

IMPACT OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF LISTED MULTINATIONAL COMPANIES IN NIGERIA

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Abstract - *There has been a persistent issue regarding multinational companies' unexpected collapse and losses due to the lack of proper Corporate Governance structure. It has mainly contributed to the systemic failures, corporate scandals and bankruptcies resulting from fraud and other forms of misconduct, which has significant, far-reaching effects in the short run on the overall monetary performance of these Multinational corporations. The study has undertaken various tests, including descriptive statistics, correlation matrix, unit-root test for stationarity of data (Levin-lin-chu unit-root test), Kao residual cointegration test, and an examination of multicollinearity and Hausman test for models. Secondary data were obtained from various editions of the Central Bank of Nigeria statistical bulletins, National Bureau of Statistics, and factsheets. Given that the p-values observed to be 0.862 is greater than the significance level of 0.05, this gives the basis for the null hypothesis three to be rejected. This study was conducted to determine the impact of corporate governance on the organizational Return on Capital Employed by listed multinational companies on the Nigeria stock exchange. The study concludes that the board composition of the board members does not significantly impact performance as proxied by Return on Capital Employed of selected listed multinational companies in Nigeria. It recommends that the selected listed multinational companies should have a reasonable board size which can affect the return on capital employed of the listed companies in Nigeria. Furthermore, the study recommended that the board members' audit committee independence is critical to the success of return on capital employed by the selected listed multinational companies. Board composition of the board members has a positive but insignificant impact on performance as proxied by Net Profit After-tax of selected listed international companies in Nigeria.*

Keywords: *corporate governance, board size, audit committee independence, board composition and financial performance*

INTRODUCTION

The phenomenon of corporate governance in a business continuity context has always been an attempt to distinguish between ownership and control to improve equity (Mayor et al, 2021). This problem of ageing corporate governance has always been a main point among policymakers, regulators, and researchers who tend to find a distinctive gap in the thinking concept in the literature. Corporate governance is an articulated

booklet that helps correlate a business organization's business process and system, set up by owners and managers.

Corporate governance mechanisms are a system for structuring, managing, and controlling the activities of a company, to achieve long-term strategic objectives to satisfy its shareholders, creditors, employees, customers and suppliers (Manual, 2020). It is a set of customs, rules and regulations that determine an organization's path toward achieving its purpose. It is also defined as a process, influenced by the board of directors or by management and other appointed personnel, to provide reasonable assurance and the achievement of objectives in terms of effectiveness and efficiency in all operations, reliability of financial information and compliance with applicable laws and regulations (Frank and Sundered, 2012).

Corporate governance could be a non-financial figure that influences the execution of any company; hence prior pieces of literature support increasing the disclosure of non-financial information in the reports of every organization (selected or not selected). Price Waterhouse Coopers (2002) found that most top managers and executives in multinational companies believe that non-financial performance measures outweigh financial performance measures in creating and measuring long-term shareholder value. Non-financial performance indicators, according to Coram et al, (2006), can provide critical insight into future performance while also serving as a proxy for identifying well-managed companies. A reasonable assertion because corporate governance indicators can help see how well an organization is managed and predict how well such an organization will perform in the future. Narayanan et al, (2000) asserted that a wise manager would strive to reduce the lack of information through voluntary disclosure, more importantly, nonfinancial (corporate governance) information. In line with this background, the study intends to research the impact of corporate governance on the performance of selected Multinational companies in Nigeria.

In Nigeria, corporate governance of organizations' performance has been a subject of research (Chukwunedo & Ogochuckwu, 2014). Dabor and Adeyemi (2009) found that Non-Executive Directors in a Board enhanced the performance of banks. Enofe et al, (2013) found a negative relationship between board independence and bank performance. They also found an inverse relationship between Director's ownership and bank performance. Similarly, Mgbame et al, (2012) ascertained an inverse relationship between board size and bank performance.

