International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 5 Issue 5, July-August 2021 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

Effect of Corporate Governance on Profitability of Quoted Manufacturing Companies in Nigeria

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ABSTRACT

The study determined the extent corporate governance affect profitability of quoted manufacturing companies in Nigeria using; board size, board independence, directors' shares and profit margin of quoted manufacturing companies in Nigeria. Only secondary data was used for the successful execution of this research work. Three hypotheses were formulated for this study while data extracted through the financial statement was tested with the Regression statistical tool using the E-view 9. The outcome of the analyses carried out showed that board size has negative but significant effect on net profit margin of manufacturing companies quoted on the Nigeria Stock Exchange. It is therefore recommended that board size should be relative to the firm's business need, scope and complexity. Since no two firms are exactly alike in all ramifications, it is important that an appropriate size be understood to be a function of each firm's circumstances. Setting arbitrary board size benchmarks will therefore be counterproductive.

KEYWORDS: *Corporate Governance, Board Size, Board Independence, Directors 'shares and Profitability*

How to cite this paper: Okoye, Pius V. C. | Ugwu, Scholastica C. "Effect of Corporate Governance on Profitability of Quoted Manufacturing Companies in Nigeria" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-5 | Issue-5, August 2021, pp.754-767, URL: www.ijtsrd.com/papers/ijtsrd44953.pdf

IJTSRD44953

INTRODUCTION

Corporate governance is a set of processes, customs, rules and regulations which determines the running of an organization towards achieving its objective (Manukaji, 2020). It is also a process, influenced by the board of directors or management and other personnel assigned to provide reasonable assurance and achievement of objectives in effectiveness and efficiency in all operations, reliability of financial reporting and compliance with applicable laws and regulations (Frank & Sundgren, 2012). The none implementation of corporate governance policies had led to the recent global high profile corporate failures, for example the Maxwell Communications Corporation and the Enron in United States of America. All these corporate failures have been accredited to meager corporate governance practices Ngwenze & Kariuki (2017).Since good governance of listed companies has become a priority and the pillar on which it rest are contained in the laws and regulations, regulations around the world have devoted significant time and resources to the development of legislations and policies related to corporate governance. Significant progress has been achieved in Nigeria over the past decade in establishing government frame work for listed companies in Nigeria for instance. The Nigerian latest Code of Corporate Governance (2018) seeks to put in place corporate governance best practices in Nigerian companies. This Code also promotes public awareness of essential corporate values and ethical practices that will enhance the integrity of the business environment. An increase in productivity of the agricultural sector is a vital element for economic growth of any nation (Manukaji, 2020).

Developed countries differ from developing countries in many ways (Achchuthan & Kajananthan, 2013). For developing countries like Nigeria, good corporate governance is an essential tool for globalization of business organizations (Narwal & Jindal, 2015). Good corporate governance consists of transparency principle, accountability principle, responsibility principle, independence principle and fairness principle which have direct effect on corporate performance (Nur'ainy, 2013). Good corporate governance does not only enhance the profitability but also increases manufacturing company performance. By enhancing the overall performance of companies and increasing their access to outside capital, good corporate governance contributes toward economic stability that reduces the vulnerability of the financial crises (Narwal & Jindal, 2015). It reduces cost of capital and transaction cost. Corporate governance is concerned with the relationship among management, board of directors, controlling shareholders, monitoring shareholders and other stakeholders (Latif, 2013).

In a nutshell, weak corporate governance will largely contribute to total failures, corporate scandals and failures resulting from fraud and other forms of malfeasance, this on the long run will affect negatively the financial performance of any company. The financial crisis of 2008 that involved marginal lending by manufacturing companies which created erosion of stakeholders' funds of manufacturing companies is still current in investor's mind. The study carried out by Bhimani, (2008) stated that the major cause of this development has been traced to weak corporate governance. However, many scholars have carried out studies on corporate governance, despite all these studies on corporate governance, a gap exist in the literature pertaining to the corporate governance and firm profitability.

From the ongoing review of the literature, some studies done in Nigeria were done in different aspect of corporate governance. Majority of the works were carried out using different variable and methodology. This was the gap spotted and the findings of this study intend to bridge this gap. It is on this location difference that we found our gap. Some of the researchers used different methods and design like survey research design which employed the use of questionnaire but the researcher adopted ex-post factor which employed the use of secondary data and report from financial statement, there exist methodology gap. Therefore, the researcher found this gap worthy of study. It is in respect of this problem that the study tends to find out the effect of corporate governance on profitability of quoted manufacturing companies in Nigeria. The main objective of the study is to determine the effect of corporate governance on profitability of quoted manufacturing companies in Nigeria.

