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IMPACT OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF SELECTED LISTED FAMILY BUSINESSES IN NIGERIA

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ABSTRACT

The study examined the impact of corporate governance on the financial performance (return on asset and profit after tax) of selected quoted manufacturing companies in Nigeria. Twenty-one family businesses quoted on the floor of the Nigerian Exchange Group (NXG) were purposively selected over ten years (2012-2021) based on set criteria. The panel regression model was used to analyse the data gathered from the annual reports and accounts of the selected companies. Findings showed a significant effect of the measures of corporate governance on the return on the asset. In contrast, a non-significant effect of the corporate governance measures was observed for profit after tax. The study concludes that a mixed conclusion exists between the dependent and independent variables used.

Keywords: corporate governance, family business, profit after tax, return on asset

1. INTRODUCTION

The family business is one of the oldest, most complex and most typical forms of business worldwide (Kraus, Clauss, Breier, Gast, Zardini, & Tiberius, 2020). It is a business where people related by blood or through marriage or legal adoption, and many generations (from the same root) come together to formulate objectives, missions, visions, and decisions. They perform the social and lawful activity to profit, maximise families' wealth, and hence, for lifetime growth and survival (Alfredo, Kotlar, Chua, & Chrisman, 2014; Alfredo, Sharma Chua, & Charisma, 2012). It is mainly when family members impact and contribute to the company's and business's decisions and activities. On record, businesses, as they ran since the late 1950s till late in Europe and America, were 95% family-owned (European family business, 2012). Majority of businesses throughout the world (both small and medium-scale businesses) and publicly listed businesses are mostly family businesses (Kraus et al. 2020). The family business has immensely contributed to nations' socio-economic growth and development and the world. For example, in the United States, the family business contributes 40-60% of its Gross Domestic Product (GDP) (Ayodele, Oko, Margaret & Kayode, 2018). In Nigeria, over 95% of the entrepreneurial and indigenous businesses are family-owned. However, most of them are unaware that they are family businesses; most businesses contribute to the nation's social and economic growth and development (Akanazu, 2017). Although very underrated in Nigeria, the family business can create additional economic wealth. The Center for International Private Enterprise (CIPE) governance guide (2015) for the family business described the family business as the backbone of many economies worldwide, representing more than 70% of the overall business. It is generally recognised that family businesses contribute to the economy worldwide and significantly contribute to employment and economic output (Obermayer, Kővári, Leinonen, Bak, & Valeri, 2022; Clara, 2020; Tambunan, 2019). Due to the contributions of family businesses towards economic growth and development, there has been a significant problem of interests between the families and the business, issues of declination on profitability, and the death of so many family businesses, especially in Nigeria (Morckk & Yeung, 2004). Akanazu (2017), on the family business forum in Nigeria in 2017, discovered that, in Nigeria, most family businesses did not outlive their founders. And many of these family businesses still firmly believe that the main reasons are insufficient funds, poor infrastructures, government instabilities, limited raw materials, etc. Although these problems are still ongoing, many firms have access to enough resources needed for business but still do not end up growing and surviving after the first generation. However, the Financial Reporting Council of Nigeria (FRCoN) 2011 introduced a new system of regulating all forms of businesses (either public or Private) in Nigeria and for which all businesses should adopt in their policy which is known as "Corporate Governance." And so, Corporate Governance is "a system and a set of rules that define the relationship between stakeholders, management, and board of directors of a company and influence how that company is operating" (Organization of Economic Corporation and Development-OECD, 2004). Corporate governance, which is majorly characterised as "The Board," is one of the controversial problems as people hardly inculcate its principles in strategic management and control in businesses and organisations (Adeleke, Ogundele, & Oyenuga, 2008). However, the interests of both the families and the business are vital for efficient and positive financial performance and ultimately for the nation's economic growth and development. One of the corporate governance challenges is whether the board characteristics affect firm performance. Research has shown that corporate governance measures include board size, female gender in the Board, board skills and experience, board age, dual personality, educational qualification (Bhagat & Bolton, 2019; Khatib & Nour, 2021). There are various empirical studies on corporate governance on business firm performance in Nigeria (Musa, 2020; Chijoke-Mgbame, Mgbame, Akintoye, & Ohalehi, 2020 and Ogunsanwo, 2019), but there is a shortage of literature on the impact of Corporate Governance on the performance of Family Business in Nigeria. Also, the lack of independence of the Board because of the number of family members on the Board and no specific board size (Dwekat, Seguí-Mas, Tormo-Carbó, & Carmona, 2020) is likely to affect transparency, accountability, and fairness of the Board and has led to the abuse of minority shareholder and other stakeholders (Kaya, 2021). Furthermore, rigid laws, norms, and family beliefs (e.g., prejudice of the female gender in the Board, the family's eldest son must be the CEO/Chairman regardless of his ability affects the business (Alderson, 2011). Also, the financial performance of most businesses generally is through the profit (income less expenses) it makes in the short-run (quarterly, monthly, biannually, and annually). Profit is one of the measurements of a business's financial performance, but it is not enough to justify business performance financially. For instance, a business may be making a profit in the short run and may not profit in the long run, distorting the business from surviving in the long run. Also, the fact that a business makes a profit does not automatically mean business growth. Sometimes, the business may be in massive debt or lack management efficiency or resource optimisation.

