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THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF LISTED COMPANIES IN NIGERIA

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ABSTRACT: *This study investigated the influence of corporate governance (CG) on the performance of companies. The objectives of this study were to respectively analyze and determine, individually and jointly, the influence of board size, board composition and audit committee size on corporate performance (CP).The study employed exploratory research design. Ten (10) listed firms were chosen through a purposive sampling technique and data extracted from the annual reports of these firms from year 2010 to 2016. A panel data regression was used to analyse the data. CG was proxied with board size (BS), board composition (BC) and audit committee size (ACS) while performance was proxied with net profit margin (NPM). Findings revealed that board size had a significant negative correlation with NPM, board composition had a significant positive correlation with NPM, audit committee size had an insignificant correlation with NPM and board size, board composition and audit committee size had a significant joint effect on NPM. Thus, it was concluded in the study that smaller board size will increase performance and the board composition should consist more of the non-executive directors while the audit committee also should be reviewed from time to time.*

KEYWORDS: Audit committee size; Board composition; Board size; corporate governance

INTRODUCTION

The incessant scandals, crises and wreckage of organizations around the world are so alarming that the global financial market has been greatly destabilized and the growth of economies impeded. Notable organizations such as Arthur Anderson, Enron, Kmart, Adelphia Communications, and WorldCom area few of the numerous international organizations that have collapsed as a result of the heightened crises. The sustained crises have not left Nigeria out of the whole saga. It affected companies such as Intercontinental bank, Oceanic bank, Cadbury, etc., thereby contributing to the downturn of the economy. With all of these, companies' sustainability has become an issue in determining the survival and continued growth of a country (Apodore & Zainol, 2014).

The priority of any organization is to effectively, efficiently and ethically manage the company for profitable long term growth and perpetual existence; the policies and practices of management must also align with the interest of shareholders and other stakeholders. Thus, the development of good corporate governance is essential in order to protect corporate stakeholders, and maintain factors for control and prevention of collapse and long lasting economic depression.

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In the achievement of the business objectives, corporate governance is a major factor and it is concerned with the relationships that exist among firms' management, board of directors, shareholders and other stakeholders. Osundina, Olayinka and Chukwuma (2016) emphasized that corporate governance is a non-financial factor that affects the performance of companies and increases accessibility of external finance that brings sustainable economic growth. Weak corporate governance may manifest in form of non-accountability and transparency to stakeholders, bribery scandals, violation of the rights of the minority shareholders, official recklessness among the managers and directors, weak internal control system, insider abuses and fraudulent practices (Olumuyiwa & Babalola, 2012). Also, non - distinction between ownership and control of organization has been identified to be a major reason for weak corporate governance. The shareholders, who are the principals in an agency relationship delegate control to directors and managers who are the agents to enhance smooth and efficient flow of operations. In most cases, the directors/ managers act for their own self-interest without regard for shareholders' returns on investment. This leads to conflicts between both parties; this is regarded as agency conflict which has a consequent loss. This is evident from the reasons for the collapse, in Nigeria, in 2009/ 2010, of some listed companies especially the eight (8) Universal banks which resulted in a loss of over ₦1.2 trillion shareholders' funds, as reported by Famogbiele (2012). Therefore, it is necessary for the board to uphold transparency and fairness to shareholders and other stakeholders to abate agency cost which has a consequent negative effect on the corporate performance.

Several researches and debates on whether corporate governance components such as board size, board composition, audit committee and distinction between ownership and control have any influence on the performance of the firms have been carried out but diverse conclusions on the discourse have been found. Hence, this research work is expected to contribute to the previous body of literature.

Objectives of the Study

The general objective of the study is to provide empirical evidence on the relationship between corporate governance and financial performance of firms. The specific objectives are:

i. To examine the influence of board size on financial performance of listed firms in Nigeria.

ii. To determine the impact of board composition on financial performance of listed firms in Nigeria

iii. To ascertain the extent to which the audit committee size affects financial performance of listed firms in Nigeria.

iv. To investigate whether board size, board composition and size of audit committee can jointly affect financial performance.

Hypotheses

The following hypotheses for the study have been stated in null form:

H_1: Board size has no influence on financial performance of listed firms in Nigeria.

H_2: Board composition has no significant impact on financial performance of listed firms in Nigeria

H_3: The audit committee size does not affect financial performance of listed firms in Nigeria.