The specific objectives are presented as follows:
1. To determine the extent to which board size affect net profit margin of quoted manufacturing companies in Nigeria.
2. To examine the effect of directors shares on net profit margin of quoted manufacturing companies in Nigeria.
3. To determine the extent to which board independence affect net profit margin of quoted manufacturing companies in Nigeria.

Review of Related Literature

Corporate governance

From the perspective of Sreeti (2017), corporate governance is the process through which corporate resources are allocated in a manner that maximizes value for stakeholders such as shareholders, investors, employees, customers, suppliers, the environment and the community at large. A corporate governance system, according to Sreeti (2017) ensures that those charged with governance are held to account by evaluating their decisions on transparency, inclusivity, equity and responsibility. It is a mechanism implemented, on behalf of the shareholders and other stakeholders of a company, by the board of directors and its committees to provide direction, authority and oversight to management (Youssef, 2007).

Corporate governance as defined by Baker and Powell (2009) is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. They pointed out that corporate governance mechanisms consist of internal and external systems and procedures used to ensure that the agent runs the company in the interest of the principal and other stakeholders and its central theme is to ensure the accountability of those charged with governance and management of the company through mechanisms designed to reduce the principal – agent problem associated with separation of ownership from management of a company (Eke, Akpanuko & Nsima, 2019).

The Principles of Corporate Governance acknowledge that an effective corporate governance system can lower the cost of capital and encourage firms to use resources more efficiently, thereby promoting growth. It also include integrity, ethical behavior, disclosure and transparency, equitable treatment of the shareholders and efficient discharge of board responsibilities and a functioning sound corporate governance are the foundations upon which investors' confidence is built (Manukaji, 2020). Governance is the process by which companies are directed, controlled and held to account (Australian Standard, 2003). This shows that corporate governance encompasses the authority, accountability, stewardship, leadership, direction and control exercised in managing organizations (Babatunde & Akeju, 2016).

Corporate governance deals with the ways in which suppliers of finance corporations assure themselves of getting a return on their investment and is about promoting corporate fairness, transparency and accountability (Al- Haddad, Alzurqan & Al_Sufy, 2011), and establishes how the various participants shareholders and other stakeholders, management, the board of directors interact in determining the direction and performance of corporations.

The term profitability has two components – profit and ability. Profit is money that is made in business, through investing and other means after all the costs and expenses are paid; it is the

advantage or benefit that is gained from doing something; it is the excess of returns over expenditure in a transaction or series of transactions; it is also viewed as the compensation accruing to entrepreneurs for the assumption of risk in business enterprise as distinguished from wages or rent (Merriam-Webster, 2017).

According to Pandey (2010), profit is the difference between revenues and expenses over a period of time (usually one year). There are several useful concepts of profit from Pandey's perspective, they are: gross profit (which is the difference between sales and cost of goods sold); profit before depreciation, interest and taxes, that is, earnings before interest, tax, depreciation and amortization or EBITDA (which is the difference between revenue and all operating expenses except depreciation, interest and taxes); operating profit or profit before interest and tax (which is the difference between gross profit and operating expenses consisting of general and administrative and selling expenses and depreciation; profit before tax (which is the difference between profit before interest and taxes and interest charges; profit after tax (which is profit before tax minus tax); and net operating profit after tax (which profit before interest and tax minus tax on profit before interest and tax) (Pandey, 2010).

Erhardt, (2003) carried out an investigation aimed at finding the linkage between board gender diversity and financial performance of firms in the United States of America using correlation and regression analysis (Dabor, Isiavwe, Ajagbe & Oke, 2015). The results show that board gender diversity has a positive linkage with firm financial performance. Cheng (2008) studied the impact of ownership structure on profitability of Chinese firms. The results of the study show that there is a significant positive relationship between concentrated ownership and firm financial performance (Nwonyuku, 2016). The result also shows that there is no significant relationship between firm performance and ownership concentration in countries which recently joined the Europe Union. Farreira, (2010) found that an increase in the number of female directors does not have any significant impact on the return on assets of firms. Sanda (2005) studied the connection between corporate governance mechanisms and financial performance of Nigerian firms using pooled ordinary least squares regression analysis technique (Solomon 2012, Ajagbe, 2007). The results show that board structure has no significant relationship with return on equity while board size has a negative relationship with return on equity.

Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders.

Relationship between Board size and net profit Margin

Empirical studies have shown that board size is more positively associated with high profit margin (Mak & Kusnadi, 2005; Sanda, Mikailu, & Garba, 2005). However, result of the study of Kyereboah- Colemon (2007) indicates that large boards enhanced shareholders wealth more positively than smaller ones.

A lot of studies that have examined the separation of office of board chair from that of CEO generally sought to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant relationship between board size and net profit margin. Yermack (1996) also found profits are more valuable when different persons occupy the CEO and net profit. The results of the studies show that boards that are structured to be independent of the CEO are more effective in monitoring corporate financial accounting process and therefore more valuable (Klein, 2002). Abor and Biekpe (2005) demonstrate that duality of both functions constitute a factor that influences the financing decision of the firm. They found that profits with structure separating these two functions are more able to maintain the optimal amount in capital structure than profits with duality.

Relationship between Directors shares and net profit margin

This mechanism of ownership concentration refers to the proportion of a firm's shares owned by a given number of the largest shareholders. A high concentration of shares tends to create more pressure on managers to behave in ways that are value maximizing. In support of this argument, Gorton and Schmid (1996) and Shleifer and Vishy (1997) suggested that a low level of ownership concentration will be associated with an increase in firm's value, but that go beyond a certain level of concentration, the relationship might be negative. Studies like

Renneboag (2000) reported result not totally in agreement with the hypothesis of a positive relationship between firm performance and ownership concentration (Adekunle, 2016)

Relationship between board independence and profit margin

Due to the samples that were used for this study from the Nigerian Stock Exchange, operating and financing arrangement vary so much that different entities are bound to have different levels of expenditure, so comparing one to another has little or no meaning. Profit margin is a company's pricing strategies and how well it controls cost. Profit margin is profit after tax divided by turnover of the selected samples of firms.

Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Emmon & Schmid, 1999). If these mechanisms did not exist or function properly, outside investors would not lend to firms or buy their equity securities and economic performance would suffer because many good business opportunities would be missed and temporary financial problems at individual firms spread quickly to employee and consumers. This study adopts four corporate governance mechanisms namely: composition of board member, board size, CEO status and shareholding (ownership) concentration. Yermack (1996) suggests that the CEOs of diversified profit may require higher levels of advice compared to less diversified profit and that the need for advice may increase with the number of business segments. Thus, in diversified profit the board should be large enough to accommodate independent non-executive directors with backgrounds matching the disparate business interests of the profit, and who will also be able to advise the CEO on investment opportunities. It is therefore acknowledged internationally that board size and net profit are correlated (Yermack, 1996; Dalton et al., 1999).

