

CORPORATE GOVERNANCE CODE IMPLEMENTATION AND PERFORMANCE OF NIGERIA LISTED FIRMS

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ABSTRACT

This study investigate the impact of Corporate Governance Code implementation and performance of listed firms in the Nigeria's financial services sector for the study period of 2018 to 2021, a period spanning the introduction of Nigerian Corporate Governance Code 2018. Corporate governance variables employed are board characteristics, assurance and firm size. The objective is to measure the degree of compliance of the firms with the NCCG 2018 and its principles and also evaluate the effect of the code on corporate performance.

The study incorporates both qualitative and quantitative research methods, drawing data from 43 listed firms from 2018-2021. Using fixed effects regressions to analyze the governance-performance relationships, data is sourced from annual reports available on firm's websites and the Nigerian Stock Exchange website. The regression analyses reveal that the NCCG significantly impacts listed firms' financial performance by establishing effective board characteristics that drive strategic leadership and ethical culture. Findings also shows introduction of the code has led to improved firm performance and if all components are adhered agency problems will be reduced. However not all element of corporate governance has a significant effect on performance. From these findings it is recommended that Companies must cultivate efficient boards that foster ethical cultures, diverse skills, and strategic leadership to serve shareholders and stakeholders for sustainable success.

Keywords: Corporate Governance, Agency theory, Firm performance, Nigeria, B o a r d size

1 INTRODUCTION

Firm performance has remained a subject of public interest in that it has been known to be attributed to business survival on one hand, and business failure on the other hand. Similarly, corporate governance has been a subject of interest to shareholders, credit providers, employees, potential investors, citizens and the academic. All these came about as a result of agency theory due to the separation of ownership and control. The efficiency of this relationship is mostly affected by the individuals and opportunistic Interests held by each party. This created an agency problem and costs, which includes nonalignment of the agents' interest with owners' interest Nyberg et al (2010) .The importance of corporate governance on developing economies is very important in that it showcases the country to potential investors. Firms in the financial services sector in Nigeria plays crucial role in economic development through the provision of investment funds in form of loans (Edet, et al 2022). Owoeye, (2023) asserts that because the financial services sector facilitates the transfer of financial resources from one sector to another, a number of financial reforms have been taken into consideration to enhance this sector.

The performance of firms in the financial services sector in Nigeria is of paramount importance due to its broader implications to the overall economic development of the country (Ebimobowei and Tebepah, (2023). This is supported by Abogun et al, (2020) who opined that firms in the financial services sector act as a conduit for the efficient allocation of resources among competing users.

Lawuyi (2022) also noted that Nigeria is still largely characterized by weak corporate governance practices with high incidences of corruption which condones unethical conducts as a result. Being a developing economy it is of high importance that a good corporate governance code be introduces as many developed economies have introduced various governance codes, giving example the UK where the Cadbury Committee (1992) was the precursor to the UK Corporate Governance. The recent corporate failure of top-ranked organizations, Sylicon Valley Bank, provides evidence of the existence of corporate governance weakness in the modern business environment (Gadgil & Socking, 2023; The Nigerian Accountant, 2022; Man, 2017).

The introduction of the Nigerian Code of Corporate Governance (NCCG) seeks to provide a framework for promoting transparency, accountability, and ethical practices among listed firms. Therefore, it is imperative that every business decision should be fair and transparent to the company's stakeholders. Developing economies tend to be faced with issues that are way more different to those encountered in developed economies. Gurgler *et al* (2003) argue that developing economies are more likely to have weaker corporate governance institutions than developed economies and will therefore experience less effective monitoring of management. Owusu and Weir (2016) asserts that the increasing globalization of the world economy, coupled with the growth of codes of good governance in the developed world, has made it important that the developing countries also foster the conditions under which good governance can flourish.

Nigeria over the years has made tremendous effort to improve its corporate governance with the introduction of its first code of corporate governance issued by the Bankers committee in

August 2003 to focus on banks and other financial institutions, which brought limitation of bring sector specific. Going forward various codes were introduced such as the 2003 SEC code, CBN code of corporate governance for banks 2006, CBN code of corporate governance for pension operation 2008 which are all regarded as industry specific codes. Efforts were made by the Federal Government on the establishment of a code that could promote sound corporate governance in a developing economy that will bring about international best practices.

