Corporate Governance and Business Performance

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Abstract: Firms have in the past endeavoured to mitigate employee job dissatisfaction and increase firm performance through seminars and workshops (training), team building and interdepartmental transfers, which did not yield much in motivation. The aim of this study was to investigate the impact of corporate governance mechanism on firm performance in some selected firms in Lagos state. The study employed descriptive survey adopting stratified sampling technique to select representative samples of 154 respondents determined through the Yamane formula (1967) out of a total population of 250. Questionnaires were administered to generate primary data that was used for this study. The data obtained were presented in tables while Pearson correlation test was used to test the relationship between the stated variables with 10% level of significance. The analysis was carried out using statistical package for social sciences (SPSS) version 21. This study found out that corporate governance mechanism has significant impact on firm financial performance and employee performance. This study recommends that adequate measures should be taken to enhance efficiency and effectiveness of governance frameworks in the firms. Stakeholders should be adequately paid the returns on their equity and knowledgeable on the relevant laws, rights, responsibilities and ethical requirements so that the firm will be able to perform well financially. The level of the remuneration should be sufficient and reasonable to motivate employees for higher performance. Steps should also be taken for mandatory compliance with the code of corporate governance. Also, an effective legal framework should be developed that specifies the rights of customers and obligations of a firm, its directors, management and employees to the customers so as to encourage the customers to patronize.

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I. Background to the study

Corporate governance has, in recent years, become a topical issue both in business and academic circles (Ross 2013). The concern in business arose out of the perceived importance that a tradition should be developed that supports moral and ethical conduct in business affairs which will create a general climate (both legal and social environment) that will promote good governance of firms. In the academic world, it is established that business decisions are not made in a vacuum. Business decision makers have objectives outside the firms’ objectives, for example managers are interested in their own personal satisfaction, in their employees’ welfare, as well as in the good of the community (society) at large and these objectives impact on shareholders wealth adversely.

According to Otti S.A (2015), corporate governance is a system or an arrangement that comprises of a wide range of practices (accounting standards, rules concerning financial disclosure, executive compensation, size and composition of corporate boards) and institutions (legal, economic and social) that protect the interest of corporation’s owners. According to Laporta et al (2000) “corporate governance is to a certain extent a set of mechanism through which outside investors protect themselves against expropriation by the insiders.” Insiders are defined as both managers and controlling shareholders.

The corporate governance structures specify the distributions of rights and responsibilities among different stakeholders in a corporation, like the board, managers, shareholders, accountants and others, and spell out the rules and procedures for making decisions on corporate affairs. This is in conformity with the view of (Uche & Akinsulwe, 2016).

Effective corporate governance reduces the “control right” conferred on managers and increases the chances that manager’s investment decisions enhance the maximization of shareholders wealth. This however, suggests that better corporately governed firms have better operating performance. According to a study of Latin America’s largest Banks, it is observed that, apart from the obvious reputation benefits of corporate adherence to ethical standards, there is another reason why firms should adhere to corporate governance standards:
Companies tend to be unpopular with customers and thus easier political targets, especially as regulators, politicians; the media and investors increase their focus (attention) on corporate ethics and sustainability. The increasing cost associated with non-compliance and the rise of socially responsible investing has made ethics and corporate governance performance a higher priority to investors Spector 2015.

There is a widely held view that better corporate governance is associated with better firms’ performance, but the evidence is not sufficiently available in the Nigeria context. As such, providing an additional empirical evidence of the relationship between corporate governance standards and firms performances is cardinal to this study. The significance of the relation of firm performance is a function of the corporate governance provisions and the level of compliance to the set standard.

In order to chart present and future paths for firm’s adherence to corporate governance standards, it is important to first determine its impact on firms’ performance in the past. It is necessary to investigate the response or behavior of important performance indicators such as return on equity, dividend yield, net profit margin and sales growth in the light of the effects of various corporate governance provisions that rule the business world today. Unlike the earlier studies by the authors, this paper attempts to shed light on the critical response or behavior of firm performance indicators to corporate governance provisions or standards in Nigeria.

Several empirical studies have provided the nexus between corporate governance and firm performance. Bebchuk, Cohen and Ferrell (2004) postulates that “a well governed firm have higher firm performance”; Gompers, Ishii & Metrick (2003) demonstrate through their study that firms with poor corporate governance quality enjoy lower stock returns than those with a higher level of governance quality. Financial devastation of many corporations such as those of USA, South East Asia and Europe have been premised on the failure of corporate governance; high profile scandals throughout the world such as Enron and World.Com in the United States, Transmile, Megan Media and Nasioncom in Malaysia brought about the importance of good corporate governance to limelight. Each of these corporate cases was directly linked to corporate governance failures (Hussin & Othman 2012; Abdul-Qadir & Kwambo, 2012).