Review of Empirical Studies

Manukaji (2020) determined the effects of corporate governance on the productivity of quoted agricultural firms in Nigeria. The study adopted Ex-post facto research design and descriptive, correlation and multiple regression analysis for the data analysis. The study revealed that corporate governance practices positively influenced productivity of agricultural firms in Nigeria. Again the findings of the study indicate that companies with higher number of board size affected the productivity positively as measured by sales growth. The remuneration of directors had positive and significant influence on productivity, board gender and board dualities had positive influence on productivity although not statistically significant. Eke, Akpanuko and Nsima (2019) investigated the influence of corporate governance on profitability of quoted oil and gas companies in Nigeria. The population of the study was made up of the twelve (12) oil and gas companies listed on the Nigerian stock exchange between 2010 and 2018. Data required for the study were extracted from the audited financial statements of the quoted oil and gas companies that constituted the sample of this study and analysis of data was carried out using descriptive statistics. Multiple regression and correlation statistics were used in testing the hypothesis postulated. The investigation revealed that a significant positive linear relationship exists between corporate governance and profitability of quoted oil and gas companies in Nigeria and that board independence, board size and board meetings accounts for 3.2 percent, 21.9 percent and 2.8 percent respectively of the profitability of quoted oil and gas companies in Nigeria. Agbaeze and Ogosi, (2018) studied the relationship between Corporate Governance and Profitability of Nigerian Banks. Profitability was measured by profit after tax while the number of members in the board was used as a measure of corporate governance. The number of employee was introduced as a control variable while multiple panel of data analysis was used. Findings revealed that the number of employees had positive and significant impact on profitability of Nigerian banks. Olayiwola (2018) 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 analyze 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. Nhung and Nguyen (2017) examined the impacts of corporate governance on firm performance; their study investigated the relationship between corporate governance and financial performance of listed Singaporean companies. Findings showed that there is an inverse association between board size and firm performance. However, no significant relationship was found between board dependence, CEO duality and company financial performance. Gaitan (2017) examined the effect of the corporate governance on productivity under different business environment using 670 firms-year observations during the period of 2006 to 2014 showing that board size, gender diversity, intuitional ownership and presence of independent directors affect productivity. Using Regression analysis, the study found a statistically significant nonlinear relationship between board size and productivity. Ngwenze, and Kariuki (2017) examined the effect of corporate governance practices on financial performance of listed agricultural firms in the Nairobi Securities Exchange, Kenya**.** The researcher used a descriptive correlation research design to determine the relationship between corporate governance practices and financial performance. The study findings revealed that corporate governance practices have no significant influence on ROE and ROA of listed agricultural firms in Kenya. Okoye, Evbuomwan, Achugamonu and Araghan (2016) studied the impact of corporate governance on the profitability of Nigerian banking sector. Return on equity (ROE) and return on assets (ROA) were adopted as proxies for banking sector profitability while capital adequacy ratio (CAR), liquidity ratio (LQR) and ratio of non-performing loans to total loans (NPL) were adopted as proxies for corporate governance, ordinary least square analytical techniques was adopted. Study findings showed significant impact of corporate governance on the performance of the Nigerian banking sector.