This study will make a number of contributions about the impact of corporate governance on firm performance giving evidence from a developing economy, impact of adoption of international best practices, and compliance of firms in the financial service sector of Nigeria to the code of corporate governance. Nigeria introduced code of corporate governance in 2018 which before then there has been no codified and generally applicable corporate governance code. The Code specifies principle which stipulates the minimum standard to be adopted by companies and theory of Apply and Explain, of how the principles are applied. This study is motivated by the fact that Nigeria having had the National Code of Corporate Governance (NCCG) 2016 which was short-lived as a result of impacting the ease of doing business mantra and not being in line with international best practices and the impact the Nigerian Code of Corporate Governance 2018, which adopt international best practices and allows companies to apply the principles as it best suits their business. The main objective of this research study is to determine the influence of corporate governance code implementation has had on the performance of listed firms in the financial services sector in Nigeria since its introduction. The scope is based on the financial service sector which according to (CBN 2017) has been seen to provide an enabling environment for economic growth and development, productive activity, financial intermediation, capital formation and management of the payments system, for the study period 2018-2021. This represents the period of introduction of the Nigeria Code of Corporate Governance 2018.

The remainder of this work is structured as follows. Section 2 will discuss relevant literatures, Section 3 explains the methodologies, Section 4 presents data and the finding from and section 5 shows conclusions and recommendations.

1 LITERATURE REVIEW

2.1 Firm Performance

Performance of a firm is a broad and intricate topic. In many business organizations, performance is a highly critical area of concern for stakeholders because high performance suggests efficient assets utilization (Ajayi et al 2017). Taouab and Issor (2019) define performance as an organization's capacity and ability to effectively utilize its resources to achieve goals that are compatible with its stated objectives while also taking into account the needs of its users. Contu (2020) defined organizational performance as the effectiveness with which an organization can position itself on the business market by utilizing some informational, financial, and human resources.

2.2 Corporate Governance

Corporate Governance has been viewed from both narrow and broader perspectives, the broader perspective focuses on a company's internal operations and interaction with

stakeholders while the narrow perspective involves the relationship between a company and its shareholders. Monks and Minor (2001) define corporate governance as the relationship between various participants in determining the performance and direction of a corporation where the primary participants are the Shareholders, Managers, and Directors. Corporate governance from the financial perspective is defined as a way in which suppliers of finance assure themselves of getting a return on their investment (Shleifer and Vishny 1997). According to Ebimobowei (2022), corporate governance is described as a system of directing and controlling corporate entities in order to fulfil long-term strategic goals. Abhilash, Shenoy and Shetty (2023) defined it as a pool of various policies and practices which serves as basic norms, and effective controlling mechanisms.

Different theories have been developed in analyzing corporate governance issues ranging from agency theory, stakeholders theory, stewardship theory and resource dependency theory. This study will focus more on the fundamental theories that are more pronounced in corporate governance discussions, that is agency theory and stakeholder's theory. Agency theory represents the theory that has generated a lot of interest and is dominant in most governance research as a result that it has affected the development of corporate governance framework the most (Mallin 2010). Stakeholder's theory on the other hand is of the opinion that firms are expected to put in consideration the welfare of multiple stakeholders, those affected either directly or indirectly by the companies operation.

Several corporate governance frameworks have developed to enhance the corporate performance such is Anglo-American model, European Model, Family-Owned Business Governance, Global Standards and Codes, Environmental, Social and Governance (ESG) Frameworks, are among the most commonly recognized frameworks of corporate governance. The Anglo-American Model is widely used in both the US and the UK, and it is characterized often by a majority of independent directors on the board of directors (Samantha, 2019). It focuses on maximizing shareholder value and emphasizes the importance of the shareholder. In several European nations, the European Model is prevalent (Muller, 2022). It aims to strike a balance between the interests of shareholders and other stakeholders, such as the community and the workforce.