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H_4: Board size, board composition and audit committee size cannot jointly predict financial performance.

LITERATURE REVIEW

Corporate Governance (CG) Concept

According to the Organisation of Economic Cooperation and Development- OECD (2005), "Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the major stakeholders/participants in the corporation, such as the board, managers, shareholders and even the other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."Securities and Exchange Board of India–SEBI Committee (2003) defines corporate governance as "the acceptance by management, of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company".

According to Ammar, Saeed, and Abid (2013), CG is a mechanism through which management takes necessary steps to safeguard the interest of stakeholders. It is also the framework within which rules, relationships, systems and processes are controlled (Osundina *et al*, 2016). Stability and good management can be achieved when firms incorporate corporate governance which is all about complying with stipulated standards, rules and regulations. Sound corporate governance increases the efficiency and value of a firm on the capital market rather than pulling it down and boost the confidence of all stakeholders. Good corporate governance enhances accountability, transparency, ensures efficient and effective use of limited resources, creates competitive and efficient managed companies, attracts and retains investors (Arinze, 2013).Efficient and effective corporate governance leads to satisfaction of employees and consumers. It ensures financial reports reliability and efficient use of resources thereby increasing the reputational effects among internal and external stakeholders. According to Dar, Naseem, Rehman and Niazi (2011), corporate governance reduces transaction cost, cost of capital and vulnerability of financial crises. It leads to the increment of shareholders wealth, survival of companies in turbulent periods, development of capital market and strengthens the global economy.

Effective and Efficient Performance

Profitability is a measure of performance and it defines how well a firm has judiciously utilized the available limited resources in all its operations; however, profitability is only a means to an end. Yusuf, Tambaya and Badamasi (2016) see profit as the rallying point of all stakeholders. According to them, performance of the firm guarantees the payment of dividend, interest, wages, and taxes of shareholders, lenders, employees and government respectively. Therefore, good corporate governance increases performance (Osundina *et al*, 2016, Dar *et al*, 2011) and ensures a firm's commitment to all its stakeholders are met and which invariably increases the firm's accessibility to funds, reduces financial crises and engenders sustainable economic growth. To this extent, the ultimate objective of a firm has been reasonably argued as not the welfare of the owners/

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shareholders but effective and efficient corporate performance which meets and satisfies the needs and intents of all stakeholders, as any breach and/ or deviation could be disastrous to the profitability and eventually the corporate goal.

Corporate Governance [CG] Structure
A business organization has the responsibility to satisfy the need of stakeholders who affect or get affected by the actions of the company. Dar, *et al* (2011) made it known that there are internal stakeholders (board of directors, executives and employees) and external stakeholders (shareholders, debt holders, trade creditors, suppliers, customers, government and communities). The shareholders as one of the stakeholders play a vital role in the organization as the owners and key financiers of the company. Debenture holders are creditors because funds are borrowed from them. They receive priority interest on the principal at regular intervals from the company and at a fixed period; the principal shall be repaid or converted as the case maybe. There are certain rights which the shareholders have that debt holders cannot exercise such as taking major decisions in fundamental corporate changes, involvement in the election and removal of certain officers that manage and control the organization. Still, the debt holders are the first to be paid their interest before the shareholders can receive their return.

The Board of Directors [BOD] of a corporate organisation directs and controls the management of a company and it is accountable to the shareholders. The board is responsible for the formulation and review of the company's policies, strategies, objectives, annual budget, monitoring, implementation for corporate performance and ensuring that appropriate governance is in place (Dar *et al*, 2011). They are to report to the shareholders on their stewardship. The board consists of executives (employees of the company) and non- executive directors and of which a non-executive director should preside over the board as the chairman. Rimon, Aiman and Sandy (2014) put it that a non-executive director is the one that is not involved in the day to day management of the organization, but he is involved in the decision making and the planning policies. Non-executive members are the shareholders' representatives on the board.

Board Size is the number of directors that exist on the board which includes the executive and the non-executive directors. The number of directors may vary from country to country and culture to culture (Zabri, Ahmad & Wah, 2016). Therefore, there is no standard board size. Some companies adopt a small board size with the belief that monitoring would be efficient, better and faster decision making while some prefer the larger board size with the argument that larger board size will enhance qualitative decisions. Ahmed and Hamdan (2015) results revealed that a number of 12 persons on the board would be effective. Xavier, Shukla, Oduor and Mbabazize (2015) opined that the board size should be 9 in number while Effiok, Effiong and Usoro (2012) result revealed a number of 12 persons on the board but not significant. Odiwo, Chukwuma, and Kifordu (2013) concluded that increase in board size would increase performance.