Osundina, Olayinka and Chukwuma (2016) conducted a research work on corporate governance and financial performance of selected manufacturing companies in Nigeria. The study adopted ex-post facto research design. Random sampling was used to select 30 companies out of a total population of 45 manufacturing companies listed on the Nigerian Stock Exchange, for a time period of 2010 to 2014. Multiple regression analysis and descriptive statistics were used in analyzing the data. F-stat and t-stat were used to test the hypothesis. It is therefore suggested that reform efforts should be directed towards improving the corporate governance of listed Nigeria manufacturing companies. In this study of Babatunde and Akeju, (2016) examined the impact of corporate governance on firms' profitability in Nigeria. This research has been performed using a sample of 60 companies listed on the Nigeria Stock Exchange (NSE) from 2004 to 2014. The results of the multiple regression analysis were statistically significant at 0.05 level. The F Statistics of 1.036 also shows that the result typically explained the model. The findings of the study confirmed that corporate governance mechanisms enhance firms' profitability in Nigeria. Nwonyuku (2016) ascertained the corporate governance and profitability of firms, employing eight food and beverages firms listed in the Nigerian Stock Exchange from 2004 to 2014. The data were analyzed using basic descriptive and inferential statistics with Ordinary Least Square multiple regression in a panel data setting. However, board composition has negative relationship with return on equity but with positive association with net assets per share. Board skills and competence has negative relationship with return on equity and net assets per share, while board gender diversity results indicated positive relationship with return on equity and net assets per share. The study recommends among other things, that Nigerian food and beverages firms should adopt effective corporate governance practice as a panacea to firm growth and survival. Fallatah (2015), a study conducted in Saudi Arabia on CEO compensation and firm performance found a significant relationship between CEO compensation and firm performance measures. In addition, a negative and significant relationship between CEO compensation and corporate governance structure (board independence) was observed, other variables ignored. 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. Dabor, (2015) result indicated that there is a positive but statistically insignificant relationship between board size and return on equity. All the results indicated that increase in board size would increase the performance of the firm. This confirmed the view that larger boards are better for corporate performance because members have a range of expertise to help make better decisions. Alalade, Onadeko and Fine-Country, (2014) they conducted a research work on corporate governance practices and firms' financial performance in the selected manufacturing companies in Lagos State, Nigeria. The Panel data of the ten companies for the 8 years was used, employing ordinary least square (OLS) method of analysis. Consequently, the results of the descriptive statistics show that majority of the companies implemented the code of conduct that emphasized appropriate composition of the board of directors and forecast of operations. Further analysis showed that there was positive relationship between the return of equity and legal compliance, though the relationship is weak given the value of R as 0.197. These imply that while the companies obey the regulations in term of board composition, legal compliance and production projections, which are the major concerns of this study. Odiwo, Chukwudumebi & Kifordu, (2013) examined the impact of corporate governance on performance of manufacturing firms in Nigeria. The study employed a cross-sectional data from a sample of thirty (30) manufacturing firms drawn from the quoted manufacturing companies in Nigeria that audited their annual financial statement from the period of 2010 to 2014. The empirical findings revealed that Chief Executive Officer's Shareholding has a positive and a significant impact on organizational performance at 5% level of significance. Director's shareholding has a negative and a significant impact on organizational performance at 1% level of significance. Board size has a positive and a significant impact on organizational performance at 1% level of significance. Board gender has a negative and an insignificant impact on organizational performance at more than 10% level of significance. Ijeoma and Ezejiofor (2013) determined whether corporate governance contributes significantly in ensuring accountability and transparency to improve performances of an enterprise in Anambra state, Nigeria. Data for the study were collected from both primary and secondary sources. Hypotheses were analyzed and tested with the Two Way ANOVA for opinion differences, using the Statistical Package for Social Sciences (SPSS) version 17.0 software package. The study conclude that corporate governance assists in provides structure through which the objectives of the SMEs are set and means of attaining those objectives and monitoring performances all to ensure effectiveness in operations and efficiency in their services. Odiwo, Chukwudumebi & Kifordu, (2013) examined the impact of corporate governance on performance of manufacturing firms in Nigeria. The study employed a cross-sectional data from a sample of thirty (30) manufacturing firms drawn from the quoted manufacturing companies in Nigeria that audited their annual financial statement from the period of 2010 to 2014. The empirical findings revealed that Chief Executive Officer's Shareholding has a positive and a significant impact on organizational performance at 5% level of significance. Director's shareholding has a negative and a significant impact on organizational performance at 1% level of significance. Board size has a positive and a significant impact on organizational performance at 1% level of significance. Board gender has a negative and an insignificant impact on organizational performance at more than 10% level of significance. On the basis of these findings, the study recommended excerpts that increase in Chief Executive Officer's Shareholding would significantly improve organizational performance. It is also recommended that increase in Director's Shareholding would significantly lead to a decrease in organizational performance. Igor, (2013) carried out a research work on the impact of corporate governance on performance of companies. Results of implementation of the corporate governance in companies will be presented using Score card analysis for evaluation of the implementation of practices and principles of corporate governance on a sample of 19 companies which are listed on the Official market of the Banja Luka Stock Exchange. Level of performance will be assessed by determining the net profit margin and earnings per share for the same sample of companies. Results will be compared with results obtained by a similar analysis conducted for companies listed on the Vienna Stock Exchange. Inaam, Fatma and Khmouss (2012) conducted a study of the effects of audit committee characteristics (independence, size, meetings and financial literacy), on real activities manipulation in the Tunisian context. The study used secondary data of 29 non – financial firms for a period of 2000 - 2010 and the study made the following finding: audit committee independence seemed to be efficient in constraining real earnings management and managers opportunistic behavior; there was no significant association between audit committee expertise and sales manipulation and no significant relation between audit committee expertise and over production; that the more audit committee meeting the better opportunity to detect sales manipulation; and lastly, found that an audit committee size is positively associated with sales manipulation and over production. 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. Adelopo (2010) examined voluntary disclosure practices among listed companies in Nigeria. Results from Univariate and Multivariate analyses of 52 listed companies, representing 41% of the population studied, suggest an average voluntary disclosure of 44% based on modified Meek (1995) disclosure index comprising 24 disclosure items. The study found significant positive relationship between voluntary disclosure and firm size, measured as the natural logarithm of total asset. Significant positive relationship was also found between market based definition of firm performance and voluntary disclosure. Percentage of block share ownership and percentage of managerial share ownership were found to be negatively related to firm disclosures. Result from the study conducted by Uadiale (2010) indicated that there is strong positive association between board size and corporate financial performance – return on equity. In a sample of 248 companies employed to study the impact of corporate governance on firm's performance in Nigeria using panel data random effect analysis, Al-Haddad, Alzurqan and Al_Sufy, (2011) conducted a research work on the effect of corporate governance on the performance of Jordanian industrial companies: an empirical study on Amman Stock Exchange**.** The study population consisted of (96) Jordanian industrial firms' governance of the Jordanian firms listed at Amman Stock Exchange (ASE). Forty four (44) Firms were selected randomly to be used in the study. The study found that there is a direct positive relationship between profitability - measured either by Earnings per share (EPS) or Return on assets (ROA) - and corporate governance, also a positive direct relationship between each of liquidity, dividend per share, and the size of the company with corporate governance. Dabor and Adeyemi (2009) conducted a study on corporate governance and the credibility of financial statements in Nigeria, the study examined the relationship between corporate governance and the credibility of financial reports in Nigeria using multiple regressions. The study found that in the absence of Chief Executive Officer duality, the financial statements produced appear to be credible and lastly, stated that companies having audit committee as stipulated by CAMA 90 seems to produce credible financial statements.