Nigerian Corporate Governance Code (2018)

The Nigerian code of corporate governance stipulates its major aim of institutionalizing corporate governance best practices in Nigerian companies and also to promote public awareness of important corporate and ethical values that will improve the integrity of the Nigerian business environment. The code stipulates that companies with effective board and competent management that act with integrity and are engaged with shareholders and other stakeholders are in a better position to achieve their goals. The Nigerian Code of Corporate Governance 2018 has been sectioned into 7 parts namely board of directors and officers of the board, assurance, relationship with shareholders, business conduct and ethics, sustainability, transparency, and definitions.

This study focuses on board and assurance which are the parts that represent and explain managerial, organization behavior and outcomes the most. And these represent the foundation of the agency theory. (1)Board of Directors and officers of the board, the success of a company

has been attributed to an effective board. This has made the board a central focus in corporate governance, the Nigerian corporate governance code set out 16 principles for the board of directors because of their link between stakeholders and company. They are to exercise oversight and control to ensure the management acts in the best interest of the shareholders and other stakeholders. (2) Assurance, this represents a framework for managing risk and ensuring an effective internal control system. The assurance principle of the Nigerian code of corporate governance focuses on the risk management principles which must be adhered by all concerned for effective performance of the organization.

Theoretical Review

Agency Theory

The introduction of Modern Corporation brought about the separation between owners and managers. Agency theory represents the contract in which one or more persons engages another in decision making authority i.e. shareholders and managers. According to Jensen and Meckling (1976), the principal-agent relationship is defined as a contract under which one or more persons (the principal) engage another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent. According to the agency theory, Shareholders can endeavor to direct the activities of the management in two ways which include the intensification of direct control mechanism i.e. monitoring and the use of incentive pay system (Gigliotti 2013).

The agency theory also suggests that the conflict of interests that exist between shareholders and managers relationship leads to the agency costs. Which is the costs that arise as a result of the separation of ownership and control of a firm and the resulting costs incurred by the shareholders in an attempt to monitor the managers' activities (Fama and Jensen, 1983). Despite agency theory's tremendous contribution to the development of corporate governance, it has been faulted with a lot of criticism as critics argue that it has been erected on a single questionable abstraction that revolves between two parties and it is based on dubious conjectural morality that people maximize their personal utility (Tricker 2012).

This study focuses on the board of directors and officers of the board, and assurance principles. Considering that it represents and explains management behavior and organization performance the most, which form the basis of agency theory. It also forms the independent variables utilized and based on the description of the theory this study hypothesized that: Board of directors & officers of the board has a significant impact on firm performance. It is expected that an effective internal audit function should provide assurance to the Board on the effectiveness of governance and internal control. Based on this expectation, this study hypothesized that: Assurance has a significant influence on performance on firm performance.

Stakeholders Theory

The collaborative role of the stakeholders in the current business environment has gained a steam of concern from researchers, investors, institutions and the society at large (Bridoux and Stoelhorst, 2022). Due to the limitations in the scope of agency theory (Younas (2022), which considers shareholders as the only party affected by a company's operations, there is a need to extend its scope to include other parties that are also affected by the operations of a company (Keremidchiev, 2021). Therefore, the theory is linked to value creation and appropriation that

clearly and concurrently tackles the financial and ethical aspects of human organization.

Corporate Governance and Firm performance

Empirical Review

Several studies have been undertaken to measure corporate governance influence on firm performance, Singh and Tabassum (2018) studied the Nigerian banking sector using secondary data from the annual report of the financial institution and Pearson correlation and regression analysis were applied. The result found a negative but statistically significant correlation between board size and financial performance of the banks in the study. Erhardt et al. (2003) carried out an investigation aimed at finding the linkage between board gender diversity and financial performance of 118 large firms in the United States of America found a positive link between gender diversity and firm performance. *Abdullaah and Tursoy (2003) study of non-financial sectors in Frankfurt Stock exchange between 2002-2018 show that audit committee and board of directors characteristics have significant and negative effect on firm performance measured by ROA and ROE.*