Board Composition is the ratio of executive directors on the board compared to the number of non-executives. The debate had been for either a greater number of executives on the board or lesser. Anthony (2007) supported larger number of executives with his study specifying 58% of executive directors on board and this was supported by Xavier, *et al* (2015) that 68% of executive directors should be on board. Effiok's, *et al* (2012) work revealed an insignificant result which can be

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interpreted to mean that the number of executives or non-executives was irrelevant and it corroborates with Rimon, Aiman and Sandy (2014) specifying insignificant relationship though negatively associated.
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 et al (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 audit committee members has significantly negative impact on profitability.

The BOD appoints the Management who oversees the daily activities of the company. The Management, as the "agent" of the BOD and with its team members are employees of the organization and a representative among them is chosen as the Chief Executive Officer (CEO). The management, in coordinating the daily activities of the organization set up the operational procedure and guidelines in form of Operational Manual and hence the Internal Control measures. The management, consequently reports to the BOD through the CEO.

Corporate Governance Mechanism (CGM)
Liem (2016) stated that the CGM is to protect the principals' interest through established performance monitoring mechanism, reduce inefficiencies that arise as a result of unethical practices and help eradicate the problem of asymmetric information. CGM includes monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. According to Basel Committee on Banking Supervision (2015), a set of relationships exist between the shareholders, the BOD, the management, and even the other stakeholders, thereby providing a structure through which the objectives of the company are attained and performance monitored.

At the Annual General Meeting (AGM), the shareholders elect certain individuals to represent them in the day to day running of the business in order to safeguard their interest against the managers' self-interest in a corporate organization. Since the shareholders are the principals and the BOD, the agent in an agency relationship, the BOD is to act in the best interest of the shareholders and not for its own interest. They therefore hold trust for the shareholders; hence they are Trustees in agency relationships having transferred their agency to the management who are the daily operators and managers of the company. Although the BOD controls the activities of the management, it should also be controlled and monitored by the shareholders in what Famogbiele (2012) described as the 'guardian of the guardians or control of the controllers'. The shareholders as per their rights are to exercise control and leadership over the BOD and management, thus establishing checks and balances for efficient and effective accountability. Such rights include appointment (election) and removal of directors and auditors, and to approve or disapprove major changes of the business. Most shareholders are however oblivious of these rights [and exercising it] thereby making the BOD superior and more powerful especially where the CEO doubles as the executive chairman [or vice].The duality of the office of the CEO as the executive chairman (or vice) will make the substantive chairman a stooge, hence a 'rubber stamp' to every decision made

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by the 'powerful' CEO. This may invariably lead to the siphoning of shareholders' funds by the supposed 'agents' and ultimately leading to the collapse of firms as it was the case that led to the banking tsunamis of 2008/2009 in Nigeria. Indeed, the principles of CG is established on the tripod pillar of accountability, transparency and shareholders rights according to Famogbiele (2012), the shareholders are consequently expected to assert their rights in this mechanism

The BOD, representing shareholders' [or representative of shareholders] interest, oversees the activities of the organisations and should be independent, particularly of the management, since it serves as a bridge between management and owners, other stakeholders and the outside world. Its members should not only be knowledgeable in the firm's line of business but in other business areas such as accounting, business law and/or finance (Famogbiele 2012; Babatunde & Olaniran, 2009). The board size and composition are also major factors that could lead to the efficiency of the board. Having a small board size will enhance speedy decision making and curb bureaucracy. The BOD should consist more of non-executive members in order to have effective control of the board, reduce the degree of agency problems and monitor the management effectively. To buttress further, Jensen (1999) cited in Babatunde and Olaniran (2009) mentioned that the executive directors would not effectively self-monitor the performance of the CEO since their career is closely tied to the incumbent CEO. Even in the election of the CEO, Famogbiele (2012) emphasized that it should not be a case of putting the square peg in the round hole i.e. the CEO should be experts in their own line of business and not a "one - hat fits - all".