There has been a lingering issue regarding the unexpected collapse and losses of selected Multinationals on corporate governance and performance from the Nigerian Financial Reporting Council (2018), which largely contributes to systemic downsides, corporate scandals, and failures resulting from fraud and some

other forms of malfeasance, which may have long-term consequences on the financial performance of many of these Multinational companies.

Furthermore, the Board of Directors size and composition were insufficient, which is to blame for most of the problem. Calls for board diversity, quotas to increase the proportion of women directors, or more representative boards to challenge such class hegemony recognizes that directors' self-image can affect board behavior and performance. Most of these companies are males on the board of directors in contrast to others with family members, which contradicts the Nigerian corporate governance code 2018 and poses a threat to the continuity of any corporate company in Nigeria.

Because the issues raised above are critical to the performance of any company in Nigeria, the study intends to establish the claim on the topic: of the impact of corporate governance on the performance of selected Multinational companies in Nigeria.

The study's primary objective is to evaluate the impact of corporate governance on the performance of selected companies in Nigeria. Other specific goals of the examination are to:

- i. examine the impact of Board Size on the Return of Capital Employed of Listed Multinational companies in Nigeria.
- ii. determine the impact of Audit Committee Independence on the Return on Capital Employed of listed Multinational companies in Nigeria.
- iii. assess the impact of Board Composition on the Return of Capital Employed of listed Multinational companies in Nigeria.

LITERATURE REVIEW

Corporate Governance

Corporate governance is a mechanism by which management takes necessary steps to safeguard the interest of Stakeholders. It is also the framework where rules, relationships, and processes are controlled (Osundina et al., 2016). Stability and good management can be achieved if firms adopt corporate governance policies, complying with stipulated regulations. Good corporate governance increases a company's efficiency and value on the capital market rather than pulling it down and boosting the confidence of all Stakeholders. Good corporate governance improves accountability transparency, ensures efficient and effective use of resources, creates competitive and efficient managed companies, and attracts and retains investors (Arinze, 2013). Efficient and effective corporate governance leads to satisfied both the employees and consumers. This ensures financial reports' reliability and efficient use of resources, thereby increasing internal and

external stakeholders' reputational effects. Dar, Naseem et al. (2011), identified that corporate governance reduces transaction costs, cost of capital, and vulnerability to financial crises. It leads to increased shareholder wealth, businesses surviving turbulent periods, the development of the capital market, and the global economy strengthened. (Nzelibe & Bissan, 2018) Corporate governance refers to how corporations operate, mainly how a corporation's internal decision-making process is directed and controlled and how it uses its resources.

Also, corporate governance is concerned with the relationship between a company and other societal forces, such as employees, competitors, suppliers, communities, consumers, and the governments. These other societal forces are known as Stakeholders (Nzelibe & Bissan, 2018). Questions on corporate governance and the exercise of corporate control are fundamental to the functioning of a global economy. They have been a subject of intense debate in Africa, the United States, Europe, and other countries where corporations exist. When corporations are profitable, and the shareholders earn a satisfactory return on their investment, they generally support management and defer to its discretions. Still, shareholders complain when performance lags and the regime become isolated from a business's owners. The management of many companies also has insulated themselves from other Stakeholders who share an interest in performance (Wheelen & Hunger, 2006). Pressures for changes in corporate governance have intensified. Large groups of shareholders known as institutional investors have learned to master the processes and procedures necessary to influence corporate behavior. Their primary goal has been to include operation and financial performance to increase the firm's value to its shareholders. A large group of shareholders and other stakeholders has used corporate governance to encourage socially responsible behaviors and corporations' adherence to high ethical standards.

Board of Directors/Shareholders

The Board members include the chairman, Managing Director, Deputy Managing Director, Executive Director, and Board members appointed by the Shareholders. A corporate organization's Board of Directors (BOD) directs and controls a company's management, accountable to the shareholders. The board is solely responsible for formulating and reviewing the company policies, strategies, objectives, annual budget, monitoring, implementation for performance, and ensuring that appropriate governance is in place (Dar et al., 2011). They must report back to shareholders. The board consists of executives (Company employees) and non-executive directors, of which a non-executive director should preside over the committee as the

chairperson. Rimon et al. (2014) stated that a non-executive director is not part of the organization's day-to-day management. Still, he/she is involved in the decision-making and the planning policies. Non-executive members are the shareholders' representatives on the board.

