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Original Research Article

Corporate Governance and Financial Performance of Listed Conglomerates in Nigeria

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Abstract

Corporate governance is not just about how company is directed and controlled to maximize performance and ensure accountability to stakeholders. Better governance practices and processes have become imperative for both national and global economics. This study on the impact of corporate governance on financial performance of complements in Nigeria was conducted to examine the effects of corporate governance attributing board size, board composition on financial performance (proxied by Return on Assets (ROA), Return on Equity (ROE)). The study uses the ex-post factor research design with a population and sample size of 6 quoted conglomerate companies listed on the in Nigerian Stock Exchange covering the period between 2008 and 2017. Data for this study was generated from the published annual accounts and reports of the sampled firms. For the purpose of data analysis, Random Effect regression was utilized for the two models (ROA and ROE). The study found that board size has a significant positive effect on financial performance, while board composition and board ownership have a significant negative effect on financial performance. The study therefore recommends that the management and board of directors of listed conglomerate companies in Nigeria should perform their duties effectively and efficiently in boosting the financial performance of their companies and also composition of boards of conglomerate should have more non-executive directors so as to be independent.

Key words: Corporate Governance, Return on Assets, Return on Equity, Conglomerates

JEL Classification Codes:

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INTRODUCTION

The business environment is rapidly changing and with it, an attendant need for business to improve, strengthens and upgrades their operation, in order to survive and thrive in this dynamic and competitive environment. The board of directors, as the administrative and management hub is caught up in the web of these development and expected to behave, manage and direct the business entity in a manner acceptable and agreeable by all stakeholders. While the owners/shareholders are responsible for selecting and appointing of members of the board, the board is entrusted with the day-to-day running of the corporation, formulation of policies that reduces risks and enhanced the expected returns. This necessitated business to adopt the code of good governance to separate responsibility and minimize conflict among the various stakeholders.

Rezaee (2009) said that "corporate governance is a process through which shareholders induce management to act in their interest, facilitating a degree of investors' confidence that is necessary for the capital markets to function effectively". Corporate governance deals with strategies, mechanism and aligning of power to ensure that the interest of all stakeholders is satisfied.

In Nigeria, corporate governance evolution started in the banking industry after the financial crisis of 1990's. The Nigerian Bankers committee in 2003 issued a code of corporate governance for banks and other financial institutions, later same year the Securities and Exchange Commission issued its code of best practice on corporate governance in Nigeria. However, the SEC code presented major reforms; it was however, found to be inadequate in addressing new challenges. This therefore, led to issuance of code of corporate governance for specific industry like the CBN code in 2006, PENCOM code in 2008 and NAICOM code in 2009. However, in 2011, SEC harmonized the industry-specific codes of corporate governance by replacing its 2003 legislation with the code of corporate governance for public companies in Nigeria.

The studies of Akpan and Amran, (2014) surveyed board structure dimension as board size, board independence, board age, board education and board equity.

The results of various studies on the impact of corporate governance on financial performance has been mixed, while the studies such as Obembe and Soetan, (2015); and Zango, Kamardin and Ishak, (2016) reveals a positive effect, other studies such as Ahmed, (2012); and Afolabi, (2015) show a negative relationship between corporate governance and financial performance. Corporate failure that resulted from weak corporate governance has affected various sectors in the Nigerian economy of which conglomerate companies are not an exemption.

Therefore, the main objective of this study is to examine the effect of corporate governance on financial performance of conglomerates companies listed on the Nigerian stock exchange.

LITERATURE REVIEW

Conceptual framework

Concept of Corporate governance

The Organization for Economic Cooperation and Development (OECD, 1999) in its publication principles of corporate governance sees it as a system by which organizations are directed, governed and controlled. Corporate Governance involves a set of relationship between a company's management, its stakeholders. In order to carry out best corporate governance practice, companies should build the efficient mechanisms based on the rights and benefits of shareholders and other stakeholders. Fairness and honesty are the governance standards to serve all related parties. Transparency is the critical

regulation. This requires that all materials with regard to financial transactions and results, ownership structure, company governance and performance should be provided and published sufficiently, accurately and timely. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2015).