The Audit Committee [AC] is a body of auditors that have been elected by the BOD and approved by the shareholders and they report back to the board. In Nigeria, it is statutory composed of three shareholders and three management/ directors (50:50). The committee is to ensure that the financial statement complies with the accounting standard, stock exchange and legal requirement. They are to present to the board a financial statement which is credible, reliable and of optimum disclosure. This committee monitors and reviews the report of the external auditors and hence responsible for their appointment and removal. The AC should, in fact, be responsible to the shareholders, rather than the BOD, in order to assist the shareholders in asserting their rights even over the BOD; in this regard the AC should be appointed directly – just like the BOD, by the shareholders rather than the BOD.

The Management roles are to set specific objectives, influence strategies and plans for corporations, establishing the framework of internal controls and reviewing it regularly, implementing the BOD policies on risk and internal control. They are also set to advice and counsel the BOD, monitor and supervise the day to day activities of the organisations, motivating employees and driving challenges within, as well as establishing and monitoring relationships with all stakeholders which to a large extent determines the performance of the business (Famogbiele, 2012). The Management expects the internal audit to be supportive in the monitoring and improvement of the risk management and internal control and to collaborate actively with the external auditor to increase total audit coverage. Internal audit will actively supplement management's actions by providing independent and objective assurance on the effectiveness of the organisations' processes. This is perhaps the reason Andrew (2015) regarded effective and proper corporate governance, alongside good and effective risk management and compliance as

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the elements of economic pillar – one of the three pillars of corporate sustainability, others being environmental and social pillars.

Internal Control System (ICS) refers to the systems, methods and measures established by an organisation for its operating unit to promote efficiency, encourage acceptance of managerial procedures and policies, check line validity of managerial data and protect assets. The ultimate purpose of ICS, in essence, is to exercise overall control over the management of operations and over risks and to enable management at all levels to obtain reasonable assurance that its objectives are met. The Institute of Chartered Accountants of England and Wales (ICAEW), regarded Internal Control as " the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets, and secure, as far as possible, the accuracy and reliability of its records."In accounting and auditing profession, it is regarded as a process affected by an organisation's structure, work and authority flows, people and management information systems, designed to accomplish specific goals and/or objectives. Ogunbunka [2002], citing the American Institute of Certified Public Accountant, defined IC, as an organisation's plans and co-ordinate methods and measures adopted to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed policies and procedures. Ubani [2013], on its own, says it is the process and structure used by the management, under the guidance and supervision of a BOD, to manage the risks inherent in a firm's business which include but not limited to operational, market, credit, legal, regulatory and compliance risks, among others.

Indeed, IC, in almost every organization majorly, has a two – tiered structure namely, the 1st Tier Control – otherwise known and called "the Line Control" and the 2nd Tier Control - the "Control of Controls" which is otherwise known and called the Internal Audit. While the line control is the internal control per se, as it runs through the responsibilities of every unit/ department/branch of the organization's management, measuring and ascertaining level of compliance with the operational procedures and policies [operational manual] put in place [established] by the management; the control of controls, as the internal audit, on the other hand, ascertains, verifies, and oversees the efficiency, propriety, compliance and adequacy of internal control measures. In other words, 1st tier control measures the level of compliance of every unit of the organization with the operational manual and the 2nd tier control provides an independent opinion of the reasonable assurance of the efficiency and effectiveness of the operational manual, both jointly constituting the Internal Control System – ICS.]