Theoretical perspective: Stewardship theory

Davis et al., in 1997, developed 'stewardship theory' as a critique of agency theory, notably the concept of self-maximization (Scott & Merton, 2021). Davis et al.'s representation of stewardship is based on the behavioural principles of personal development, belonging, achievement, continued growth, responsibility, and collective goals, with the 'agent' replaced with the 'steward'. The stewardship theory tells a robust linear relationship between the managers and the success and performance of the business (Subramanian, 2018). The stewards are the managers who are authorised and allowed to act in trust by the shareholders (Yusoff & Adamu, 2012). The stewards help protect and maximise the shareholders' value through the business performance, and whenever the shareholders' value is maximised, the stewards' values are also maximised (Chrisman, 2019).

The link between corporate governance and financial performance

The success of a company over the long run depends on growth. over the years little attention is paid to how family influence affects a company's growth. Miroshnychenko, De Massis, Miller and Barontini, (2021) investigate whether family businesses expand more quickly than their nonfamily competitors. Based on data from a sizable sample of businesses in 43 countries over a ten-year period, findings showed that family businesses typically grow at a faster rate than nonfamily businesses, and that this benefit is greater for family businesses operating in strong national institutional environments that are less corrupt, more democratic, more defensible by the law, and have effective government policies. Additionally, they discover that the beneficial impact of family involvement on firm growth differs dramatically across various family firm types and economic cycles. These results demonstrate that family control affects growth rates in a way that is both economically significant and has substantial ramifications for family firm theory and practice. Al-Ghamdi and Rhodes (2015) examined the performance of listed family and non-family companies listed on Saudi Arabia's inventory exchange market. 792 companies from 11 industrial group companies were sampled using the descriptive method and the ordinary least square regression analysis (OLSRA) model to compare family and non-family companies. Their research showed that ownership concentration has no relationship with the company's performance but positively correlates with the family's performance using ROA with Tobin's Q software analysis. Their result also showed that dual personality affects negatively affect the performance of family companies, and there is also a relationship between the board size and performance of the family companies. This result is limited to Saudi Arabian companies, especially the listed companies, and didn't consider non-listed companies. Ayodele, Odey, Olanireti, and Babarinde (2018) assessed the concept of the family business and its role in innovation in its performance. The researchers randomly selected four anonymous family businesses from the six geo-political zones in Nigeria and collected qualitative data through interviews and observations of the CEOs. They also made use of secondary data like journals, etc. Their research conclusion stated that innovation, although costly, contributes to proper succession planning, competitive advantage, and the performance of the business. But they thought that the government should provide infrastructural facilities and resources for the business. KPMG (2017) examined the performance of family business in Nigeria using six (6) variables which include: the CEO's age, diversity in leadership, communication, outward focus (competitor and benchmarking), entrepreneurial culture through prospector's strategy, and financial resources were used to measure the performance of the family business. The results showed that the three significant