Concepts of Corporate Governance Mechanism

Board Structure

Board Structure is operationalized with variables including board size, gender diversity, directors independence, religion, education level, working experience, ethnicity and national diversity (Isik&Ince, 2016; Chou & Buchdadi, 2017; Sanda, Garba & Mikailu, 2013 and Akpan & Amran, 2014). Because of significant scholarly interests in them, the following variables – board size, board independence (non-executive directors) and ownership structure (directors' equity interest) are reviewed for this study.

Board Size

Bijalwan and Madan (2013) looked at board size as the total number of the directors on the board for a particular financial year. There are no specific guidelines or ideal number of board members for a firm. Board size cannot be fixed or specific as there are country-wide differences in legal, social and corporate environment. Study by Dogan and Yildiz (2013) shows that a larger board size led to better decision making, effectiveness in monitoring financial reporting, managing risk and providing diversity that could assist companies in securing resources and reduction of environmental uncertainties. Other studies such as (Dogan & Yildiz, 2013; Ifeanyi & Chukuma, 2016) indicates that smaller board size is easily coordinated with less barriers to communication and drastic reductions in bureaucratic bottlenecks, high sense of individual responsibility and improved organization participation and oversight functions.

Board Composition

Board compositionincludes the ratio of independent non-executive directors and board size. Other measures of board composition in the literature include gender and age diversity.Empirical evidence has shown that properly constituted boards with the right mix of non-executive directors tend to contribute more to performance than boards with a predominance of inside directors (Bhagat and Black, 2001).

According to Baysinger and Butler (1985), composition may be easily differentiated into inside directors, affiliate directors and outside directors. Inside directors are those directors that are also managers while outside directors are non-manager. Among the outside directors there are directors who are affiliate, and others that are independent. Affiliate directors are non-employee directors with personal or business relationship with the company while independent directors are those that have neither personal nor business relationships with the company.

Board Ownership

On the basis of operationalization, board ownership refers to the proportion of equity ownership held by directors. Ownership structure according to Bijalwan and Madan (2013) is the distribution of equity with regards to votes and capital and also by the identity of the equity owners. Ownership structure gives a fair idea about the percentage of shares held by the promoters, public directors, private companies, institutional investors, government bodies and the foreign institutional investors in a firm. It also reveals the ownership pattern of a firm.

Concept of Firms' Financial Performance

Firm's performance has to do with the manner and processes adopted by a firm on things of economic value to prudently

utilize those things for the achievement of the overall objectives of the firm.

Firm performance as viewed by Ifeanyi and Chukwuma (2016) is the procedures by which the resources of a firm are used effectively, efficiently and economically to fulfill the goals of the firm. Firm's performance may be looked at from the financial and the non- financial performance. Measures such as Return on Assets (ROA), Return on Equity (ROE) are commonly used as financial performance indicators.

Return on Assets (ROA)

Return on Asset (ROA) is operationalized as the proportion of net income generated from the total assets of a company. It measures the naira earnings an organization derive from each naira of assets they control and utilized. It is a useful for comparing rival companies in the same industry. Return on Assets as a proxy for financial performance on corporate governance and its elements was used in the studies of Garba and Abubakar, (2014); Hassan and Farouk, (2014) and Bijalwan and Madan, (2013).

Return on Equity (ROE)

Return on Equity (ROE) is operationalized as the percentage of income generated as a return to shareholders on their capital investment in a company. It measures the profitability of a business in relation to shareholders' equity, which is also known as net assets or rather asset minus liabilities. Return on Equity (ROE) is a measure of how well a company uses investment to generate earnings growth.

Return on Equity as a proxy for financial performance on corporate governance and its elements was used in the studies of Garba and Abubakar, (2014); Bijalwan and Madan, (2013); Dogan and Yildiz, (2013); Wanyama and Olweny, (2013).