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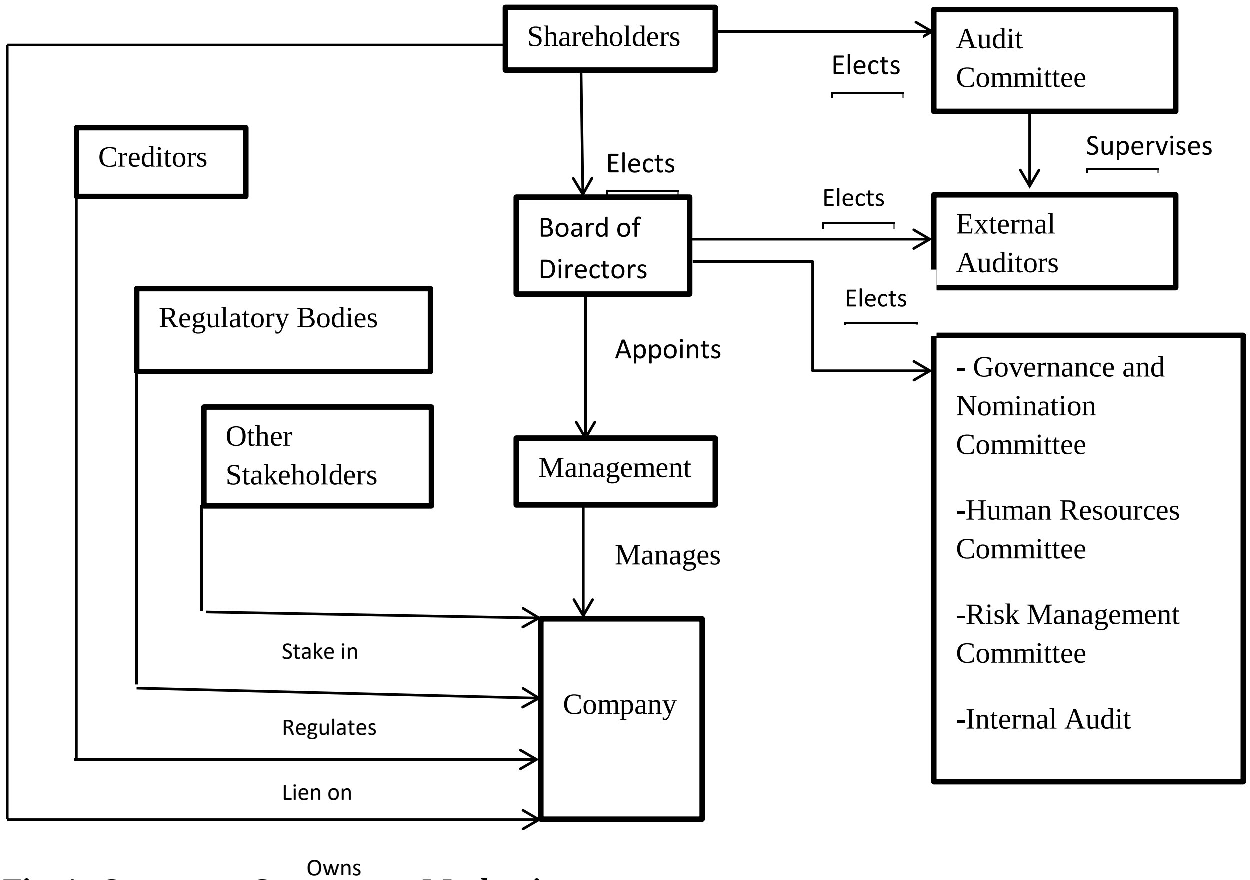

Fig. 1 Corporate Go[...]e Mechanism
Author's Conceptualization, 2017

Empirical Review
Kajola (2008) investigated the relationship between indicators of corporate governance (board size, board composition, chief executive status and audit committee) and performance which are proxied with return on equity and profit margin. He sampled 20 Nigerian listed firms from periods 2000 to 2006 and adopted panel data methodology and OLS to analyse. Results found proved a positive significant relationship between ROE and board size and chief executive status; positive relationship between profit margin and chief executive status; and insignificant relationship between the two performance ratio, board composition and audit committee.

Utilizing the regression method, Ammar *et al* (2013) from a sample of 160 firms in the Karachi Stock Exchange (KSE) for periods 2007 to 2011 gathered that there exist a positive association between board size and firm performance while a negative relationship existed between non-executive directors' percentage, chief executive officer duality and performance.Osundina *et al* (2016) studied the relationship between corporate governance measured by board structure index, ownership structure index and audit committee index and performance measured by ROA of selected Nigerian manufacturing companies. The study adopted ex-post facto research design and 30 sampled companies were investigated from period 2010 to 2014. Results indicated that board structure index had a significant positive relationship with performance. It was also discovered that audit committee index had a positive but insignificant relationship with performance while ownership structure index had an insignificant negative relationship with ROA.

Thuraisingam (2013) in the study of the relationship between corporate governance and company performance of financial service industry with a sample of 33 banks listed in the CSE of Sri Lanka from year 2008 to 2011 and adopting simple linear regression model, discovered an insignificant association between board size, board composition, audit committee (measures of corporate governance) and measures of performance i.e. ROA and ROE. Ibrahim and Abdul Samad (2011) looked at the relationship of corporate governance mechanism and performance between family and non-family ownership of public listed firm in Malaysia from 1999 through 2005 as measured by Tobin's Q, ROA and ROE. Results revealed that family ownership experiences higher value than non-family ownership based on ROE.