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limitations of the family business performance in Nigeria include limited access to finance (47%), the fluctuating exchange rate (42%), and declining profitability of (27%). The research study is only limited to Nigeria. Also, other major problems still affect family business, including poor business management and management structure (corporate governance). For instance, some businesses have unlimited access to some resources but still mismanage these available resources because of managerial problems. Pedro, Edgar, Jacques, Sachin, Stephan, Paco, and Lameees (2017) examined the profitability of corporate governance on family firms. They studied a few family businesses in some countries such as Spain, Mexico, Brazil, India, and Middle East. The results showed that Family Businesses that complied and used the system of good corporate governance (independent directors, succession plan, and board assessment) are the most profitable ones. The research was limited to a part of the continent globally and did not give the approach and technique used in estimating its result. Ojeda and Salazar (2016) examined the level of influence on companies, family and ownership, and the family business's ability to behave responsibly to stakeholders. The researchers studied 171 family businesses in the state of Sinaloa, Mexico. The results showed that the family business positively influences corporate social responsibility (CSR). Still, the level of positive influence depends on the business's level of professionalism. The research was only limited to one of the corporate governance variables (CSR) without considering other variables. The methods used in estimating the results were not given for verification. Also, the research was limited to Sinaloa, Mexico's family businesses. Donashana and Ravivathani (2019) proposed acceptable corporate governance practises for improving the performance of listed financial institutions in Sri Lanka. The study relied heavily on ROE and ROA as measures of a company's profitability. However, corporate governance was evaluated based on characteristics such as the number of board members, how often the board meets, and the presence of an audit committee. Twenty-five publicly traded financial organisations were selected as the sample size for the years 2008-2012. Information will be gathered from secondary resources. The findings suggest that the composition and size of the board of directors and the audit committee have a positive effect on the success of businesses. However, the frequency of meetings has a negative effect on the company's performance. Khatib and Nour (2019) examined the effect of COVID-19 on corporate governance and company performance. This analysis used a sample of 188 non-financial firms from the Malaysian market for the years 2019-2020. They observed that the COVID-19 pandemic has an effect on all business indicators, including company performance, governance structure, dividend, liquidity, and debt level, however the difference between before and after the pandemic is not statistically significant. Findings further revealed that board size had a significant positive impact on corporate performance. However, after dividing the sample by year, they discovered that board size has no effect on firm performance during the COVID-19 crisis, whereas the diversity of boards appeared to be significantly improving firm performance during the crisis compared to the prior year, where it showed an inverse relationship with firm performance in both indicators. Board and audit committee meetings have been found to have a significant negative influence on corporate performance both before and after COVID-19. In reviewing the past literature, it was discovered that there is not much research on family businesses and corporate governance in Nigeria as most research work done was done mainly outside Nigeria and the continent. Lastly, the researchers also discovered that most past research works used too small sample size to suggest a conclusion. Therefore, this brought about the study on the impact of corporate governance on the financial performance of listed family businesses in Nigeria.

Therefore, the study aimed to:

- determine the effect of corporate governance characteristics on the return on assets of family businesses.
- Determine the effect of corporate governance characteristics on the profit after tax of family businesses.