Although, many scholars have carried out study on corporate governance such as the following: Sanda (2005) studied the linkage between corporate governance mechanisms and financial performance of Nigerian firms; Al- Haddad, Alzurqan & Al_Sufy, (2011) they conducted a research work on the effect of corporate governance on the performance of Jordanian industrial companies: an empirical study on Amman Stock Exchange; Igor, (2013) he carried out a research work on the impact of corporate governance on performance of companies; Alalade, Onadeko & Fine-Country, (2014) they conducted a research work on corporate governance practices and firms' financial performance in the selected manufacturing companies in Lagos State, Nigeria. Narwal and Jinda, (2015) they examined the impact of corporate governance on the profitability of Indian textile sectors.

However, in the review of the literature made, some of the studies were carried out outside Nigeria, while some done is Nigeria were done in different aspect of corporate governance. Majority of the works were carried out using different variables and methodology. This was the gap spotted and the findings of this study intend to bridge this gap. It is on this location difference that we found our gap.

Methodology

This study relied on historical data. Basically, data was obtained from the secondary source. Therefore, the study adopted Ex-post-facto research design.

The population of the study is made up of some quoted manufacturing companies selected in Nigeria as at 31st December 2019 and have consistently submitted their annual reports to the Nigeria Stock Exchange from 2010 to 2019. This comprises of 20 selected companies as per the Nigeria Stock Exchange fact book 2019.

In order to ascertain the size of the sample that would serve as what was used in this study, simple random sampling method was adopted. The study selected 10 manufacturing companies.

This study utilized secondary data. The sources of data include annual reports and accounts of companies selected for this study.

Model Specification

In order to test for the relevance of the hypotheses regarding the effect of corporate governance on profitability of quoted companies listed on the Nigerian Stock Exchange, the following model (Regression model) which examines the relationship between a dependent variable and two or more repressors or independent variables was adopted for the respective variables and hypotheses.

Y = b0+b NPM = b1BS + b2DS +b3BI +E……………… (1)

E is the error term capturing other explanatory variables not explicitly included in the model.

Bo is the intercept of the regression.

b1, b2 and b3 are the coefficients of the regression.

The following abbreviations are therefore selected to denote their respective variables in the model.

NPM = Net Profit Margin

BS = Board Size,

DS = Directors Share

BI = Board Independent

Corporate governance is Proxy for variables: Board Size (BS), Directors Share (DS), and Board Independent (BI) are the independent variables in the model which is proxy as executive and non-executive directors

Method of Data Analysis
The statistical technique employed in analyzing the data was the multiple regression analysis. Multiple regression analysis is very relevant in investigating the predictable power of the independent variables on the dependent variable. The analysis was guided by the specified model in each hypothesis. All the hypotheses were tested at 5% level of significance. E-View Version 9.0 was utilized in data analysis of this study.