Board Composition

Board composition refers to the distinction between internal and external directors. Gambo et al. (2018), the design can be easily differentiated into internal, affiliate, and external administrators. This distinction stems from the extent of their participation in the management of the company. Inside directors are the directors who are also officers or managers in the company, while outside directors are non-executive directors. Among the external directors (also called external or non-executive directors) are associate directors and other independent directors. Affiliate directors are non-employee directors with a personal or business relationship with the company, while independent directors have no personal, non-business relationship with the company. Although inside and outside directors have their respective strengths and drawbacks, most authors favor boards dominated by outside directors (Rafinda et al., 2018). Outside directors are believed to provide the company with superior performance benefits due to their independence from company management (Nwaiwu and Joseph, 2021). They can bring to the board a wealth of knowledge and experience that the company's direction may not possess. They can increase the element of independent management oversight of the business. The board literature tells us that board composition can influence organizational performance. In this study, four conceptual determinants of board composition are developed to explain the impact of factors on firm performance. That is the board's size, the board's independence, the gender of board members, and the board's competence.

Audit Committee Independence

Auditors are the lead personnel within the auditing process and offer independent oversight of the monetary reporting through companies. The three essential components of auditor independence that all guidelines strive to deal with are Potential conflicts of hobby get up from employment, monetary hobby, and different relationships between the auditing company and the audit client. Types of non-audit offerings rendered through the auditing company. Audit accomplice rotation. As stipulated by the Nigerian Companies and Allied Matters Act (CAMA), 2020, the Audit Committee should be a 6-member audit committee (3 members representing the shareholders and 3 representing the management/directors). Thuraisingam (2013), the number of members on the committee floats from 2 to 5 directors, though not significant with

performance. Osundina et al. (2016) also found a positive but insignificant relationship. Kajola's (2008) empirical studies revealed that performance has a connection with the audit committee. In contrast, Narwal and Jindal's (2015) results indicated that audit committee members significantly negatively impact profitability.

Financial Performance

A business organization could measure its performance using both financial and non-financial metrics. Financial measures include earnings, return on assets, return on investment, and sales. In contrast, the non-financial measures focus on issues about customer satisfaction and customer referral rates, delivery time “, waiting for time and employee turnover.

Bucklin and Sengupta (1993) claim that financial performance measures, such as sales and profit, may not reflect the quality of the firm's performance. Financial measures are objective, simple and easy to understand and calculate, but in most cases, they suffer from being historical and are sometimes not readily available in the public domain. Geringer and Hebert (1991) suggest that financial data are often not published, and when that type of data is made public, it will be merely incorporated into financial performance calculations. An economic measure is unlikely to capture the relative performance of the firms. An alternative way is to apply the non-financial measures, though subjective in nature, as supplements to the financial measures (Sandberg et al., 1987) (Covin and Slevin, 1989). Combinations of these two metrics (financial and non-financial) help owners or managers gain a broader perspective on measuring and comparing their performance, particularly the effectiveness and efficiency in utilizing the resources, competitiveness, and readiness to face the growing external pressure (Chong, 2008).

Today's business environment shows that finance-dependent determinant has inherent setbacks to adequately represent the range of constructs connected with organizational excellence in modern times (Brancato, 1995; Kaplan & Norton, 1992; Ruben, 1999). In addition, the accounting-based measures are too narrow to capture critical factors of an organization's mission, customer satisfaction and loyalty, employee satisfaction and turnover, employee capability, organizational adaptability to creativity and innovation (Ajagbe & Ismail, 2014), environmental competitiveness, research and development, productivity, market growth and success, and other vital indicators.

Return on Capital Employed ROCE

Return on capital used (ROCE), a profit ratio, measures how efficiently a corporation uses its wealth to get profits. The return on the money employed metric is considered one of the most effective profitability ratios. Investors typically use it to see whether a company is suitable to invest in or not.