Xavier *et al* (2015) had a study on the effect of corporate governance measured by board size, CEO duality, institutional ownership and board composition on financial performance of commercial banks in Rwanda. With a sample of 92 senior managers and a descriptive research design, findings revealed that board size, board composition, CEO duality and institution ownership have no effect on performance. It was recommended that the regulatory body of commercial banks in Rwanda is to provide guidance on the use of corporate governance practices which may impact positively the financial performance of commercial banks.

Ahmed and Hamdan (2015) investigated impact of corporate governance on firm performance in Bahrain Stock Exchange (BSE), 42 financial companies were sampled from period 2007 to 2011 and descriptive results indicated that ROA and ROE are significantly related to corporate governance but EPS shows no relationship with corporate governance. The study of Zabri, Ahmad and Wah (2015) focused on the relationship between corporate governance practices with firm performance. Descriptive and correlation analysis were used to examine the hypotheses where Board size and Board Independence were the corporate governance's indicators and return on asset (ROA) and return on equity (ROE) as firm performance. The findings revealed that board size has significantly weak negative relationship with ROA but it was found to be insignificant to ROE. The other finding indicated that there was no relationship between board independence and firm performance.

METHODOLOGY

The study was quantitative in nature. The population for this study includes companies listed on the Nigerian Stock Exchange. Purposive sampling technique was adopted to select Ten (10) companies listed on the Nigerian Stock Exchange market. This was due to the fact that data needed were not sufficient in the annual reports of all the listed companies, hence the use of the Ten (10) companies. The companies are Guiness Nigeria Plc, Julius Berger Nigeria Plc, Champions Breweries Plc, Chams Plc, Honeywell Flour Mills Plc, Forte Oil Plc, Onado Plc, Presco Plc, Lafarge Cement WAPCO Nigeria Plc, and Nigerian Breweries Plc.
The data used for this study were secondary data derived from the annual financial statements of the selected companies. The period considered for this study is from 2010 to 2016 i.e. seven (7)

years. The study involves time series and cross sectional data. Panel data regression analytical technique was used to observe all variables for the period.
The dependent variable, performance, was measured using the net profit margin (NPM) while the independent variable, corporate governance had board size (BS), board composition (BC) and audit committee size (ACS) as its indicators.

Description of variables

Variable	**Abbreviation**	**Measurements**
Board Size	BS	Number of all directors on the board
Board Composition	BC	Non-executive directors / Total number of directors
Audit Committee Size	ACS	Number of audit committee members
Profit Margin	NPM	Profit after tax / Turnover

Model specification

$PM_t = \beta_o + \beta_1 BS_t + \beta_2 BC_t + \beta_3 AC_t + e_t$

e_t, the error term which account for other possible factors that could influence NPM_{it} that are not captured in the model.

RESULTS AND DISCUSSION OF FINDINGS

The hypotheses postulated were tested using regression analysis
Hypothesis 1: Board size has no influence on financial performance of listed firms in Nigeria
Table 1 Influence of board size on financial performance

Variable	**F**	**R**	**R^2**	**Adj R^2**	**P**	**Remark**
Board size	36.00	-0.938	0.88	0.856	0.02	Sig

Dependent variable: NPM

From table 1 above, the result ($R = -0.938$, $R^2 = 0.88$, $P < 0.05$) depicts that there is a negative correlation between board size and net profit margin. This implies that the lower the board size, the higher the NPM which indicate that the value of NPM for the sampled companies increases by 93.8% as board size reduces by 1%. The coefficient of determination (R^2) shows that board size accounts for a variation of 88% of the total value of NPM which means that other factors outside the model only accounts for the remaining 12%. It shows that the model has a goodness of fit. The probability value $P < 0.05$ indicates that the relationship between board size and NPM is statistically significant at 0.05 level. Hence, the hypothesis is rejected.
Hypothesis 2: Board composition has no significant impact on financial performance of listed firms in Nigeria

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Table 2 Impact of board composition on financial performance

Variable	F	R	R^2	Adj R^2	P	Remark
Board composition	32.268	0.931	0.866	0.839	0.02	Sig

Dependent variable: NPM

From table 2, the result ($R = 0.931$, $R^2 = 0.86$, $P < 0.05$) depicts that there is a positive correlation between board composition and net profit margin. This implies that the greater the number of non-executive directors on the board, the higher the NPM which indicate that the value of NPM for the sampled companies increases by 93.1% as board composition increases by 1%. The coefficient of determination (R^2) shows that board composition accounts for a variation of 86% of the total value of NPM which means that other factors outside the model only accounts for the remaining 14%. It shows that the model has a goodness of fit. The probability value $P < 0.05$ indicates that the relationship between board composition and NPM is statistically significant at 0.05 level. Hence, the hypothesis is rejected.

