non-financial.

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The phrase can also be used to compare similar businesses within the same industry or to compare different industries or sectors in terms of aggression. It also serves as a general indicator of a company's overall financial health during a specified time period (Stewart, 2019). According to Naz, Ijaz, and Naqvi (2016), financial performance primarily displays the business sector's outcome and outcomes, as well as the overall financial health of the business sector throughout a specific time period. Financial performance, which is a key component of finance risk management, is defined more broadly as the extent to which financial goals are being or have been achieved. This refers to the method of calculating the financial impact of a company's policies and activities. It can be used to compare similar firms within the same industry or to compare industries or sectors generally. It is used to measure a firm's overall financial health over a certain period of time.

Measure of Financial Performance

The measure of financial performance adopted in this study is net profit margin. This measure is reviewed as follows:

Net Profit Margin (NPM)

Net profit, sometimes called the bottom line, net income, or net profits, is a metric used to assess a business's profitability following the deduction of all expenses and taxes. The running costs that are subtracted from gross profit are included in the actual profit. The bottom line is a term that's sometimes used interchangeably with net profit when referring to financial statements, which comprise an income statement and balance sheet. This phrase derives from the conventional format of an income statement, which summarizes all allocated revenues and expenses over a certain time period and appears on the report's bottom line. To put it simply, net profit is the amount of money that remains after all project expenses have been covered. Large corporations may find this to be extremely complex in practice. The bookkeeper or accountant is responsible for accurately estimating and allocating revenues and expenses to the relevant operating scope and context. After all other costs, such as taxes, interest, and depreciation, have been subtracted from total revenue, a company's net profit is what remains. The business experiences a net loss if costs and charges are higher than income. Net profit is widely accepted as the financial and operational performance (Glyn, Cornell & Samuels, 2016).Thus, net profit margin is the amount of revenue left over after all operating expenses, interest, taxes, and preferred stock dividends (but not common stock

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dividends) have been deducted from a company's total revenue. According to Olawuni and Bolatito (2015), it is, in other words, the ratio of net profits or net income to revenues for a firm, business sector, or good. The formula for net profit margin is as follows: Net profit margin = Net Profit/Revenues

RESEARCH METHODOLOGY

Research Design

The research design to be adopted in this study is ex-post facto research design. Ex-post-facto research design is a systematic empirical inquiry that requires the use of variables which the researcher does not have the capacity to change its state or direction in the course of the study. This research design also enables the researcher to gather, analyze and interpret data obtained with a view of ascertaining the effect of corporate governance on the financial performance of quoted agricultural firms in Nigeria.

Population of the Study

The population of this study comprised of all the five (5) listed agricultural firms in Nigeria (Nigerian Exchange Group, 2023).

Sampling Procedure and Sample Size

Since the study made use of secondary data and these data are readily available, the study therefore makes use of census sampling technique to sample all the five (5) agricultural firms that are listed on the Nigerian Exchange Group (NXG) as at fourth quarter of 2023. The decision was based on the fact that they fully satisfied the listing requirement of Nigerian Exchange Group (NXG) and all have available data required for the study.

Data Collection Methods

Secondary data were used in this study and these data were sourced from Nigerian Exchange Group (NXG). This source is considered reliable. In evaluating this study data which span for six years (2018 – 2023) were used.

Model Specification

This study employed the multiple regression analysis technique to show the relationship that exists among the variables. However, the specific regression model used for the study is specified functionally, mathematically and econometrically as follows:

The functional form of the model is given as:

$$\mathbf{NPM} = f(\mathbf{AUDITC}, \mathbf{BSIZE}, \mathbf{BIND}) \quad (3.1)$$

The mathematical form of the model is explicitly specified as:

$$\mathbf{NPM} = \beta_0 + \beta_1\mathbf{AUDITC} + \beta_2\mathbf{BSIZE} + \beta_3\mathbf{BIND} \quad (3.2)$$

The apriori expectation is stated as: $\beta_1, \beta_2, > 0$

Where:

NPM = Net Profit Margin

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AUDITC = Audit committee

BSIZE = Board size

BIND = Board independence

f = Function of

β_0 = Constant variable in the model.