Empirical Review

A review of the empirical evidence on the impact of board size/structure on performance shows mixed results and remain inconclusive. Tomitope (2018) investigated the effect of corporate governance on financial performance of listed companies in Nigeria. The study employed explanatory research design where ten (10) listed firms were chosen. Panel data regression was used to analyse the data. Findings revealed that board size has a significantly negative correlation with NPM, board composition has a significant positive correlation with NPM, and audit committee has an insignificant correlation with NPM.

Abdulazeez, Ndibe and Mercy(2016) conducted a study on corporate governance and financial performance of listed deposit money banks in Nigeria on 15 selected banks and using board size as one of the corporate governance variables, analyzing the data obtained through the use of regression and discovered that board size has a positive and significant effect on bank performance. This aligns to other studies such as Akpan and Roman, (2012) and Adams and Mehran, (2005).

Positive relationship between ownership structure and firm performance was discovered in the work conducted by Gugong, Anugu and Dandago (2014); Uwalomwa and Olamide, (2011) and Sanda, et al., (2005).

Theoretical Framework

The Agency Theory

Agency theory is one of the most famous corporate governance theories that established relationship between the management and the shareholders. Agency theory has its roots in the economic theory postulated by Alchian and Demsetz in 1972.Agency theory deals with the contractual relationship between the agent (manager) and the principal (shareholder), under which shareholders delegate

responsibilities to the manager to run their business. This theory argues that when both parties are expected to maximize their utility, there is good reason to believe that the agent may engage in opportunistic behavior at the expense of the principal's interest (Eeldrink, 2014).

In a nutshell, it is pertinent to note that agency theory argues that that larger boards lead to diversity that would assist corporations to safeguard their resources and lessen uncertainties in environments, enhance directors' oversight function, and guarantee effective decisions by management.

On the basis of the foregoing arguments and justifications on the importance of agency theory to corporate governance research, this study adopts agency theory as the underpinning theory in examining the effect of board size, board composition, and board ownership on financial performance (return on asset, return on equity).

Model Specification

The following model was developed to assess the impact of corporate governance on the financial performance of conglomerates in Nigeria. This model was adopted form the work of Uadile, (2010); Hassan & Farouk, (2014); Ihemeje et al, (2015) Poudel and Hovey, (2013).

$$ROE_{it} = \beta_0 + \beta_1 BSZE_{it} + \beta_2 BCOM_{it} + \beta_3 BOWN_{it} + \mu_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 BSZE_{it} + \beta_2 BCOM_{it} + \beta_3 BOWN_{it} + \mu_{it}$$

Where ROE and ROA are the dependent variables while the board size, board composition (proportion of non-executive directors) and board ownership structure (board ownership=directors' equity interest) are the independent variables.

ROA=Return on Assets

ROE=Return on Equity

Board structure which is proxied by:
BSZE=Board Size: the number of directors sitting on the board of a firm in a particular year.

BCOM=Board Composition: this is defined as the number of non-executive directors sitting on the board during a particular year in relation to the total board members.

BOWN=Board Ownership Structure: this is proxies by the proportion of directors' equity interest to the total equity of the company's (board ownership).

$\beta_1 - \beta_3$: Regression Parameters

t represents the time period of the panel data

i represent the number of firms in the panel data

μ represent the error term

β_0 represents the intercept

METHODOLOGY

Research Design

This study employed ex-post facto design. This is a quasi-experimental study examining how an independent variable affects a dependent variable. This design ensures that the dependent and independent variables are not controlled or manipulated by the researcher.

The population of this study consists of six (6) conglomerate companies listed on the Nigeria Stock Exchange as at 31st December, 2017 and has consistently submitted their annual reports to the NSE from 2008 to 2017.This study mainly utilized the secondary data from published annual reports and Accounts of the conglomerates companies covering the period of the study.

Data Analysis Technique

Data obtained in panel form was analysed using descriptive statistics. The use of panel data control is for individual heterogeneity.

For the purpose of data analysis, Random Effect regression was utilized for the two models (ROA, ROE)

Descriptive Statistics

Table 4.1 presents the descriptive statistics involving the mean, minimum, maximum, standard deviation, and skewness and kurtosis of the variables in this study. As earlier mentioned, STATA version 14 is the software for analysis in this study.