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Total Assets} - \text{Current Liabilities}}$$



 Capital Employed

Figure 1 Return on Capital Employed ROCE

Where:

Earnings before interest and taxes (EBIT) = are the company earnings, including all expenses other than interest and tax expenses.

Capital Employed = total amount of capital invested in a company. Capital employed is typically calculated as total assets minus current liabilities or fixed assets plus working capital.

Theoretical Anchor

Stakeholders are individuals or groups with specific claims, shares, or interests in a company's activities in its business and operations, thus monitoring performance. Edward Freeman's (1984) stakeholder theory was intended to fill some gaps in shareholder theory (Edward, 1984). Edward expanded on the work of Ian Mitroff, Richard Mason, and James Emshoff. The word stakeholder originates from the pioneering work of the Stanford Research Institute (SRI) in the 1960s, also influenced by concepts from the planning department of the Lockheed Company. Igor Ansoff and Robert Steward developed ideas. The theory explained that corporate leaders have a broader scope to include all groups and that the company's actions or activities can have an impact; therefore, not only on the shareholders (Cordeiro and Tewari, 2015). These groups are suppliers, creditors, customers, competitors, employees, and the company's community. It implies that the responsibilities of managers in stakeholder theory go beyond profit maximization but must consider the interests of other parties who have interests in business activities (Kusi et al., 2018; Murphy and Smolarski, 2020). Managers must ensure that the moral rights of stakeholders are balanced and not

violated and ensure that the legitimate interests of all stakeholders are considered during the decision-making process (Vargas-Hernandez and Gonzalez, 2018).

In a multinational setting, stakeholders might also include governments, activists, bankers, financiers, interest groups, the environment, the media, and technological advances, forming a global stakeholder group (Nwanji and Howell, 2007). To actualize Board effectiveness and performance derive, the stakeholder theory advocated for a large and well-diversified corporate board size that can accommodate and facilitate the alignment of the interest of each constituent, especially those that create value for the firm (Clarkson, 1995; Evan & Freeman, 1993; John & Senbet, 1998; Zingales & Rajan, 1998). Therefore, enhancing stakeholders' participation in corporate governance should result in increased firm performance growth of listed manufacturing companies and achievement of the Firm's Vision, Mission, goal, and objectives.

METHODOLOGY

For this study, the quantitative research method, which involves the measurement of variables and determining the correlations between variables (Leavy, 2017) to establish patterns, relationships, or causal associations (Creswell, 2014), was adopted; The quantitative research method used the ex-post-facto research design, premised on the fact that the events to be measured in this study have already occurred (Sharma, 2019). It is, by nature, a secondary data-based study.

The study's target population comprises four (4) selected multinational companies quoted on Nigerian Stock Exchange (2020), including Cadbury Nigeria Plc, Guinness Nigeria Plc, Coca-Cola Nigeria pls, and Shell Nigeria. For this study, members of the entire population with accessible data for the financial period under review were studied. Therefore, the people of this study comprise 11 years (2011 – 2021) of data on corporate governance (BS = Board size; AC = Audit committee independence; and BC = Board composition;) carried out in Nigeria, being the independent variable and 11 years (2011 – 2021) data on performance (Y_1 return on capital employed) of the selected multinational companies in Nigeria, being the dependent variable.

For this study, the panel cross-sectional and time-series secondary data were analyzed using the Generalized Least Square Methods (GLS), which is used to estimate the panel data.

The decision rule for the rejection or acceptance of any of the postulated null hypotheses is premised on the Probability Value (PV) results; if the result shows a PV below 5% or 0.05 (that is, $PV < 0.05$), it will deduce

that the regressor in question is statistically significant at a 5% level; otherwise, it is not meaningful at that level.

Model Specification

For this study, the model specification would be adopted from the study of Gbande and Ede (2019). They recently investigated the effect of cooperative governance on the productivity of small businesses in Nigeria. However, the adopted model would be modified to accommodate additional financial reform indicators, which would then be used to test postulated hypotheses.