Egiyi (2022) examined the relationship between corporate governance and firm performance in Nigeria from 2010 to 2020 and their results revealed that CG mechanisms affects firm performance. Adegboyegun, Igbekoyi and Alabi (2022) examined CG impact on firm performance between 2014 and 2018 using 10 randomly selected firms. The results revealed that board size, audit committee, number independent directors and director's shareholding exert positive insignificant effect on firm performance. Siyanbola et al, (2022) researched concluded that board size, and foreign directors have a positive significant relationship with firm performance, a negative and insignificant relationship between board independence, firm size and earnings quality. Ria (2023) investigated the role of capital as a mediating variable in the relationship between CG and company performance using dataset of 15 companies from 2017 to 2021, the findings show that board independence, board size, audit committee were significantly associated firm performance.

2 METHODOLOGY

3.1 Data source and sample

This study investigates the impact of implementation of the Nigerian Code of Corporate Governance on firm performance. The sample targets listed firm in the financial service sector in the Nigeria Exchange Group, covering the period of 2018-2021 which represents the introduction of Nigeria Code of Corporate Governance 2018. The secondary source of data was employed in this study and the names of the firms were drawn from the website of the Nigerian Exchange Group and the data's were obtained from the annual reports of the firms from their websites and the website of the Nigerian stock exchange. This study employed ex post facto research design utilizing qualitative and quantitative research method.

The sample size consists of 43 firms which were selected from a population of 48 financial institutions. These firms were selected for meeting the needed criteria and having full financial information, firms that don't have their annual report available for the periods under study were not included which brought our final sample to 43, thereby generating 172 firm year observations. Firm size and leverage were used as the control variables to help minimize

the effect of confounding factors to enhance the robustness and validity of the regression analyses. Due to the high level of risk often associated with investing decisions, disagreements often come to play between debt providers and equity shareholders. Large companies have the capacity to cover large geographical areas and sometimes are multinational corporations. These are therefore significant in affecting the business operations of many companies. Yaro Yamane (1991) sample technique was used to in the selection of 43 listed financial institutions as shown below:

$$n = \frac{N}{1 + N(e)^2} = n = \frac{48}{1 + 48(0.05)^2} n = 43$$

Where:

n= sample

N = Total population of financial services sector

e = error term

List of financial institutions are shown in appendix 1 below.

This study adapts the (Soesetion, Rudiningtyas, & Sukmawati, 2023) research model:

$$ROE = \alpha + \beta_1 MEET1 + \beta_2 MEET2 + \beta_3 BSIZE + \beta_4 LEV + \beta_5 SGR + \beta_6 AT + \beta_7 SIZE + e. \quad (i)$$

This model was modified to arrive at the model for the study as stated below:

$$ROE = \alpha + \beta_1 BOARD_{it} + \beta_2 ASSUR_{it} + \beta_3 LEV_{it} + \beta_4 FIRMSIZE_{it} + e \dots\dots\dots (ii)$$

Where:

ROE = return of assets, α represents the constant, $BOARD_{it}$ denotes the board of directors' quality, $ASSUR_{it}$ represents the assurance level of each firm in particular year, LEV_{it} denotes each company's leverage in year t, $SIZE_{it}$ represents firm size in each particular year of observation.

Method of Data Analysis

The Panel Fixed Effect was used in analyzing the data, taking into consideration the impact of variations of the variables over time. This was considered appropriate because the data consists of observations on multiple entities over multiple time periods.

Variables Measurement

A crucial component of corporate governance research and analysis is the measurement of factors connected to the board of directors of a corporation. The board of directors oversees management, establishes the company's strategic direction, and ensures accountability and openness. The board was assessed based on 16 principles of the 2018 code of corporate governance requirements. A dichotomous scoring system of 1 or 0 was used in measuring each requirement complied with, with 1 indicating complete compliance and 0 indicating complete non compliance. Assurance was assessed based on 4 principles of the 2018 code of corporate governance requirements. A dichotomous scoring system of 1 or 0 was used in measuring each requirement complied with, or not complied with from which the average total score of each company in each year was computed.