Table 4.1*Descriptive Statistics*

Variables	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
ROA	60	0.016	0.092	-0.148	0.119	0.730	2.278
ROE	60	0.032	0.112	-0.163	0.158	-0.707	2.206
BSZE	60	7.900	1.724	4.000	13.000	0.436	3.093
BCOM	60	0.6092	0.173	0.200	0.900	-0.229	2.299
BOWN	60	0.350	0.187	0.108	0.790	0.296	2.055

Source: Researcher's Analysis using $STATA_{14}$ (2019).
ROA=Return on Asset; ROE=Return on Equity; BSZE=Board Size; BCOM=Board Composition; BOWN=Board Ownership

From the result of the descriptive statistics in Table 4.1, return on assets (ROA) has a mean value of 0.016, indicating that listed Conglomerate companies in Nigeria have an average of 1.6% as their return on assets invested. Moreover, the minimum and maximum values for ROA are -0.148 (14.8% loss) and 0.119(11.9%) respectively, while the standard deviation stood at 0.092. This portrays that there is wider variation between the sampled firms in regards to return on assets since the value of standard deviation (0.092) is higher than the mean value (0.016). However, based on the result of descriptive statistics from Table 4.1, return on equity (ROE) has a mean value of 0.032 (that is 3.2% as return on shareholders' equity), a minimum and maximum values of -0.163(16.3% loss) and 0.158(15.8%) respectively. The value of standard deviation is 0.112 is higher than the mean value of 0.032, which indicates that there is wide disparity between listed conglomerate companies in Nigeria in respect to return on equity.

For the independent variables in this study, the result from Table 4.1 shows that board size (BSZE) has an average score of 7.9 (approximately 8 members), a minimum size of 4 members, and a maximum size of 13 members, while the standard deviation stood at 1.724 which indicates a narrow variation between the sampled companies in this study concerning the size of board of directors. Further, board composition has a mean score of 0.6092 which portrays that the boards of conglomerate companies listed on the Nigerian Stock Exchange composed of 60.92% as non-executive directors. This is relatively good as it corroborates with the Nigerian Code of Corporate Governance which requires that all companies listed on the Nigerian Stock Exchange should have a majority of non-executive directors on their boards. In addition, board size has a minimum value of 0.20(20%) and a maximum score of 0.90(90%), whereas the standard deviation stood at 0.173 (narrow variation between the sampled companies in this study regarding size of board). For board ownership, it has a mean value of 0.350(35%), a minimum and maximum score of 0.108(10.8%) and 0.79(79%) respectively, while the standard deviation has a value of 0.187 lower than the mean value (narrow dispersion between the sampled companies in this study).

Correlation Analysis

Correlation analysis describes the strength and direction of the linear relationship

between two variables (Pallant, 2005). In this study, Pearson correlation analysis was carried out to determine the extent and direction of the relationship between the study variables as provided in Table 4.2.

Table 4.2 *Correlation Matrix*

Variables	ROA	ROE	OPRFT	BSZE	BCOM	BOWN
ROA	1.000					
ROE	0.787***	1.000				
OPRFT	0.429***	0.635***	1.000			
BSZE	0.189	0.201	0.196	1.000		
BCOM	-0.028	0.016	0.089	0.714***	1.000	
BOWN	-0.188	-0.219*	-0.214	0.059	0.084	1.000

Source: Researcher's Analysis using $STATA_{14}$ (2019).

The correlation result from Table 4.2 shows that board size is positive and insignificantly correlated with return on assets (ROA) (r=0.189; p>0.10), return on equity (ROE) (r=0.201; p>0.10), and operating profit (OPRFT) (r=0.196; p>0.10). on the other hand, board composition (BCOM) is negative and insignificantly associated with ROA (r=-0.028; p>0.10), while insignificant and positively correlated with ROE (r=0.016; p>0.10) and operating profit (OPRFT) (r=0.089; p>0.10). Furthermore, board ownership is insignificant and negatively associated with ROA (r=-0.188; p>0.10) and OPRFT (r=-0.214; p>0.10), while having a significant positive association with ROE (r=0.219; p<0.05) at 5% statistical significance. Equally important, none of the correlation coefficient of the independent variables is above 0.80, as such, the data in this study is free from multicollinearity problem (Gujarati, 2009).