Nigeria is not left out of this phenomenon as similar financial and accounting scandal has enshroud which include the banking sector with 26 banks liquidated in 1997 and the falsification of the company and financial statement in Cadbury Nigeria Plc. in 2006 and more recent events in 2009 post consolidation banking crises when ten banks were declared insolvent and eight (8) executive management teams of the banks removed by the Central Bank of Nigeria (CBN 2010). Also, the economic meltdown especially that of 2008 has forced the Nigerian firms to realise the need for the practice of good corporate governance.

Statement of Problem

Unity at workplace is of great importance. Parties in an organization such as board of directors, employees, shareholders, customers and other stakeholders ought to work together to achieve predetermined goals. Despite efforts by the management to ensure that the organization progress through the interaction and interdependence of the stakeholders in an organization in decision making and policy implementation, firms are still faced with dwindling sales, high employee turnover, falling returns on investment, returns on assets and soon. This possess threat on the survival of the firm if it persists.

In Conclusion, many studies have shown that corporate governance is one of the most important attitudinal construct. that affects not just the organization performance but also employees’ job satisfaction. In order to lower the employee turnover rate and improve the standard of organizational performance, we have conducted this study to examine how well the corporate governance mechanism can be used for the betterment of the organization at large.

Purpose of the Study

The aim of this study is to provide an appraisal of corporate governance mechanism. Specifically, the following are the objectives of the study:

i. To examine the effect of corporate governance mechanism on firm performance.

ii. To examine the effect of corporate governance mechanism in employee job satisfaction.

Research Questions

This study wat to:

i. Investigate the relationship between corporate governance and firm performance.

ii. Examine the relationship between corporate governance ad employee job satisfaction

Scope of the study

This study provides a detailed appraisal of corporate governance mechanism in Nigeria with attention placed on three selected firms in Lagos State. It was conducted between 2018 and 2019. This study examined how corporate governance mechanism affects specific aspect of organisation’s performance, employee job

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satisfaction and customer satisfaction. The researchers focused on corporate governance theories like the Agency theory, Stakeholders theory and Resources dependent theory for this study.

II. Literature Review

Concept of Corporate Governance

The principles of good governance are as old as good behavior, which needs no formal definition. However, in reference to corporate world, it has been defined by various persons, some of whom is described below just in order to satisfy that the vital details and spirit of the term are not missed. Sir Adrian Cadbury Committee, which looked into corporate governance issues in U.K. defines Corporate Governance “as the system by which the companies are directed and controlled. The basic objective of corporate governance is to enhance and maximize shareholder value and protect the interest of other stake holders”. According to World Bank, Corporate Governance is Blend of law, regulation and appropriate voluntary private sector practices, which enables the corporation to attract financial and human capital to perform efficiently and prepare itself by generating long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole.

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2017), As such it is essential that a comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organization depends on the underlying soundness of its individual components and the connections between them.

According to Morck, Shleifer and Vishny (2017), among the main factors that support the stability of any country’s financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regimes and an appropriate savings deposit protection system.

Another comprehensive definition given in the report on corporate governance that was accepted for implementation by the Singapore Government is that the term refers to the “process and structure by which the business and affairs of the company are directed and managed in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders.

Objectives of Corporate Governance

Good governance is integral to the very existence of a company. It inspires and strengthens investor's confidence by ensuring company's commitment to higher growth and profits. It seeks to achieve following objectives: (i) A properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs; (ii) The Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders; (iii) The Board adopts transparent procedures and practices and arranges at decisions on the strength of adequate information; (iv) The Board has an effective machinery to sub serve the concerns of stakeholders; (v) The Board keeps the shareholders informed of relevant developments impacting the company; (vi) The Board effectively and regularly monitors the functioning of the management team; and (vii) The Board remains in effective control of the affairs of the company at all times. The overall endeavor of the Board should be to take the organization forward, maximize long-term values and shareholders' wealth.