β_1 = Parameter of audit committee

β_2 = Parameter of board size

β_3 = Parameter of board independence

μ_t = Disturbance or error term

Data Analysis Techniques

In this study, Ordinary Least Square (OLS) technique of regression estimation was employed for the analysis.Ordinary Least Squares (OLS)is a method for estimating the unknown parameters in a linear regression model, with the goal of minimizing the sum of the squares of the differences between the observed responses (values of the variable being predicted) in the given data set and those predicted by a linear function of a set of explanatory variables

RESEARCH ANALYSIS AND FINDING

Descriptive analysis

The analytical procedure for this study began by providing the descriptive statistics of each variable included in our model as follows:

Table 4.1: Result of Descriptive Statistics

	NPM	**AUDITC**	**BSIZE**	**BIND**
Mean	4.578667	4.766667	7.200000	0.651333
Median	3.935000	5.000000	7.000000	0.645000
Maximum	12.12000	6.000000	10.00000	0.870000
Minimum	0.990000	3.000000	5.000000	0.440000
Std. Dev.	2.609636	0.897634	1.323527	0.105724
Skewness	1.133950	0.181250	0.442931	0.144695
Kurtosis	3.885356	1.800357	3.119412	2.415874
Jarque-Bera	7.409029	1.963189	0.998764	0.531188
Probability	0.024612	0.374713	0.606906	0.766751
Sum	137.3600	143.0000	216.0000	19.54000
Sum Sq. Dev.	197.4957	23.36667	50.80000	0.324147
Observations	**30**	**30**	**30**	**30**

Source: Author’s Computation (2024).

The results of the descriptive statistics as presented in Table 4.1 showed that net profit margin (NPM) recorded an average value of 4.58% with a maximum of 12.12% and minimum of 0.99% during the period 2018-2023. net profit margin (NPM) has a standard deviation of 2.61% which shows the level at which it deviated from the mean and it is positively skewed at 1.13. Also, audit committee (AUDITC) recorded an average value of 4.767 with a maximum of 6.0 and a minimum of 3.0. Audit committee (AUDITC) has a standard deviation of 0.89 and it is positively skewed at 0.18. In addition, the results of the descriptive statistics showed that board size (BSIZE) stood at 7.2 on an average with minimum of 5.0 and maximum of 10.0. Board size (BSIZE) has a standard deviation of 1.32 and it is positively skewed at 0.44. Lastly, board independence (BIND) during the period under review averaged 0.65 with a minimum of 0.44, a maximum of 0.87, and a standard deviation of 0.11 and it is positively skewed at 0.14.

Regression Analysis

The secondary data sourced are analysed in this section using Ordinary Least Square (OLS) regression technique. The data analysis was facilitated by E-views 12. The empirical results obtained from the estimation of multiple linear regression model are hereby presented in table 4.2:

Table 4.2: Results of Regression Analysis

Dependent Variable: NPM				
Method: Least Squares				
Date: 19/03/24 Time: 14:52				
Sample: 1 30				
Included observations: 30				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.931135	3.080279	1.600873	0.1195
AUDITC	0.242858	0.108670	2.234821	0.0474
BSIZE	0.382103	0.137306	2.782837	0.0220
BIND	3.035915	1.057643	2.870453	0.0120
R-squared	0.891689	Mean dependent var		13.10104
Adjusted R-squared	0.833038	S.D. dependent var		1.075984
S.E. of regression	0.810182	Akaike info criterion		2.540450
Sum squared resid	17.06626	Schwarz criterion		2.727276
Log likelihood	-34.10675	Hannan-Quinn criter.		2.600217
F-statistic	8.383279	Durbin-Watson stat		2.176742
Prob(F-statistic)	0.000460			

Source: Author’s Computation (2024).

Discussion of Findings

Evidences emerged from the results of the study showed that audit committee has a positive and significant effect on net profit margin of quoted agricultural firms in Nigeria. This finding is in agreement with the finding of Hope, Orjinta and Ikueze (2018) who found that there is a significant positive relationship between audit committee independence, audit committee meeting and firm performance at 5% level of significant while a positive significant association was also recorded against audit committee size and return

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on assets.