Diagnostic Tests for Multivariate

Multiple regression is a complex extension of correlation which is used to discover the predictive power of a group of independent variables (usually continuous) on a continuous dependent variable (Pallant, 2005). Therefore, this study utilizes multiple regression in order to explore the relationship between the independent and dependent variables. Basically, prior to the execution of multivariate regression analysis, the data needs to be examined for the purpose of diagnosing the assumptions of multivariate analysis. The basic assumptions required before running a regression analysis that were carried out in this study are: normality, heteroskedasticity, and multicollinearity. However, in order to be sure that the data is suitable for running a multivariate analysis, outliers detection analysis was also conducted and its result alongside explanation to that effect is provided in the subsequent subtitles.

Explicitly, one of the first step of diagnostic test is data normality examination. This has been taken care off under the result of descriptive statistics in Table 4.1. Specifically, the result of skewness and kurtosis presented in Table 4.1 shows that the data for all the variables in the study are normally distributed.

Outliers' Detection

Therefore, for the purpose of detecting multivariate outliers in this study, **bacon** was executed in Stata, and the output shows that outliers are not present in regards to the observations in this study. As regards, the result for **bacon** is presented in Table 4.3 and Figures 4.2 as annexed showing bacon outlier plot. The graph also shows that multivariate outliers are not present in this study.

Table 4.3*Multivariate Outliers Detection*

	BACON (p=0.15)
Observations	60
Outliers	0
Non-outliers remaining	60

Source: Researcher's Analysis using $STATA_{14}$ (2019).

Multicollinearity Check

Multicollinearity arises where a single explanatory (independent variable) is highly correlated with a given explanatory variables (Hair *et al.*, 2014). Based on the correlation matrix in Table 4.2, multicollinearity does not exist between the independent variables in this study because none of the correlation values amongst the independent variables is higher than 0.8 (Gujarati, 2009).

Coherently, the most significant and dependable way of assessing multicollinearity is by examination of Variance Inflation Factor (VIF) and Tolerance (Ho, 2014). In addition, tolerance is a direct measure of multicollinearity because it is the amount of variability of the selected independent variable not explained by the other independent variables. While VIF is the inverse of Tolerance. The thresholds for tolerance and VIF are values of more than 0.1 and less than 10 respectively. The values of variance inflation factor and tolerance for testing multicollinearity are presented in Table 4.4.

Table 4.4*Multicollinearity Test based on VIF and Tolerance values*

Variables	VIF	Tolerance (1/VIF)
BCOM	2.05	0.49
BSZE	2.04	0.49
OPRFT	1.01	0.99
Mean VIF	1.70	

Source: Researcher's Analysis using $STATA_{14}$ (2019).

From the result in Table 4.5, it is evident that multicollinearity does not exist, because it is apparently that tolerance is between 0.49 and 0.99, reasonably greater than the threshold of 0.1 (Ho., 2014; Pallant, 2005). In the case of VIF, it ranges between 1.01 and 2.05, considerably less than the threshold of 10. Therefore, this indicates that multicollinearity does not exist in this study. In addition, the mean value of the variance inflation factor is less than 5 which is a prove that there is no issue of multicollinearity in this study.

Test for Heteroscedasticity

In order to detect heteroscedasticity in this study, Breusch-Pagan/Cook-Weisberg test was utilized for the three models (return on asset, return on equity, and operating profit) in this study. The result is presented in Table 4.5 thus.

Table 4.5*Heteroscedasticity Test*

Dependent variables	Chi2(1)	Prob> Chi2	Null (Ho)
ROA	1.947	0.163	Accepted
ROE	1.797	0.180	Accepted

Source: Researcher's Analysis using $STATA_{14}$ (2019).