Elements of Good Corporate Governance

Good governance is decisively the manifestation of personal beliefs and values, which configure the organizational values, beliefs and actions of its Board. The Board as a main functionary is primary responsible to ensure value creation for its stakeholders. The absence of clearly designated role and powers of Board weakens accountability mechanism and threatens the achievement of organizational goals. Therefore, the foremost requirement of good governance is the' clear identification of powers, roles, responsibilities and accountability of the Board, CEO, and the Chairman of the Board. The role of the Board should be clearly documented in a Board Charter. To sub-serve the above discussion, the following are the essential elements of good corporate governance:

i. Transparency in Board’s processes and independence in the functioning of Boards. The Board should provide effective leadership to the company and management for achieving sustained prosperity for all stakeholders. It should provide independent judgment for achieving company's objectives.

ii. Accountability to stakeholders with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong and sustained communication processes.
iii. Fairness to all stakeholders.

iv. Social, regulatory and environmental concerns

v. Clear and unambiguous legislation and regulations are fundamentals to effective corporate governance.

vi. A healthy management environment that includes setting up of clear objectives and appropriate ethical framework, establishing due processes, clear enunciation of responsibility and accountability, sound business planning, establishing clear boundaries for acceptable behavior, establishing performance evaluation measures.

vii. Explicitly prescribed norms of ethical practices and code of conduct are communicated to all the stakeholders, which should be clearly understood and followed by each member of the organization.

viii. The objectives of the company must be clearly documented in a long-term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.

ix. A well composed Audit Committee to work as liaison with the management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues.

x. Risk is an important element of corporate functioning and governance, which should be clearly identified, analyzed for taking appropriate remedial measures. For this purpose the Board should formulate a mechanism for periodic reviews of internal and external risks.

xi. A clear Whistle Blower Policy whereby the employees may without fear report to the management about unethical behaviour, actual or suspected frauds or violation of company’s code of conduct. There should be some mechanism for adequate safeguard to employees against victimization that serves as whistleblowers.

Corporate Governance Mechanisms and Control

Taking cognizance of the cardinal importance of good corporate governance practice in business survival, business growth and in appreciating the value of the firm as well as its contagion effect on the Nigeria economy at large, the Federal Government of Nigeria instituted the arrangement to protect investors' fund from being mismanaged by the management of quoted companies in Nigeria. As such, the “Code of Corporate Governance Best Practices” was issued in November, 2003 to institutionalize the arrangement. The provisions include the roles of the board and management of quoted companies, the rights and privileges of shareholders and the role of the audit committee.

2.3.1 Corporate Mechanism

The variables that may constitute the yardsticks by which corporate governance can be measured in an organization (with acceptance from each category of governance sub-index) are:

1. **Board of Directors:** The number of directors (Board Size) is one prominent yard stick. Empirical studies on board size show that there exist a negative relationship between board size and firm value. For instance, Mak and Yuanto (2014) in a study in Malaysia and Singapore, demonstrates that firm value is highest when board sizes are relatively small. A Nigerian study, found that firm performance has a positive correlation with small and not large board size. The composition of board of directors and a clear cut job definition of all board members is another index. Separation of CEO from the chairman of the board of directors. This shows that firms are more valuable when the CEO and the chairman of the board positions are manned by different persons.

2. **Audit Committee:** A study by Klein (2012) shows a negative correlation between earnings, management and audit committee independence. Anderson, Mansi and Reeb (2014), observed a significant relationship between independent audit committee and low debt financing cost.

3. **Bye-Laws:** Company either has no poison pill or a pill that shareholders approved.

4. **Director Education:** At least one member of the board should have participated in an accredited director education program.

5. **Executive and Director Compensation:** Directors should receive all or a portion of their fees in stock.

6. **Ownership:** All directors with more than one year of service should own stock.

7. **Progressive Practices:** There should be mandatory retirement age for directors.
8. **State of Incorporation:** Firms should be incorporated in a state without any anti-takeover provisions. The corporate governance provision by Institutional Investors Service (IIS) as at February 2007, form the basis of the firm’s corporate governance scores.

2.3.2 **Corporate Governance Controls**

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. For example, to monitor managers’ behavior, an independent third party (the external auditor) attests the accuracy of information provided by management to investors. An ideal control system should regulate both motivation and ability.

1. **Internal corporate governance controls**

Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals. Examples include:

i. **Monitoring by the board of directors:** The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, ex ante. It could be argued, therefore, that executive directors look beyond the financial criteria.

ii. **Internal control procedures and internal auditors:** Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting.

iii. **Balance of power:** The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

iv. **Remuneration:** Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.