To achieve this, the proxies for cooperating governance (CG), being the independent variable, are represented; thus, Board size (BS), Audit committee independence (AC), and Board composition (BC) as the control variable. The proxies for financial performance (FP), the dependent variable, are represented; thus, net profit after-tax (NP).

To this thesis, these panel data that would be empirically analyzed would cover 11 years for the selected multinational companies from 2010 to 2020. Therefore, the panel regression (Generalized Least Square) model that would be used to test the posited hypotheses is stated as:

Dependent Variable

Y = Financial Performance (FP)

$$MSP = f(ROCE)$$

Independent Variable

X = Cooperate governance (CG)

$$CG =$$

The functional form of the econometric model is therefore given as:

$$Y = f(X_1, X_2, X_3, X_4 \& X_5)$$

$$\text{Return on capital employed} = f(BS, AC, BC)$$

Where Y is Financial Performance (FP) (Dependent variable), X_1 to X_5 are proxies of the independent variable or explanatory variables.

F = represents the functional notation.

The explicit forms of the models for the six hypotheses are stated thus:

$$ROCE_{it} = \alpha_0 + \alpha_1 BS_{it} + \alpha_2 AC_{it} + \alpha_4 BC_{it} + U_t \quad \dots (1)$$

Where:

$$BS = \text{Board size.}$$

AC = Audit committee independence.

BC = Board composition.

α_0 = Regression Constant,

λ_{1-5} = Coefficients of Explanatory Variables,

U, = Error Term.

***A priori* expectation**

The ‘a Priori expectation’ in this specified model is that the independent variable financial sector reform defined by (Board size, Audit committee independence, and Board composition), as the control variable is anticipated to have a positive correlation with return on capital employed being the indicator of the dependent variable, financial performance. The mathematical expression is denoted as; $\alpha_1 > 0$, $\alpha_2 > 0$, $\alpha_3 > 0$, ..., $\lambda_5 > 0$, implying that a unit increase in the proxies of the independent variable will lead to a rise in each of the selected multinational companies’ performance indicators by a unit.

DATA ANALYSIS

This part reflects the result captured from the data subjected to computer analysis, converted into percentages, and collated into tables and figures to make the data presentation meaningful. The data analyzed was in accordance with the research questions posed earlier in the study.

Model Evaluation

J-Statistic: A statistic used to test multiple hypotheses about the parameters in a multiple regression model. This statistic tests the null hypothesis that all the panel regression coefficients are equal to zero. If the $J_{cal} > J_{0.05(tab)}$, the null hypothesis is rejected while the alternate hypothesis is accepted and vice-versa.

P-Value: the probability value aids the researcher in accepting or rejecting the null or alternative hypothesis. If the P-value is less than or equal to 0.01 (1%), leave the null and accept the alternative hypothesis at a 1% significance level. If the p-value is less or equal to 0.05 (5%), reject the null and accept the alternative hypothesis at a 5% level of significance, and if the p-value is less than or equal to 0.10 (10%), reject the null hypothesis and accept the alternative hypothesis at 10% level of significance.

Descriptive Statistics

Descriptive Statistics are adopted to present quantitative descriptions in a manageable form. Descriptive statistics measures variability and aid in analyzing how to distribute a data set. Variability is the length where data points in a statistical distribution or data set diverge from the average, or mean, value and the

time to which these data points differ. There are four commonly used measures of variability: range, mean, variance and standard deviation. This study used the standard deviation to determine if the data has a normal curve or other mathematical relationship. More considerable variances cause more data points to fall outside the standard deviation. More minor variances result in more data that is close to average and hence normally distributed.