*Note:*Ho(Null) = Homoscedasticity; ROA=Return on Assets; ROE=Return on Equity

The result of heteroscedasticity test presented in Table 4.5 shows that all the three models in this study have *p*-values greater than 0.05 (5% significance level). Thus, the models failed to reject the null hypothesis as there is no further issue of heteroscedasticity. Hence, further analyses have been carried out to determine the model to be used.

Results of Lagrange Multiplier (LM) Test

Table 4.6*Breusch-Pagan LM Test*

Variables	Test: Var(u)	Chibar2 (01)	Prob> Chibar2	Null Hypothesis	Model Selected
ROA	0	13.57	0.0001	Rejected	Random Effect
ROE	0	10.69	0.0005	Rejected	Random Effect

Source: Researcher's Analysis using $STATA_{14}$ (2019).

Based on the result of Breusch-Pagan LM test presented in Table 4.6, the models in the study show that the random effects model is more appropriate against the pooled OLS because the all p-values for ROA, ROE, and OPRFT are less than 0.05. For this reason, the RE regression results are preferable for inferences.

Hausman's Specification Test

Table 4.7*Hausman Test*

Variables	Chi2 (3)	Prob>Chi2	Null Hypothesis	Model Selected
ROA	0.77	0.856	Rejected	Random Effect
ROE	0.53	0.913	Rejected	Random Effect

Source: Researcher's Analysis using $STATA_{14}$ (2019).

The results of Hausman tests for the model in this study as shown in Table 4.7 revealed insignificant p-values, and thus, the null hypotheses were rejected. Therefore, this study preferred the random effect models over the fixed effect models for inferences.

Multiple Regression Results

The main regression result utilized for all the two models (ROA and ROE) in this study is Random Effect (RE) regression model since the results of Hausman specification test favoured RE model. Worthy of note, the Random Effect model assumes that individual effect is characterized as random and inference relating to the population from which a sample was drawn randomly (Baltagi, 2008). Hence, the results of Random Effect for the three models in this study are presented in Table 4.8 thus.

Table 4.8*Random Effect Regression Results*

Variables	***ROA Model***			***ROE Model***		
	Coef. *β*	t	p>t	Coef. *β*	t	p>t
Constant	0.346	0.95	0.344	0.039	0.99	0.323
BSZE	0.025	4.04	0.000***	0.268	4.00	0.000***
BCOMP	-0.245	-3.17	0.002***	-0.239	-2.50	0.012**

Obs	60	60	60
Groups	6	6	6
Waldχ^2(3)	44.31	50.61	38.96
p>Chi2	0.000***	0.000***	0.000***
R^2	0.1081	0.1095	0.1686

Source: Researcher's Analysis using $STATA_{14}$ (2019).

Model One: ROA and Corporate Governance

From the regression result in Table 4.8, the R^2 value for return on asset (ROA) is 0.1081, indicating that the independent variables in this study accounted for 10.81% of the variations in return on assets of listed conglomerate companies in Nigeria. In addition, the model is significant based on the Wald chi2 (44.31, p<0.01), indicating a goodness of fit and validity of the model utilized. The result also shows that board size (BSZE) has a significant positive effect on return on assets (ROA) at 1% significant level (β=0.025; p<0.0). This indicates that any increase in board size by one member will result to an increase in the return on assets of listed conglomerate companies in Nigeria by 0.025(2.5%).

Contrastingly, the regression result under the ROA Model further shows that board composition and board ownership have significant effect on return on assets. Specifically, board composition (BCOM) has a significant negative effect on return on assets at 1% statistical significance (β=-0.245; p<0.01). This signposts that any increase in board composition of conglomerate companies listed on the Nigerian Stock Exchange will lead to a decrease in their return on assets by 0.245(24.5%). Similarly, board ownership has a significant negative effect on return on assets at 1% statistical significance (β=-0.184; p<0.01). Meaning that an increase in board ownership by one will result to a decrease in return on assets of listed conglomerate companies in Nigeria by 0.184(18.4%).