2. **External corporate governance controls**

External corporate governance controls encompass the controls external stakeholders exercise over the organization. Examples include:

- Competition
- Debt covenants
- Demand for and assessment of performance information (especially financial statements)
- Government regulations
- Managerial labour market
- Media pressure
- Takeovers

**Systemic Problems of Corporate Governance**

**Demand for information:** In order to influence the directors, the shareholders must combine with others to form a voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting.

**Monitoring costs:** A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder. The traditional answer to this problem is the efficient market hypothesis, which suggests that the small shareholder will free ride on the judgments of larger professional investors. Supply of accounting
information: Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause imperfections in the effectiveness of corporate governance. This should, ideally, be corrected by the working of the external auditing process.

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Corporate Governance and Firm Performance

Financial performance which assesses the fulfillment of a firm’s economic goals has long being an issue of interest in managerial researches. Firm financial performance relates to the various subjective measures of how well a firm can use its given assets from primary mode of operation to generate profit. Scholars defined the value of a firm as the present value of the expected future cash flows after adjusting for risk at an appropriate rate of return. To some others, it is the success in meeting pre-defined objectives, targets and goal within a specified time target. Qureshi, (2007), put forward four different approaches in which the value of a firm has been identified in corporate finance literature. These are: the financial management approach which focus on the evaluation of cash flows and investment levels before identifying and assessing the impact of financing sources on firm value; the capital structure approach which studies the impact of capital structure changes on the value of firm and how different factors impact directly or inversely the debt and equity component of the firm capital structure; the resource based approach which explains the value of firm as an outcome of firm’s resources; and finally, the sustainable growth approach which is a summary of the above three approaches to firm value, taking into account the firm’s operating performance, its investment and financing needs, the financing sources, and its financing and dividend policies for sustainable development of firm's resources and maximization of firm value. This study examines two key accounting measures of firms' financial performance which are Return on Equity and Return on Assets.

1. Return on Equity (ROE)

One accounting based measure of performance in corporate governance research is return on equity (ROE). The primary aim of an organization's operation is to generate profits for the benefit of the investors. Therefore, return on equity is a measure that shows investors the profit generated from the money invested by the shareholders (Epps & Cereola 2008). It measures the profitability of shareholders investment and shows the net income as a percentage of shareholders’ equity. It is calculated as: \[ \text{ROE} = \frac{\text{Annual Net Income}}{\text{Average stockholders' equity}} \]

2. Return on Assets (ROA)

One of the widely used accounting based measures of corporate governance in literature is the Return on Asset (ROA). It assesses the effectiveness of capital employed and provides a basis in which investors can measure the earnings generated by the firm from its investment in capital assets. The return on assets (ROA) is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of kobo earned on each naira worth of assets. It allows users, stakeholders and monitoring agencies to assess how well a firm corporate governance mechanism is in securing and motivating efficient management of the firm (Chagbadari 2011). The ROA is the ratio of annual net income to average total assets of a business during a financial year. It is measured thus:

\[ \text{ROA} = \frac{\text{Annual Net Income}}{\text{Average Total Assets}} \]

Corporate Governance Practice and Employee Job Satisfaction

Job satisfaction has been the most frequently investigated variable is organizational behavior (Spector, 2015). Job satisfaction varies and researchers, for example researchers have suggested that the higher the prestige of the job, the greater the job satisfaction. Many workers, however, are satisfied in even the least prestigious jobs. That is, they simply like what they do. In any case, job satisfaction is as individual as one's feelings or state of mind. Job satisfaction can be influenced by a variety of factors, for example, the quality of one's relationship with their supervisor, the quality of the physical environment in which they work, the degree of fulfillment in their work, etc. Satisfaction in the workplace is valuable to study for multiple reasons:

1. Increased satisfaction is suggested to be related to increased productivity
2. Promoting employee satisfaction has inherent humanitarian value.

In addition, job satisfaction is also related to other positive outcomes in the workplace, such as increased organizational citizenship behaviors (Organ & Ryan, 2015), increased life satisfaction, decreased counter productive work behaviors (Dalal, 2010), and decreased absenteeism. However, it is argued that there is...
Corporate Governance and Business Performance

not much empirical data to support the claim that employees' job satisfaction is pegged on governance practices (Organ & Bateman, 2009). In contrast, Robbins and Judge (2008) assert that “some researchers used to believe that the relationship between governance and job satisfaction was nonexistent, but a review of 300 studies suggested that the correlation is pretty strong.”