Data Presentation, Analysis and Interpretation
Data Analysis
Descriptive Statistics

Table 4.1 provides summary of the descriptive statistics analysis result

Date: 07/11/19 Time: 23:38				
Sample: 1 100				
	NPM	BS	DS	BI
Mean	19.91698	11.03448	2.07E+08	1.965517
Median	17.67000	10.00000	12161220	1.000000
Maximum	216.4400	18.00000	6.69E+09	11.00000
Minimum	1.220000	6.000000	1861.000	1.000000
Std. Dev.	23.12921	2.704210	7.54E+08	2.408552
Skewness	7.215448	0.286207	7.537075	2.762731
Kurtosis	61.48110	2.115607	64.45354	9.677639
Jarque-Bera	13152.55	4.023062	14513.66	272.3157
Probability	0.000000	0.133784	0.000000	0.000000
Sum	1732.777	960.0000	1.80E+10	171.0000
Sum Sq. Dev.	46006.59	628.8966	4.89E+19	498.8966
Observations	87	87	87	87

Sources: Researcher's summary of descriptive statistics 2019

The descriptive statistics result provided some insight into the nature of the data collected from all the quoted manufacturing companies that were used for the study. From the result, the study observed that within the period under review, the selected company's profitability have an average value of 19.91698, maximum and minimum value of 216.4400 and 1.220000 respectively.

Those values indicate that the company's profitability represented by net profit margin used in the study varies widely. Some perform highly while others perform poorly. Secondly, it was observed that board size of the firms used has a mean value of 11.03448, maximum and minimum value 18.00000 and 6.000000 respectively. This reveals that some of the firms spend a high amount of their profitability while the others do not; the table also shows mean value for directors Shares of the firms used 2.07E+08, maximum and minimum 6.69E+09 and 1861.000 respectively. Finally, it was observed that board independence of the firms used has a mean value of 1.965517, maximum and minimum value 11.00000 and 1.000000 respectively. This reveals that some of the firms spend a high amount of their profitability while the others do not. The difference between the mean, maximum and minimum value indicates that all the firms in this sector experience directors share, however, the growth rate differs over the years and across the firms used.

Lastly, in table 1, the Jarque–Bera (JB.) which test for normality or existence of outliers or extreme value among the variables shows that all the variables were normally distributed at 1% and 5% level of significance.

Correlation Analysis:
In examining the relationship that exists among the variables, the study employed the Pearson correlation analysis and the results are presented below in table 2.

	NPM	BS	DS	BI
NPM	1.000000			
BS	-0.221950	1.000000		
DS	0.067299	-0.244614	1.000000	
BI	-0.126702	0.291185	-0.064590	1.000000

The study used the correlation analysis is to check for multi-co linearity and to explore the relationship that exist among the variables used for the study. The correlation analysis result shows the effect among the various components of corporate governance; such as board size, directors' shares and board independence. The correlation analysis result shows negative effect on firm profitability and all the components, this negative effect reveals that firm corporate governance cannot lead to better firm profitability.

In checking for multi-co linearity, the study observes that no two variables were perfectly correlated. This means that there is absence of multi-co linearity problem in the model used for the analysis.

Regression Analysis

To examine the effect of corporate governance on profitability of quoted manufacturing companies in Nigeria, we used the simple regression analysis.

Dependent Variable: NPM				
Method: Least Squares				
Date: 07/11/19 Time: 23:41				
Sample (adjusted): 1 99				
Included observations: 87 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	39.85814	10.91177	3.652765	0.0005
BS	-1.699218	0.982527	-1.729436	0.0034
DS	4.39E-10	3.38E-09	0.129981	0.8969
BI	-0.652316	1.071862	-0.608582	0.0045
R-squared	0.053664	Mean dependent var		19.91698
Adjusted R-squared	0.019460	S.D. dependent var		23.12921
S.E. of regression	22.90306	Akaike info criterion		9.145305
Sum squared resid	43537.67	Schwarz criterion		9.258680
Log likelihood	-393.8208	Hannan-Quinn criter.		9.190958
F-statistic	1.568911	Durbin-Watson stat		2.141964
Prob(F-statistic)	0.203076			

Source: researcher's summary of regression analysis from e-view 9

Hypothesis one:

H_0: Board size has no significant effect on net profit margin of quoted manufacturing companies in Nigeria.

Board Size: the result of a simple regression analysis involving net profit margin and board size in companies under the period of study revealed that board size has significant effect on net profit margin of quoted manufacturing companies in Nigeria. The result shows that 1% increase in board size will result to -1.699218 decreases in NPM. It has significant effect because the P-value of the statistics (0.0034) is less than 0.05 critical level.

Decision: Based on the result, the study rejects the null hypothesis and accepts the alternate. The study concludes therefore, Board size has negative but significant effect on net profit margin of companies listed on the Nigeria Stock Exchange

Hypothesis Two:

Ho: Directors shares have no significant effect on net profit margin of quoted manufacturing companies in Nigeria.