Table 1: Descriptive Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
ROCE	Overall	16.91273	.4256014	16.02	17.59	N = 44
	between		0	16.91273	16.91273	N = 4
	within		4256014	16.02	17.59	T = 11
AC	Overall	3.096364	1.356653	1.19	5.59	N = 44
	between		0	3.096364	3.096364	N = 4
	within		1.356653	1.19	5.59	T = 11
BC	Overall	1.145455	.0822208	1	1.26	N = 44
	between		0	1.145455	1.145455	N = 4
	within		.0822208	1	1.26	T = 11
BS	Overall	12.18182	2.982684	8	17	N = 44
	between		0	12,18182	12,18182	N = 4
	within		2,982684	8	17	T = 11

Source: Author's Computation, 2022 (Source: STATA 15 Output)

Table 1 shows the descriptive statistics for variables Board size (BS); Audit committee independence (AC); Board composition (BC); and performance variables of return on capital employed (ROCE).

The results indicated that the mean score is within variables specification. Also, the standard deviation ranges for the variables are 0.0822 to 2.982. The standard deviations are minor compared to their mean values, respectively. This implies that the statistical mean provides a good fit of the observed data, and the data are evenly and typically distributed.

Table 2: Correlation Matrix

(obs = 44)

	ROCE	AC	BC	BS
ROCE	1.0000			
AC	0.2270	1.0000		
BC	0.3959	0.7586	1.0000	
BS	0.5895	0.1399	0.3372	1.0000

Source: Author's Computation, 2022 (Source: STATA 15 Output)

Table 2 shows the results of the matrix correlation of Board size (BS), Audit committee independence (AC), Board composition (BC) and return on capital employed (ROCE) of the selected multinational firms in Nigeria. Correlation values range from -1 to +1, where 0.75-0.99 signifies a solid relationship between the intersecting variables, 0.5-0.74 implies a strong relationship within the intersecting variables, and 0.35-0.49 implies a weak relationship among variables as presented above. The result revealed that all the independent variables positively correlate with returning on capital employed (ROCE) for the relationship between corporate governance and return on capital employed.

Table 3: Unit-Root Test for Stationarity of Data

Levin-Lin-Chu unit-root test			
Ho: Panels contain unit roots	Number of panels =	4	
Ha: Panels are stationary	Number of periods =	11	
Variable	Statistic		p-value
. xtunitroot llc bs	Unadjusted t	-4.2358	0.0000*
	Adjusted t*	-2.3040	
. xtunitroot llc ac	Unadjusted t	-4.1633	0.0000*
	Adjusted t*	-2.7417	
. xtunitroot llc bc	Unadjusted t	-2.7683	0.0211
	Adjusted t*	0.4772	
. xtunitroot llc roce	Unadjusted t	-2.8586	0.0000*
	Adjusted t*	-2.5613	
*Not Stationary, i.e. (p-value < 0.05)			

Source: STATA 15 Output

As a precondition for analysis of panel data variables, ensuring that the variables are stationary requires unit root tests of each of the variables in the model. The outcome of our unit root tests using the Levin-Lin-Chu unit-root test for panel data, all the other variables are considered stationary since the p-value is less than 0.05 (5%). Therefore, there may not be needed to transform the data before modelling for optimal model parameter estimation.

Table 4: Kao Residual Cointegration Test

Newey-West automatic bandwidth selection and Bartlett kernel
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	t-Statistic	Probability
ADF	-1.9848	0.0014
Residual variance	0.5168	
HAC variance	0.4948	

Source: Researchers' Computation

The cointegration test result shows that the panel cointegrated since the ADF p-value of 0.0014 is less than the 0.05 (5%) significance level. Thus, it implies that the variables co-move, meaning there is a long-run equilibrium relationship among them. It is expected for a robust model parameter estimation.

Table 5: Test of Multicollinearity

Model		Coefficients ^a	
		Collinearity Statistics	
		Tolerance	VIF
1	Audit Committee independence	.125	2.312
	Audit Committee independence	.145	1.012
	Board Composition	.145	3.121

a. Dependent Variable: Return on Capital Employed

Source: Researchers' Computation

From the test multicollinearity shown in section table 5, it was noticed that no independent variable exceeds the maximum condition (>13) for no collinearity stated by the Variance Inflation Factor (VIF). We apply a generalized least square GLS model without a natural log transformation of the independent variables. Hence, fitting the GLS model (fixed and random effect model) will further suggest the most robust model for testing the study's hypotheses with the help of the Hausman test, thus minimizing the effect of any other classical model assumption violations.