Empirical research has shown a negative relationship between empowerment and job stress, suggesting that as employees are more empowered their job stress decreases. In addition to stress, increased employee satisfaction helps reduce employee turnover, leaves of absence, and lower work related disability and violence claims (Harmon, et al, 2013). Morrison, et al. (2017) outlined several ways in which the lack of engagement and high turnover rates impact organizations. Plus when employees feel unsatisfied and unappreciated and leave the organization this puts higher workloads and stress levels on those who remain and ultimately further drives down satisfaction for both employees and patients.

Empirical Review

In Nigeria, corporate governance has received maximum attention as its effects of continuance of a firm have been recognised. This recognition has seen actions such as the setting up of the Peterside Commission on corporate governance in public corporations by the Securities and Exchange Commission (SEC) and the setting up of the sub-committee on corporate governance for banks and other financial institutions by the Bankers’ Committee. Study by Kojola (2008) for 20 firms in Nigeria showed that a positive and significant relationship exist between ROE and board size, profit margin and chief executive officer's status, ROE board composition and audit committees and finally between profit margin (as dependent variables) and board size, board composition and audit committee as independent variables.

Study on board composition in Nigeria by Okhalumeh, Ohiohka & Ohiohka (2012) who seek to examine the influence of board composition in the form of the representation of the outsider non-executive directors on the economic performance of firms in Nigeria showed that there was no significant relationship between board composition and any of the performance measure (ROE, ROCE, ROAM, EPS and DPS) using a simple regression analysis through survey for a sample of 38 listed firms in Nigeria. For leadership structure, Adenikinju & Ayorinde (2013), using Nigerian data investigated whether ownership mix and concentration has any variation in corporate performance of publicly listed firms in Nigeria. The study finds that Nigerian firms are highly concentrated and there is significant presence of foreign ownership. The study went further to find that ownership structure has no impact on corporate performance in Nigeria.

A study on board size by Eyenubo (2013) for Nigeria using regression analysis for 50 firms quoted on the Nigerian Stock Exchange during the period 201-2010 showed that bigger board size had a significant negative relationship with the indicator of firm financial performance (NPAT). Finally, Uwuigbe (2013) study for fifteen (15) listed firms in manufacturing and banking sector in the Nigerian Stock Exchange showed that corporate governance mechanisms ownership structure has negative and insignificant relationship with share price. Conclusively for this study, higher number of shareholders on the board has a negative effect of share price. On the other hand corporate governance mechanisms audit committee independence was found to have a positive and significant correlation with share price. This suggest thus, the higher the number of shareholders compared to directors on the audit committee, the better the share price value of the company.

Of interest to this study are findings on the impact of corporate governance on firm financial performance using descriptive content analysis; similar methodology was adopted by Mariri & Chipunza (2011) among 10 selected mining companies listed in the Johannesburg Stock Exchange using secondary data in the form of companies’ annual reports. The study adopted a descriptive quantitative design. The study revealed interesting outcome of governance, CSR and sustainability reporting within the South African Mining Industry. The results showed high corporate governance reporting among the firms considered for the study which correlated with CSR performance.

A critical appraisal of the literature reviewed shows that while some studies provide evidence for negative relationship between corporate governance proxy variables and firm financial performance, others found positive relationship while some found independent and mixed relationship between the two proxies. Several explanations have been adduced for these inconsistencies: use of public data, survey data (fraught with biases) which are generally restricted in scope (Kyereboah-Coleman 2007). This study attempts to close this research gap by providing more empirical evidence for the case of Nigeria.

III. Theoretical Framework

(Theories of corporate governance)

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010).
Corporate Governance and Business Performance

According to Imam & Malik (2017) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfils the long term strategic goal of the owners. It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2017). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance mechanisms. There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanisms on firms' financial performance. The most important theories are the agency theory, stakeholders' theory and resource dependency theory.

1. Agency Theory
Agency theory is a theory that has been applied to many fields in the social and management sciences: politics, economics, sociology, management, marketing, accounting and administration. The agency theory a neoclassical economic theory (Ping & Wing 2011) and is usually the starting point for any debate on the corporate governance. The theory is based on the idea of separation of ownership (principal) and management (agent). It states that “in the presence of information asymmetry the agent is likely to pursue interest that may hurt the principal (Sanda, Mikailu & Garba 2011). It is earmarked on the assumptions that: parties who enter into a contract will act to maximize their own self-interest and that all actors have the freedom to enter into a contract or to contract elsewhere. Furthermore, it is concerned with ensuring that agents act in the best interest of the principals.