The total debt-to-equity ratio was used to measure leverage. This ratio indicates the proportion of a company's financing that comes from debt compared to equity. Each company's total number of branches was used to measure its size.

Control Variables

Firm size and leverage were used as the control variables to help minimize the effect of confounding factors to enhance the robustness and validity of the regression analyses. Due to the high level of risk often associated with investing decisions, disagreements often come to play between debt providers and equity shareholders. Large companies have the capacity to cover large geographical areas and sometimes are multinational corporations. These are therefore significant in affecting the business operations of many companies.

1 RESULTS AND DISCUSSION

Fixed Coefficients ^a						
Model Term	Coefficient	Std. Error	t	Sig.	95% Confidence Interval	
					Lower	Upper
Intercept	-.329	.1247	-2.636	.009	-.575	-.082
BOARD	.392	.1281	3.064	.003	.140	.645
ASSUR	.005	.0290	.167	.868	-.052	.062
LEV	-.026	.0440	-.587	.558	-.113	.061
FIRMSIZE	-2.666E-5	2.0878E-5	-1.277	.203	-6.788E-5	1.456E-5

Probability distribution: Normal

Link function: Identity

a. Target: Return on Assets

The table above provides insights into the fixed coefficients derived from a statistical model, where "Returns on Asset" serves as the target variable. Each row represents a distinct independent variable, detailing its coefficient, standard error, t-value, significance level (Sig.), and a 95% confidence interval. In the fixed coefficients model, several terms have been analyzed to understand their impact on the target variable, which is the Return on Assets. The model provides coefficients, standard errors, t-values, significance levels, and confidence intervals for each term. The model's intercept is -0.329, and it is statistically significant at a 0.009 significance level. This means that when all other variables are zero, the expected Return on Assets is -0.329.

Board of directors' characteristics has a coefficient of 0.392, indicating a positive effect on Return on Assets. The coefficient is statistically significant at a 0.003 significance level. For each unit increase in this variable, Return on Assets is expected to increase by 0.392. The Assurance term has a very small coefficient of 0.005, and it is not statistically significant at a 0.868 significance level. This suggests that Assurance does not have a significant impact on Return on Assets. The Leverage term has a coefficient of -0.026, but it is not statistically significant at a 0.558 significance level. This means that changes in leverage do not significantly affect Return on Assets. The coefficient for firm size is very close to zero (-2.67E-05), and it is not statistically significant at a 0.203 significance level. This indicates that changes in Firm size do not have a substantial impact on Return on Assets.

Discussion of results

Board of Directors and Officers of the Board: The analyses indicates that a decrease in BOARDOFF Code of CG requirements is associated with a decrease in the ROA, suggesting that companies with less adherence to NCCG 2018 requirements on Boards may experience lower financial performance measured by return on assets Assurance (ASSUR): The analyses revealed that an increase in the Assurance Code of CG is not associated with higher ROA.. It can be concluded that companies with sound framework for risk management, internal control system, effective internal audit function, whistle-blowing, may have more robust financial reporting system which improve its credibility. **Leverage (LEV, Control Variable):** The analysis suggests that leverage does not have a statistically significant relationship with ROA after accounting for other variables. This implies that changes in leverage may not be a major driver of financial performance in this context. Other factors, such as operational efficiency, revenue growth, and cost management, might have a more substantial impact on ROA. The lack of a significant relationship between leverage and ROA aligns with some prior research that has found mixed results regarding the impact of leverage on financial performance. The relationship between leverage and financial performance can vary based on industry dynamics, economic conditions, and company-specific factors.

Firm Size (FIRMSIZE, Control Variable): The analysis reveals that larger firm size is associated with a small but statistically significant increase in ROA. This positive relationship could be explained by economies of scale, better access to resources, and increased market power. Larger companies might be better positioned to exploit growth opportunities, negotiate favorable terms with suppliers and customers.