Test of Hypotheses

Table 6 Hausman Test for Model with ROCE as Dependent Variable

Hausman fixed random

	__ coefficients __		(b-B)	Sqrt (diag(V B-V B))
	(b) Fixed	(B) random		
BS	.0727862	.0727862	-1.24e-14	.0054195
AC	-.0105412	-.0105412	-1.75e-13	.017215

BC	1.290873	1.290873	3.84e-12	-298757
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b = consistent under H0 and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under H0; obtained from xtreg

Test; H0: difference in coefficients not systematic

$$\text{chi2 (3)} = (b-B)[(V_b - V_B)^{-1}](b-B)$$

$$= 0.00$$

$$\text{Prob} > \text{chi2} = 1.0000$$

Source: Author's Computation, 2022 (STATA v15)

From the test result of 6, Hausman's test p-value is more significant than 0.05 (5%). As such, we use and report the random effect model as the best fit for the panel data on the impact of corporate governance and on the performance of listed selected multinational companies in Nigeria.

Table 7: Random Effect Panel Model Estimate with Performance (ROCE)

$$ROCE_{it} = \alpha_0 + \alpha_1 BS_{it} + \alpha_2 AC_{it} + \alpha_3 BC_{it} + U_t \quad \dots (1)$$

. xtreg ROCE BS AC BC, re

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Random-effects GLS regression           Number of obs   =           44
Group variable: firms                   Number of groups =            4

R-sq:                                   Obs per group:
    within = 0.0000                       min =           11
    between = 0.0000                       avg  =          11.0
    overall = 0.3918                       max  =           11

corr(u_i, X) = 0 (assumed)                Wald chi2(3)    =          25.77
                                           Prob > chi2     =          0.0000

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ROCE	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BS	.0727862	.0190325	3.82	0.000	.0354832 .1100893	
AC	-.0105412	.0604571	-0.17	0.862	-.1290349 .1079525	
BC	1.290873	1.0492	1.23	0.219	-.7655221 3.347267	
_cons	14.58006	1.00461	14.51	0.000	12.61106 16.54906	
sigma_u	0					
sigma_e	.35781283					
rho	0	(fraction of variance due to u_i)				

Source: Author's Computation, 2022 (STATA v15)

Decision Rule

The p-values of the Hausman test for fixed and random effect models are more significant than the 0.05 (5%) level of significance, respectively, which indicates that the random effect model is adopted.

Discussion of Findings

H₁: *Board size does not significantly impact the performance (Return on Capital Employed) of the selected multinational companies in Nigeria.*

The first hypothesis tested the significant effect of board size (BS) on performance (Return on Capital Employed). The random effect model result in Table 4.6 indicated that board size positively impacts ROCE with a coefficient of 0.0727862, which is also significant since the p-value is less than 0.05(5%). Therefore, with a unit increase/decrease in the board size, the return on capital employed will also see a 0.0727862-unit increase/decrease. The relationship is also generalizable since it is statistically significant at a 5% level.

The findings in hypothesis one were in agreement with the study of Prusty and Kumar (2016), Datta (2018), Odia and Eriabie (2016), El-Chaarani (2017), Palaniappan G. (2017), Sathyamoorthi, Baliyan, Dzimir and Wally-Dima (2017), Aggarwal (2013), Rossi, Nerino, Capasso (2015), Goel (2018), Hong Vu & Nguyen (2017), Nwiko, Iroanwusi and Ilekun (2018). It revealed that Board size significantly impacts performance (Return on Capital Employed).

H₂: *Audit committee independence does not significantly impact the performance (Return on Capital Employed) of the selected multinational companies in Nigeria.*

The second hypothesis tested the significant effect of Audit committee independence (AC) on performance (Return on Capital Employed). The random effect model result in Table 4.6 indicated that audit committee independence negatively relates to the organizations' return on capital employed (ROCE) with a coefficient of -0.0105412, which is also not significant since the p-value is greater than the 0.05(5%) level of significance. Therefore, with a unit increase in the audit committee independence, the return on capital employed will see about -0.0105412-unit decrease as well. The relationship is not generalizable since the coefficient is not statistically significant at a 5% significance level.