The theory, further explain the association between providers of corporate finances and those entrusted to manage the affairs of the firm. This is also in accordance to the works of Ross (2013); Fama (2011); Sanda, Mukaila and Garba (2013) and Anderson, Becher and Campbell (2014)

2. Stakeholders’ Theory
The stakeholders' theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu 2011). The stakeholders' theory attempts to address the questions of which group of stakeholders deserve the attention of management. The stakeholders' theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions. The original proponent of the stakeholders' theory suggested a re-structuring of the theoretical perspectives that extends beyond the owner-manager-employee position and recognises the numerous interest groups. Freeman, Wicks & Parmar (2014) suggested that: “If organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose”.

3 Resource Dependency Theory
Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like.

According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms .The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang, 2009). The agency theory concentrated on the monitoring and controlling role of board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management.

Each of the three theories is useful in considering the efficiency and effectiveness of the monitoring and control functions of corporate governance. But, many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory (Habbash, 2017). Among the various theories discussed, agency theory is the most popular and has received the most attention from academics and practitioners. According to Habbash (2017), the influence of agency theory has been instrumental in the development of corporate governance standards, principles and codes. Mallin (2014) provides a comprehensive discussion of
corporate governance theories and argues that the agency approach is the most appropriate because it provides a better explanation for corporate governance roles (as cited by Habash, 2017).

IV. Methodology

Research Design
This study employed a descriptive survey research design. This research design was a very valuable tool for assessing opinions and trends. It involves the collection of information from a sample of individuals through their responses to questions. It owes its continuing popularity to its versatility, efficiency, and generalization. Survey design is efficient in that many variables can be measured without substantially increasing the time or costs and ensures collection of data on current phenomenon.

Population of the study
Target population in statistics is the specific population about which information is desired. A population is a well defined or set of people, services, elements, events, group of things or households that are being investigated.

The target population for this research work consists of management staff of three (3) selected firms in Lagos state. The total population size of 250 drawn from the three (3) firms is further explained below

<table>
<thead>
<tr>
<th>S/N</th>
<th>Firm</th>
<th>Population</th>
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<tbody>
<tr>
<td>1</td>
<td>7 Up bottling company</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>C and I leasing company</td>
<td>70</td>
</tr>
<tr>
<td>3</td>
<td>UAC foods</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>250</td>
</tr>
</tbody>
</table>

Source: researcher's own construct 2019

Sample Size
The sample size adopted for this work was determined using Taro Yamani’s model as explained below

\[ n = \frac{N}{1 + Ne^2} \]

where: 
- \( n \): sample size
- \( N \): population size, 250
- \( e \): required error, 5%

\[ n = \frac{250}{1 + \frac{250(0.05)^2}{1.25}} \]
\[ n = \frac{250}{1.625} \]
\[ n = 154 \]

The sample size for this study is therefore 154. Mugenda argued that if well chosen, samples of about 10% of a population can often give good reliability. Therefore, the sample size is efficient.

Sampling Technique
The stratified sampling method was used to determine the samples to be selected from the firms. However, simple random sampling technique was used to select the respondents for the study. This is because the members of the population are not geographically dispersed. Therefore it is easy to administer questionnaire to them.

The sample size of one hundred and fifty four respondents was distributed among the hotels using stratified sampling. This was calculated using:

\[ nk = \frac{NK}{N} \cdot n \]

where:
- \( nk \): The sample to be selected per firm
- \( NK \): Population of each firm
- \( N \): Total population covered by the research
- \( n \): Total samples to be selected.

The result of the calculations is summarized in the next table

<table>
<thead>
<tr>
<th>S/N</th>
<th>Firm</th>
<th>Population</th>
<th>Workings</th>
<th>Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7 Up bottling company</td>
<td>100</td>
<td>( \frac{100}{250} \cdot 154 )</td>
<td>62</td>
</tr>
<tr>
<td>2</td>
<td>C and I leasing company</td>
<td>70</td>
<td>( \frac{70}{250} \cdot 154 )</td>
<td>43</td>
</tr>
</tbody>
</table>
Data Sources and Method of Data Collection

The data for this study were obtained from primary sources. The primary data was obtained through the administration of questionnaire to respondent. However, it should be noted that the review of related literatures which include other research works, the publications in journals and text book were also used.