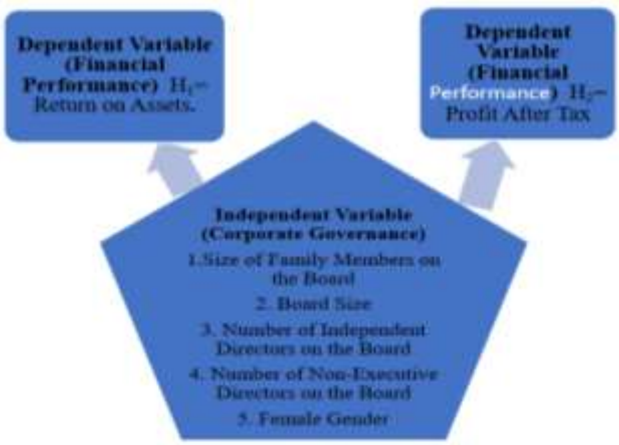

Figure 1: Conceptual framework of the study

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2. METHODS AND INSTRUMENTS

The panel data analysis was adopted for the study since there are various cross-sections over a period of time. The ex-post facto research design was utilised to achieve the study objectives. All listed family businesses on the Nigerian Exchange Group (NXG) were the target population for the study since there is enough access to information for research. The nature of the study population involved listed indigenous business because Akanazu (2017) stated that over 95% of all indigenous businesses are family businesses. The population included indigenous businesses with a person or a family as a founder or a majority or controlling shareholder. After rigorous assessment of all the listed companies by the researcher, the total population for the study was thirty-seven. A purposive non-probability sampling technique was employed, and twenty-one (21) quoted companies on the floor of the NXG were used. These companies were selected due to the availability of information on the variables used for the study.

The research is both quantitative and qualitative. The unit of analysis of the research study included the family businesses' annual financial report/statements. The published annual financial reports were extracted from the internet and the firms' website of the selected family business in Nigeria from 2012 to 2021. The source data's validity and reliability can be analysed since the published annual reports used for the study had been subject to external audits.

The independent variable for the study is corporate governance represented by family Members size, board size and board independence, non-executive directors, and the female gender in the Board, while the dependent variable for the study is the Financial Performance represented by Profit after Tax and Return on Asset. The research work adopted the use of descriptive and inferential statistics. The statistical test of correlation analysis, multiple regression (using the panel analysis approach) for ten (10) years from 2012 to 2021 were used to analyse the secondary data collected using the E-views 9 software.

The model for the study is as stated below:

$ROA_{it} = \beta_0 + \beta_1 FG_{it} + \beta_2 NED_{it} + \beta_3 NID_{it} + \beta_4 FM_{it} + \beta_5 BOS_{it} + \mu$………………………….…… (I)

$PAT_{it} = \beta_0 + \beta_1 FG_{it} + \beta_2 NED_{it} + \beta_3 NID_{it} + \beta_4 FM_{it} + \beta_5 BOS_{it} + \mu$ ……………………..…..… (II)

Where; μ is the error term.

β_0: is the intercept

β_1, and β_2: coefficient of the independent variables for the ith firms in time t

i: is the number of cross-sections (that is, twenty-one firms)

t: is period from 2012 to 2021 (ten years)

ROA Return on asset

PAT Profit after tax

FG Number of female genders on the Board

NED Number of non-executive directors

NID Number of independent directors

FM Size of family members on Board

BOS Board size

3. RESULTS AND DISCUSSIONS

3.1 Descriptive analysis

The results obtained from the descriptive statistics for the dependent variables from 2012-2021 the selected family firms generated an average profit of 2.30% from their total assets on ROA while PAT had an average share and increased by approximately ₦8,150,000,000 after-tax deduction. The independent variables from 2012-2021 for the selected family firms, FG consists of an average number of 1.19 of the Board which is averagely 12.9% of the Board, NED consists of an average of 6.03 of the Board which is averagely 65% of the Board, NID consists of an average number of 0.77 of the Board which is averagely 8% of the Board and averagely 12.8% of the non-executive directors size on the Board, FM had an average number of 1.74 of the Board which is averagely 18.8% of the Board and BOS had an average size of 9.25. Also, from the obtained result, all the variables except NID, FG, ROA, PAT, and BOS are all leptokurtic, that is, it is greater than 3 while NED, and FM are platykurtic, that is, less than 3. All the variables except for ROA, and FM are positively skewed, that is, they are not fluctuating but increasing at a high rate, and they have long right tails. At the same time, ROA and FM are negatively skewed, and, that is, they are fluctuating and are increasing at a low rate, and they have long left tails. The result on standard deviation shows a dispersion of 2.10, 10.00, 1.16, 1.13, 4.15E+10, 1.88, and 1.33, for BOS, ROA, FG, FM, PAT, NED, and NID, respectively.