The findings negate the works of Olayiwola (2018), Abdulazeez, Ndibe and Mercy (2016), Ullah, Afgan, Hashim and Khan (2017), Bett and Tibbs (2017), Peter and Bagshaw (2014), Yameen and Ahmad (2015), Nodeh (2016), Yusuf, Bambale and Abdullahi (2018), Emeka and Alem (2016) and Mwangi (2013) which

shows that there is a positive relationship between the audit committee and net profit after tax and not consistent with the works of Urhoghide and Omolaye (2017), Yılmaz (2018).

H₃: *Board composition does not significantly impact the performance (Return on Capital Employed) of the selected multinational companies in Nigeria.*

The third hypothesis tested the significant effect of Board composition (BC) on performance (Return on Capital Employed). The random effect model result in Table 4.6 indicated that audit board composition (BC) positively impacts ROCE. However, it is not a significant coefficient value of 1.290873 since its p-value of 0.219 is greater than the 5% significance level, which further implies that for every unit increase in board composition (BC), you will see a corresponding unit increase/decrease in the organization's return on capital. However, the relationship cannot be said to be generalizable since the coefficient is not significant at the 5% level of significance.

The findings revealed that board composition (BC) of the board members has no significant impact on performance as proxied by Return on Capital Employed of the selected multinational firms in Nigeria, which is in disagreement with the studies of Mandal and Al-ahdal (2018), Prusty and Kumar (2016), Palaniappan G. (2017), Abdulazeez, Ndibe and Mercy (2016), Urhoghide and Omolaye (2017), Yılmaz (2018), Al-Beshtawi, Zraqat and Al –Hiyasat (2014).

CONCLUSION

This study was conducted to determine the impact of corporate governance on the organizational Return on Capital Employed by listed multinational companies on the Nigeria stock exchange. The study has undertaken various kinds of tests, which include descriptive statistics, correlation matrix, unit-root test for stationarity of data (Levin-lin-chu unit-root test), Kao residual cointegration test, an examination of multicollinearity and Hausman test for models (fixed and random effects), the following are the conclusion drawn:

Given that the p-values observed to be 0.000 is less than the level of significance of 0.05, this gives the basis for the null hypothesis to be rejected; hence, the study concludes that board size does have a significant impact on performance as proxied by Return on Capital Employed of the selected listed multinational companies in Nigeria.

Given that the p-values observed to be 0.862 is greater than the level of significance of 0.05, this gives the basis for the null hypothesis two is accepted; hence, the study concludes that audit committee independence of the board members does have a significant impact on performance as proxied by Return on Capital

Employed of selected listed multinational companies in Nigeria. 219 is greater than the level of significance of 0.05, and this gives the basis for the null hypothesis three to be rejected; hence, the study concludes that board composition (BC) of the board members does not have a significant impact on performance as proxied by Return on Capital Employed of selected listed multinational companies in Nigeria.

RECOMMENDATIONS

Based on findings and conclusions of the study, the following are the research recommendations:

- i. Most empirical studies supported the findings, which stated a significant positive relationship between board composition, board size, and audit committee. The researcher recommends that selected listed multinational companies take note of the board size of the board because it has the ability and the capability to influence net profit after tax. It is further recommended that the selected listed multinational companies should have a reasonable board size which can affect the return on capital employed of the listed companies in Nigeria.
- ii. The study recommended that the board members' audit committee independence (AC) is critical to the success of return on capital employed by the selected listed multinational companies. The audit committee must be experts in accounting, finance, and other related disciplines.
- iii. Board composition (BC) of the board members has a positive but insignificant impact on performance as proxied by Net Profit After-tax of selected listed multinational companies in Nigeria. It recommends that Board composition or structure should be considered in terms of experience, diversity, and discipline/skills to improve profit after tax of the selected listed multinational companies in Nigeria

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