Variable Definition and Measurements

The variables of this study as stated in the topic include Corporate governance mechanism, firm performance, employee satisfaction, and customers satisfaction. Each of the variables were further broken down into simple sub variables and questions asked to address them.

The relationship can be mathematically expressed thus:

\[ Y \left( f_{p, es, cs} \right) = f \left( X_{cg} \right) \]

Where

- \( Y \) represents the dependent variables which are \( f_{p} \) (firm's performance), \( es \) (employee satisfaction) and \( cs \) (customer satisfaction)
- \( X \) represents the independent variable i.e Corporate governance mechanism.

Reliability and Validity of the Instruments

The research instrument used in the collection of data is the questionnaire. Questionnaires were administered to every member of the sample selected. The questionnaire was divided into sections A and B, Section A relates to the personal characteristics (biography data) of respondent while section B addressed relevant questions concerning the variables. The variables were ranked using the 5-point Likert scale format. The five point Likert scale avail participants or respondents the opportunity to select from a range of options like - Strongly Agreed, Agreed, Undecided, Disagreed and Strongly Disagreed.

To enhance validity of the instrument, a pre-testing was conducted on a population similar to the target population. The reasons behind pre-testing was to assess the clarity of the instrument items so that those items found to be inadequate in measuring the variables were either discarded or modified to improve the quality of the research instrument thus increasing its validity.

However reliability in the research is influenced by random error. Random error is the deviation from a true measure due to factors that have not been effectively addressed by the researcher. As random error increases, reliability decreases. These errors might arise from inaccurate coding, ambiguous instructions to the subjects, interview fatigue and interview bias. In designing and administering of these instruments, care was taken to avoid such errors. A pilot-study that was undertaken addressed the question of validity and reliability of the instruments.

Technique of Data Analysis

Before processing the responses, the completed questionnaire was edited for completeness. Quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS) and properly presented. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. The information was displayed by use of tables. The method used in the presentation of data is simple percentage method of tabular presentation. The correlation test analysis was employed to test the stated hypotheses and to test the significant relationship between the actual and observed variables. The computer statistical package for social science (SPSS) software was used for this purpose.

3.10 Justification for the Methods Used

The survey method was adopted because of its efficiency. it is efficient in that many variables can be measured without substantially increasing the time or costs and ensures collection of data on current phenomenon. This makes it possible to be able to measure the relationship between corporate governance and firm’s performance, employee’s satisfaction, and customers’ satisfaction. The results were presented in tables and percentages to ensure management reach conclusion easily and make decision from time to time.

Test of Hypothesis

Hypothesis One

\( H_1 \): There is a significant effect of corporate governance mechanism on firm performance.
From the table above, the Pearson correlation (r) analysis between corporate governance mechanism and firm performance variables is 0.705, indicating a strong positive correlation between corporate governance mechanism and firm performance variables. Thus, the null hypothesis is rejected and it is concluded that there is a significant impact of corporate governance mechanism on business firm performance.

Hypothesis Two

H₂: There is a significant impact of corporate governance mechanism on employee job satisfaction

From the table above, the Pearson correlation (r) analysis between corporate governance mechanism employee job satisfaction variables is 0.449, indicating a moderate positive correlation between corporate governance mechanism and employee job satisfaction variables. Thus, the null hypothesis is rejected and it is concluded that there is a significant impact of corporate governance mechanism on business employee job performance.

V. Discussion of Findings

From the findings, it was established that the respondents were very satisfied as employees are more empowered their job stress decreases, Lack of employee involvement and high turnover rates impact organizations. When employees feel unsatisfied and unappreciated they leave the organization and High staff turnover due to dissatisfaction puts higher workloads and stress levels on those who remain and ultimately further drives down satisfaction.

On corporate governance, the study established that Corporate governance enhances the integrity and efficiency of capital markets, which in turn will improve investor confidence; Corporate governance is considered as having significant implications for the growth prospects of an economy; Effective corporate governance is considered as ensuring corporate accountability, enhancing the reliability and quality of public financial information; and Companies with demanding governance standards show higher market valuations. This was in line with Cassar and Holmes (2005) who argued that Effective corporate governance is considered as ensuring corporate accountability, enhancing the reliability and quality of public financial information.

Finally From the findings on job satisfaction respondents agreed that the higher the prestige of the job, the greater the job satisfaction; Improved job satisfaction can sometimes decrease job performance, Job satisfaction is as individual as one’s feelings or state of mind, Inventories, and Job satisfaction can be influenced by the quality of one’s relationship with their supervisor.