Table 1 Descriptive results

	Obs.	Mean	Median	Std Dev.	Min.	Max.	Skewness	Kurtosis	JarqueBera
ROA	210	2.30	2.66	10.00	-39.78	25.88	-0.90	5.58	52.12
PAT (N'000)	210	8150000	471000	41500000	-184000000	20400000000	2.42	17.47	1222.30
FM	210	1.74	2	1.13	0	4	-0.30	2.28	4.65
BOS	210	9.25	9	2.10	5	23	2.08	9.81	334.50
FG	210	1.19	1	1.16	0	7	2.34	11.54	498.61
NED	210	6.03	6	1.86	2	11	0.27	2.90	1.56
NID	210	0.77	0	1.33	0	5	1.73	4.90	81.66

3.2 Result of correlation analysis

Table 2 indicates that there is a strong positive correlation between BOS and FG of 0.60, BOS and NED of 0.62. There is a weak negative correlation between ROA and BOS, and BOS, PAT and FG, ROA and FG, FM and NID, NED and NID, while other relationships indicate a weak positive relationship between BOS and FM, BOS and NID, BOS and PAT, BOS and PR, FG and FM, FG and NED, FG and NID, FM and NED, FM and PAT, FM and ROA, FM and NED and PAT, NED and ROA, NID and PAT, NID and ROA, PAT and ROA.

Table 2: Correlation results

Correlation	PAT	ROA	FG	FM	NED	NID	BOS
PAT	1						
ROA	0.43	1					
FG	-0.13	-0.00	1				
FM	0.31	0.43	0.41	1			
NED	0.17	0.09	0.19	0.36	1		
NID	0.13	0.18	0.14	-0.06	-0.40	1	
BOS	0.05	-0.04	0.60	0.36	0.62	0.13	1

3.3 Result of panel regression analysis

The result of Hausman test conducted on the independent variables female gender (FG), number of non-executive directors (NED), size of independent directors (NID), number of family members (FM), and board size (BOS) and dependent variable, return on asset (ROA), from the result of the probability (p) value of the combination of the total observation with random period is 0.00 which is less than 5%. So, therefore, we reject the null hypothesis and accept the alternate hypothesis, so the fixed-effect model was adopted.

The fixed-effect model result showed in table 3 indicates that corporate governance proxy by FG has a negative with a coefficient of (-2.67) and a non-significant (p=0.08) effect on ROA of selected family firms. This implies that an increase in FG will significantly reduce the ROA by -2.67 while keeping NED, NID, FM, and BOS constant. Also, NED has a negative with a coefficient of (-2.10) and a significant (p=0.07) effect on ROA of selected family firms. This implies that an increase in NED will significantly reduce the ROA by -2.10 while keeping the effect of other variables constant. Furthermore, NID has a negative with a coefficient of (-2.44) and a significant (p=0.05) effect on ROA of selected family firms. This implies that an increase in NID will significantly reduce the ROA by -2.44 while keeping the effect of other variables constant. On the other hand, FM has a negative with a coefficient of (-0.51) and an insignificant (p=0.88) effect on ROA of selected family firms. This implies that an increase in FM will insignificantly reduce the ROA by -0.51 while keeping the effect of other variables constant. Lastly, BOS has positive with a coefficient of 0.998 and an insignificant p=0.31 effect on ROA of selected family firms. This implies that an increase in BOS will insignificantly increase the ROA by 0.998 while keeping the effect of other variables constant. R-squared, which is the coefficient of determination indicates that 69% of the overall variation in ROA is explained by FG, NED, NID, FM, and BOS while the remaining 31% are the independent variables that are not covered in this study.

The value of the F-statistics is 8.95 with a probability of 0.00 at 5% significance. This implies that the combined effect of corporate governance variables (FG, NED, NID, FM, and BOS) has a significant effect on ROA of the selected family firms. Hence, we accept the alternate hypothesis that corporate governance has a significant effect on the ROA of quoted selected family firms in Nigeria. The Durbin-Watson (<2 or =2) is 1.90 and this denotes that the regression equation has a serial correlation and it is free from autocorrelation problem; this means that the estimated equation can be relied upon in making valid inference about the influence of the independent variables on corporate governance of quoted selected family firms in Nigeria. The adjusted R-squared of 61% shows a line of good fit between corporate governance and ROA.