Hypothesis 3: The audit committee size does not affect financial performance of listed firms in Nigeria.

Table 3 Effect of audit committee size on financial performance

Variable	F	R	R^2	Adj R^2	P	Remark
Audit committee size	0.11	-0.48	0.002	-0.197	0.919	Not sig.

Dependent variable: NPM

From table 3, the result (R -0.48, $R^2 = 0.002$, $F = 0.11$, $P < 0.01$) depicts that there is a negative correlation between board composition and net profit margin. The F cal 0.11 and the probability value $P > 0.01$ indicate that the relationship between audit committee size and NPM is statistically not significant at 0.01 level. Hence, the hypothesis is accepted.

H_4: Board size, board composition and audit committee size cannot jointly predict financial performance of listed firms in Nigeria.

Table 4 Board size, board composition and audit committee size impact on financial performance

Variable	N	Df	R	R^2	Adj. R^2	F	P	Remark
Board size, board composition and audit committee size	7	(3,3)	0.927	0.945	0.890	17.134	0.022	Sig

Dependent variable: NPM

The table 4 showed results ($R = 0.927$, $R^2 = 0.945$, adj. $R^2 = 0.890$; $F = 17.134$, $P < 0.05$) that connotes a positive joint effect of board size, board composition, audit committee size on corporate performance. The coefficient of determination (R^2) shows that about 94.5% variation in performance is accounted for by the board size, board composition and audit size. This shows that other factors outside the model accounted for the remaining 5.5%.The F cal 17.134 and the probability value P < 0.05 indicate that the relationship among board size, board composition, audit committee size and NPM is statistically significant at 0.05 level. Hence, the hypothesis is rejected.

CONCLUSION AND RECOMMENDATIONS

The study examined the effect of corporate governance on corporate performance of selected companies listed on the Nigerian Stock Exchange. Findings showed that there is a significant negative relationship between board size and performance. The negative correlation indicates that the smaller the board size, the higher the performance and vice versa. The smaller board size will always be prompt in decision making and rule out all unnecessary delay and bureaucracy. This result corroborates with the findings of Ming-Cheng et al (2009). But on the contrary, Rimon et al (2014) results revealed positive and insignificant relationship between board size and ROA while Adekunle and Aghedo (2014) found a positive and significant relationship between board size and performance. Also, Dar et al (2011) findings showed an insignificant positive relationship between board size and performance.

Board composition and performance, on the other hand had a significant positive relationship which explains that board composition should be more of the non-executive directors than the executive directors. This will reduce the problem of agency cost that is inherent in agency relationships that exist between the shareholders and the executive directors. This is in line with the results of Adekunle and Aghedo (2014). In contrast to this, Kajola (2008) found an insignificant relationship between board composition and performance.

Though, audit committee size had an insignificant relationship with performance, nevertheless, it should not be ignored. Rather, the composition of the audit committee should be reviewed from the Nigerian statutory membership of three shareholders and three management/ directors (50:50). It is suggested that the audit committee should consist more, if not all, of shareholders. The audit committee should consist of men of experience and integrity; they are to be directly responsible to the shareholders and be independent of the board of directors and the management. This will augur for more transparency, better checks and balances and enable the shareholders to assert their rights. In line with this result is the work of Kajola (2008) while Dar et al (2011) results revealed a significant and negative correlation between audit committee size and performance and Anthony (2007) concluded that audit committee size has a positive influence on both accounting based measure of performance (ROA) and market based performance measure (Tobin’s Q).

Also, considering the joint effect of all independent variables on corporate performance, it was revealed that there exist strong positive relationships among them. Thus, it is recommended that companies should have a small board size which consist of more non-executive directors (representatives of the shareholders) rather than the executive directors; this seems to be in agreement with Famogbiele (2012) who says that it is only the CEO from the management that should be on the board for efficient democratic decision of the board, and invariably, a sound corporate governance. The audit committee members should also be allowed to operate independently and the composition of the audit committee should be reviewed periodically.

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