This was in line with Harris and Raviv (2008), who argued that the higher the prestige of the job, the greater the job satisfaction and Improved job satisfaction can sometimes decrease job performance.

Summary

This research work was undertaken to address the relationship between corporate governance mechanism and firm performance and employee job satisfaction. The following were derived from the data obtained from representative samples through carefully administered questionnaire and analyzed accordingly.
There is a significant but average relationship between corporate governance mechanism and firm performance in the firm examined. The Return on equity, which measures the profitability of shareholders investment and shows the net income as a percentage of shareholders' equity, as well as the returns on assets recorded in the selected firm indicated that there is a relationship between corporate governance mechanism and firm performance.

The finding from the second hypothesis indicated a 0.499 which means moderate relationship between corporate governance mechanism and employee job satisfaction. It is found that an employee is satisfied with the job when the parties of corporate governance like board of directors, management etc adopts polices that make the work condition and terms of employment fair enough for the employees.

VI. Conclusion

From the analyses, it can be concluded that corporate governance mechanism affects firm performance and employee job performance. This is in line with Organ (2015) claim that job satisfaction can be influenced by a variety of factors, for example, the quality of one's relationship with their supervisor, the quality of the physical environment in which they work, the degree of fulfillment in their work, etc. Eyenubo (2013). Also found that employees and customer alike tend to perform better when effective corporate governance mechanism is put in place.

The study concludes that as employees are more empowered, their job stress decreases; Lack of employee involvement and high turnover rates impact organizations; When employees feel unsatisfied and unappreciated they leave the organization, and High staff turnover due to dissatisfaction puts higher workloads and stress levels on those who remain and ultimately further drives down satisfaction.

Further the study concludes that Job satisfaction includes social recognition which consists of personal attention, mostly conveyed verbally, through expressions of interest, approval and appreciation for a job well done; The award of equal benefits fails to recognize workforce diversity; Employee benefits are awarded equally for a specific job grade and in return, this has contributed to high labour turnover; and Lack of employee recognition or commendation leads to loss of talent, and increased labour costs unmet targets.

Additionally the study concludes that Where training is conducted, employees feel motivated and this reduces the labor turnover, and Management must ensure that adequate plans and resources exist to recruit, motivate, train and develop employees Finally the study concludes that Improved job satisfaction can sometimes decrease job performance, Job satisfaction is as individual as one’s feelings or state of mind, Inventories, and Job satisfaction can be influenced by the quality of one’s relationship with their supervisor.

VII. Recommendation

The following recommendations were made to strengthen the importance of sound corporate governance practices on firm, employee and customer performance.

i. Adequate measures should be taken to enhance efficiency and effectiveness of governance frameworks in the firms. Stakeholders should be adequately paid the returns on their equity and knowledgeable on the relevant laws, rights, responsibilities and ethical requirements so that the firm will be able to perform well financially.

ii. Executive compensation should be regularly reviewed to discourage misappropriation of firms' resources. The level of the remuneration should be sufficient and reasonable to motivate employees for higher performance.

iii. Steps should also be taken for mandatory compliance with the code of corporate governance. Also, an effective legal framework should be developed that specifies the rights of customers and obligations of a firm, its directors, management and employees to the customers so as to satisfy and encourage the customers to patronise more.

iv. Risk management should be transparent and ethical in order to promote the image of firms in Nigeria. Non-compliance with the standard of reporting and disclosure requirement should be sanctioned.

Suggestions for Further Study

The limitations of the study have prompted suggestions for further research as listed below;

1) This research has gone some way to exploring corporate governance and corporate performance of banks in a broader context. Further research could explore the relationship in more in specific categories for example, in not-for-profit organizations, in government organizations, and in family companies. Since this study focused on the Nigeria banking sector it would be beneficial to have a clearer understanding of corporate governance roles in other types of organizations. Such research could address the similarities and differences of the roles in different organizations and consider also the legal requirements for different organizations.

2) The study recommended further research in the area of public sector governance and governance of other industries in the private sector.
3) Further research is also required on the behavioural aspects of boards. Researchers in developed countries have recently started examining board processes by attending actual board meetings. However this also needs to be expanded by researchers in developing economies. There is therefore the need to go beyond the quantitative research, which is yielding a mixture of results, to perhaps a more qualitative approach as to how boards work. Expanding this current research into a wider study of board dynamics and decision making would be a start in developing a better understanding of corporate governance.

References


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Corporate Governance and Business Performance