Additionally, evidences emerged from the results of the study showed that board size has a positive and significant effect on net profit margin of quoted agricultural firms in Nigeria. This finding is in agreement with the finding of Kalu (2016) who revealed that at 5 per cent level of significance, board size has positive relationship with return on asset and net assets per share of food and beverages firms listed in the Nigerian Stock Exchange. Larger boards have a positive and significant impact on the return on asset of deposit money banks in Nigeria, according to research by Abdulazeez, Ndibe, and Mercy. (2016). And finally, the study's findings demonstrated that the net profit margin of listed agricultural companies in Nigeria is positively and significantly impacted by board independence. According to Mohammed (2017), an independent board contributes positively to the explanation of variations in the company performance level as shown by return on equity and return on asset. This finding is consistent with his findings.

In the between-firms variation model, board independence is also significantly associated with return on asset and return on equity implying that board independence is not able to explain the variance in return on asset and return on equity across firms included in the sample

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study has empirically examined the effects of corporate governance on financial performance of quoted agricultural firms in Nigeria. From the analysis above, the study found that audit committee, board size and board independence have joint significant effect on net profit margin of quoted agricultural firms in Nigeria. The study therefore concludes that corporate governance plays significant positive role in improving the financial performance of agricultural firms in Nigeria.

Recommendations

Based on the findings of this study, the following recommendations are made:

First, board of directors and audit committee of agricultural firms should endeavour to do a regular appraisal of their corporate governance compliance status as it affects performance. This is because the study is able to establish that corporate governance has a positive and significant effect on the performance of agricultural firms in Nigeria. Secondly, the board size should be in line with corporate size and activities. Setting arbitrary benchmark for board size may not be productive especially in relatively agricultural firms in Nigeria. Thirdly, agricultural firms should consider adding to the existing number of audit committee and board members since it has positive effect on their financial performance.

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YEAR	AGRICULTURAL FIRMS	AUDITC	BSIZE	BIND	AUDITC
2018	**PRESCO PLC**	2.70	4	8	0.8
2019		4.75	4	8	0.78
2020		3.41	4	8	0.87
2021		3.99	5	10	0.66
2022		3.23	5	10	0.81
2023		**3.08**	**5**	**10**	**0.80**
2018	**LIVESTOCK FEED PLC**	1.91	4	7	0.62
2019		2.87	3	7	0.71
2020		3.88	4	8	0.59
2021		0.99	4	8	0.61
2022		1.67	4	8	0.64
2023		**2.22**	**4**	**8**	**0.68**
2018	**OKOMU OIL AND PALM PLC**	4.96	4	5	0.66
2019		5.55	4	5	0.72
2020		6.06	4	5	0.8
2021		5.91	5	6	0.65
2022		6.09	4	6	0.70
2023		**5.10**	**4**	**6**	**0.72**
2018	**ELLAH LAKES PLC.**	6.79	5	7	0.53
2019		9.44	6	6	0.49
2020		3.29	6	6	0.44
2021		9.21	5	7	0.56
2022		8.78	5	7	0.59

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2023		**12.12**	**5**	**8**	**0.63**
2018	**FTN COCOA PROCESSORS PLC**	1.88	6	7	0.51
2019		2.11	6	7	0.57
2020		4.75	6	7	0.52
2021		3.40	6	7	0.62
2022		3.99	6	7	0.60
2023		**3.23**	**6**	**7**	**0.66**

	NPM	AUDITC	BSIZE	BIND
Mean	4.578667	4.766667	7.200000	0.651333
Median	3.935000	5.000000	7.000000	0.645000
Maximum	12.12000	6.000000	10.00000	0.870000
Minimum	0.990000	3.000000	5.000000	0.440000
Std. Dev.	2.609636	0.897634	1.323527	0.105724
Skewness	1.133950	0.181250	0.442931	0.144695
Kurtosis	3.885356	1.800357	3.119412	2.415874
Jarque-Bera	7.409029	1.963189	0.998764	0.531188
Probability	0.024612	0.374713	0.606906	0.766751
Sum	137.3600	143.0000	216.0000	19.54000
Sum Sq. Dev.	197.4957	23.36667	50.80000	0.324147
Observations	30	30	30	30