1 CONCLUSION AND RECOMMENDATIONS

With the introduction of the NCCG 2018, this study investigates the impact on performance of listed financial service firms and on the basis of the information collected from the listed financial services sector companies in Nigeria for the years 2018 to 2021. A corporate governance index was created to measure performance and governance relationship for the year under study. The study found adherence to the board of directors and officers of the board recommended practices to have a significant impact on the performance of firms. Also the study found sufficient evidence that that a sound framework for managing risks and ensuring an effective internal control, which assurance code practice recommends does not have much drawing from previous studies similar findings were found when Mak and Kusnadi (2005) studied the relationship between board size and firm performance in Singapore and Malaysia from 1999 to 2000, 230 listed firms were chosen in each country and they reported an inverse relationship between board size and firm value in both countries. *This was in line with* Eisenberg et al (1998) who investigated the relationship between board size and firm performance across 879 small and medium size firms in Finland from 1992 to 1994 and they found a statistically significant and negative relationship between board size and firm's profitability measured by ROA. The study found a positive but insignificant association between firm size and return on assets of listed firms in the financial services sector in Nigeria A firm's leverage does not affect its performance.

On the basis of the above findings the study concludes the Board of Directors and Officers of the Board Code characteristics significant affect the performance of listed firms in the

financial services sector in Nigeria. And also Assurance Code of corporate governance has positive but not much significant influence on the performance. A firm's leverage does not affect its performance. The size of a firm does have a significant but less influence on its financial performance.

This study is important in that it has implication for the overall performance of firms, which affects management, shareholders, and all stakeholders. On this basis the following recommendations are hereby made regarding the findings of the study. Companies are recommended to have efficient board responsible for providing strategic leadership and promoting ethical culture, ensure effective discharge of duties and responsibilities arising from balanced skills and diversity. The board should also oversight and control to ensure that management acts in the best interest of shareholders and stakeholders to enhance sustainable success. Companies should establish robust mechanisms for internal and external audits, risk assessment, and compliance monitoring to ensure the effective implementation of assurance codes. Regular assessments of governance practices and performance should be conducted, and corrective actions should be taken if any gaps are identified. Transparent reporting of assurance activities and governance practices in annual reports or other relevant documents should be maintained to build trust among stakeholders. While the study found no significant relationship between leverage and performance, companies should still carefully manage their debt levels. Maintain a balanced approach to financial leverage to ensure that the company's financial health.

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Appendix 1

GUARANTY TRUST HOLDING COMPANY PLC	LASACO ASSURANCE PLC.	ACCESS BANK PLC	GUINEA INSURANCE PLC
ABBEY MORTGATE BANK PLC.	LINKAGE ASSURANCE PLC.	AIICO INSURANCE PLC.	INFINITY TRUST MORTGATE BANK PLC.
CONSOLIDATE HALLMARK INSURANCE	LIVINGSTONE MORTGATE BANK	LIVINGTRUST MORTGAGE BANK PLC	JAIZ BANK PLC.
CORNERSTONE INSURANCE PLC.	MUTUAL BENEFITS ASSURANCE PLC.	NEM INSURANCE PLC.	AFRICAN PRUDENTIAL PLC.
CORONATION INSURANCE PLC.	STAMBIC IBCT BANK PLC.	NIGER INSURANCE PLC	AZA MAXXA INSURANCE PLC.
ECOBANK PLC	UNION BANK	NIGERIA ENERYGY SECTOR FUND	VERITAS CAPITAL
FCMB PLC.	UNITED CAPITAL ALLIANCE PLC.	RESORT SAVINGS & LOANS PLC	WEMA BANK
FIDELITY BANK PLC.	ZENITH BANK	ROYAL EXCHANGE PLC.	GOLDLINK INSURANCE PLC.
DEAP CAPITAL MANAGEMENT & TRUST PLC.	INTERNATIONAL ENERGY INSURANCE PLC.	UNIVERSAL INSURANCE PLC	UNITY BANK PLC
UNION HOMES SAVINGS AND LOANS PLC.	STANDARD ALLIANCE INSURANCE PLC.	SUNU ASSURANCES NIGERIA PLC.	FIRST BANK NIG. PLC.
ASO SAVINGS AND LOANS PLC.	STACO INSURANCE PLC.	NPF MICROFINANCE BANK PLC.	