Directors Shares: The analysis result of the effect of board size has no significant effect on net profit margin of companies listed on the Nigerian Stock Exchange showed a coefficient value of 4.39E-10, t-value of 0.129981 and a probability value of 0.8969.

The coefficient of board size has a value of 4.39E-10, which implies that a unit increase in directors' shares, will lead to about 0.129981 increases in net profit margin. The probability value of 0.8969 which is more than 0.05 critical value indicates that there is no significant relationship between the two variables.

Decision: we reject the alternative hypothesis and accept the null hypothesis and conclude that directors' shares have positive but insignificant effect on net profit margin of quoted manufacturing companies in Nigeria.

Hypothesis Three:
Ho: Board independence has no significant effect on net profit margin of quoted manufacturing companies in Nigeria

Board Independence: it can be seen from the regression result that board independence has no significant effect on net profit margin. The coefficient of board independence has a value of -0.652316, which implies that a unit decrease in board independence, will lead to about -0.608582 reductions in net profit margin. The probability value of 0.0045 which is less than 0.05 critical value indicates that there is significant effect between the two variables. The probability value shows that board independence has negative but significant effect on net profit margin of quoted manufacturing companies listed on the Nigerian Stock Exchange.

Decision: Based on the result, the study accepts the alternative hypothesis and rejects the null hypothesis and concludes that board independence has negative and insignificant effect on net profit margin of companies listed on the Nigerian Stock Exchange.

The global statistic
The effect of global statistics tested in all the variables the R^2, Adjusted R^2 F –statistics and Durbin Waston (DW)

R-square and Adjusted R-squared
In the table above, the study observed from the result the value of the R-squared (R^2) for the model is very low, pegged at 5.4%. It implies that board size, directors shares and board independence explained about 5.4% systematic variations over the period under study, while 94.6% left unexplained, due to changes in other variables not captured in the disturbance term. This is explained by the value of the coefficient of determination (Adjusted R- square). More so, the adjusted R-square confirms the R^2 at 2.0%, taking into consideration the degree of freedom and the inclusion or exclusion of a variable. The low value of the R-square shows that the estimate regression models have bad fit on the data.

F-statistic
Adopting the probability of the F-statistics which is a test for the overall significance of the models, it implies that at high level of significance, the model is rightly specific. The prob (F-stat) of 0.203076, which is greater than 0.05 critical level, indicates that the overall regression is statistically significant. We would therefore reject the alternative hypothesis and concluded that the overall variables have no significant relationship with the profitability in quoted manufacturing companies.

Durbin Watson (DW)
The Durbin Watson statistics in the model is 2.141964, which reveals to us that there is no serial correlation between expenditure on board size, directors shares and board independence in companies, and further shows that the model regression is not spurious and good/fit for regression.

Conclusion
The study examined the effect of corporate governance on the profitability of quoted manufacturing companies in Nigeria. It was discovered that the adoption of good corporate governance practices enhances transparency of company's operations, ensures accountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers. The results show that generally, corporate governance has negative effect on companies' assets. The factors of board size, directors' shares and board independence have negative correlation with the profitability of companies. The annual reports and the financial statements of the companies are the main means of communication between the company and the stakeholders. Furthermore, the result is an indication that the companies are well positioned to support the economic growth and development of the country. With good corporate governance record, the companies would be able to generate more resources to create more employment opportunities, support other businesses through prompt payment of claims, pay dividend to shareholders and generate more tax revenue to government. Therefore, the study concluded that corporate governance has significant effect on profitability of quoted manufacturing companies in Nigeria.

Recommendations
Base on the findings the study recommended that:

1. Board size should be relative to the firm's business needs, scope and complexity. Since no two firms are exactly alike in all ramifications, it is important that an appropriate size be understood to be a function of each firm's circumstances. Setting arbitrary board size benchmarks may therefore be counterproductive.
2. Companies should set fairly high or competitive standards in the selection of non-executive and independent directors for board committee duties. This is critical if such committees are to have strong impact on governance of the firm.

3. The directors should practice due care and diligence on their undertakings. The directors should disclose up all their activities to the public through audited financial statements. This would help the companies to attract and return dividend to their customers and investors if directors practice their duties in an ethical way.

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