Model Two: ROE and Corporate Governance

Based on the regression result from Table 4.8, the R^2 value for return on asset (ROE) is 0.1095. This portrays that the independent variables in this study accounted for 10.95% of the variations in return on equity of the sampled companies utilized in this study. Likewise, the model is significant based on the Wald chi2 value of 50.61 and a p-value below 0.01. This indicates a goodness of fit and validity of the model utilized. The result also shows that board size (BSZE) has a significant positive effect on return on assets (ROA) at 1% significant level (β=0.268; p<0.01). This shows that any increase in board size by one member will result to an increase in the return on equity (ROE) of conglomerate companies listed on Nigerian Stock Exchange by 0.268(26.8%).

However, the regression result under the ROE Model also displays that board composition and board ownership have significant effect on return on assets. Precisely, board composition (BCOM) has a significant negative effect on return on equity (ROE) at 5% statistical significance (β=-0.25; p<0.05), indicating that any increase in board composition of conglomerate companies listed on the Nigerian Stock Exchange will lead to a decrease in their return on equity by 0.25(25%). In the same vein, board ownership has a significant negative effect on return on assets at 1% statistical significance (β=-0.212; p<0.01). Meaning that an increase in board ownership by one will result to a decrease in return on equity of listed conglomerate companies in Nigeria by 0.212(21.2%).

Discussion of Findings

The objective of this study was to examine the effect of corporate governance on the financial performance of conglomerate companies listed on the Nigerian Stock Exchange. Specifically, corporate governance was represented by board attributes as proxied by board size, board composition, and board ownership. While return on assets, return on equity, and operating profit represented financial performance. For the purpose of analysing the data in this study, multivariate regression analysis was conducted where the result of Random Effect model is utilized.

From the result of random effect regression model, the study found that board size has a significant positive effect on financial performance of conglomerate companies listed on the Nigerian Stock Exchange. This indicates that whenever there is an increase in the size of boards of listed conglomerate companies in Nigeria, their performance would be better. However, this finding has aligned with previous studies like Abdulazeez*et al.* (2016), Akpan and Roman (2012), Zango, Kamardin, and Ishak (2016). In addition, the finding corroborates with the agency theory which states that larger boards lead to diversity that would assist corporations to safeguard their resources and lessen uncertainties in environments, enhance directors' oversight function, and guarantee effective decisions by management. Moreover, according to agency theory, a larger board size ensures an effective and efficient monitoring of management which reduces the power of the CEO on corporate board of directors and therefore enhances firm performance (Singh & Harianto, 1989).

Additionally, board composition has a significant negative effect on financial performance of conglomerate companies listed on the Nigerian Stock Exchange. This portrays that any increase in the number of the nonexecutive directors in the composition of boards of listed conglomerates companies in Nigeria will lead to a decrease in their financial performance (specifically return on asset and return on equity as shown in Table 4.8). This finding has aligned with the results of previous studies including Bawa and Lubabah (2013),Sanda, Garba, and Mikailu (2011). However, the finding contradicts agency theory which presumes that there is need for increase of outside (non-executive) directors in board composition (Zahra & Pearce, 1989), because it leads to an increase in board independence for better management, enhance expertise of the boards, increases board's objectivity, and improve corporate activities to suit contemporary economic environment. Moreover, on the basis of agency theory, a board that is dominated by a large number of nonexecutive directors are in a better position to operate in the best interest of shareholders and improve firm performance via effective oversight functions on the management.

Moreover, board ownership has a significant negative effect on financial performance of conglomerate companies listed on the Nigerian Stock Exchange. This is an indication that an increase in board ownership will result to a decrease in financial performance of listed conglomerates in Nigeria. Furthermore, this outcome is not in tandem with agency theory which states that proponents of agency theory have argued that board ownership serves as a medium of controlling agency problems because the larger percentage of shares owned by the top executives of a firm, the more probability of them to make decisions inconsistent with wealth maximization objective of the shareholders, as they are concurrently optimizing their own wealth (Jensen & Meckiling, 1976). Though, the result is in line with the findings of Hassan and Farouk (2014) and Mohan (2014).

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