The finding of this study is consistent with the study of – Wang, Jhou, Chan, Hissan, Ting Lin and Wei, (2016) and Al-Ghamdi and Rhodes (2015) who found a significant effect between ROA and Corporate Governance proxy by Dual personality. However, this study is also not inconsistent with the findings of Wang, Jhou, Chan, Hissan, Ting Lin and Wei, (2016) who found no significant effect between ROA and Corporate Governance proxy board size and female gender. They were of the opinion that the larger the board size, the more the difficulties in making decisions which then decreases the ROA and they also assumed that the female gender put up less responsibility to their work because they have a family and also want to have steady jobs in order to take care of their family.

Table 3: Regression result for dependent variable return on asset

Variable			Return on asset	
		Pooled	Fe	Re
FM	Coeff.	4.45	-0.51	4.69
	Prob.	0.00*	0.88	0.00*
BOS	Coeff.	-1.82	1.00	4.69
	Prob.	0.00	0.31	0.19
FG	Coeff.	-0.21	-2.67	-0.90
	Prob.	0.82	0.08	0.38
NED	Coeff.	1.62	-2.10	0.38
	Prob.	0.01*	0.07	0.64
NID	Coeff.	2.90	-2.44	0.80
	Prob.	0.00*	0.05*	0.34
Constant	Coeff.		11.70	-0.28
	Prob.		0.09	0.94
R-squared			0.69	
F-stat			8.95	
prob. >F			0.00*	
Durbin Watson			1.90	
Hausman	Prob.		0.00*	

p <0.00 (s)

denotes rejection of the null hypothesis at 5% level of significance

Panel regression for PAT

The result of Hausman test conducted on the independent variables female gender (FG), number of non-executive directors (NED), size of independent directors (NID), number of family members (FM), and board size (BOS) and dependent variable (Profit after Tax (PAT)), from the result of the probability (p) value of the combination of the total observation with random period is 11% which is higher than 5%. So therefore, we accept the null hypothesis and reject the alternate hypothesis, and so we use the random-effect model.

The random effect model result showed in Table 4 indicates that corporate governance proxy by FG has a positive with a coefficient of ₦1,200,000,000 and an insignificant (p=0.75) effect on PAT of selected family firms. This implies that

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an increase in FG will insignificantly increase the PAT by ₦ 1, 200,000,000 while keeping NED, NID, FM, and BOS constant. Also, NED has a positive with a coefficient of ₦ 3, 160,000,000 and an insignificant (p=0.28) effect on PAT of selected family firms. This implies that an increase in NED will insignificantly increase the PAT by ₦ 3, 160,000,000 while keeping the effect of other variables constant. Furthermore, NID has a positive with a coefficient of ₦ 519, 000,000 and insignificant (p=0.86) effect on PAT of selected family firms. This implies that an increase in NID will insignificantly increase the PAT by ₦ 519, 000,000 while keeping the effect of other variables constant. On the other hand, FM has a positive with a coefficient of N6, 920,000,000 and an insignificant (p=0.22) effect on PAT of selected family firms. This implies that an increase in FM will insignificantly increase the PAT by ₦6, 920,000,000 while keeping the effect of other variables constant. Lastly, BOS has negative with a coefficient of N (-₦ 1,760,000,000) and an insignificant (p=0.44) effect on PAT of selected family firms. This implies that an increase in BOS will insignificantly reduce the PAT by ₦ 1,760,000,000 while keeping the effect of other variables constant. R-squared, which is the coefficient of determination indicates that 3% of the overall variation in PAT is explained by FG, NED, NID, FM, and BOS while the remaining 97% are the independent variables that are not covered in this study.

The F-statistics which is 0.66 with a probability of 0.66. This implies that the combined effect of corporate governance variables (FG, NED, NID, FM, and BOS) has no significant effect on PAT of the selected family firms. Hence, we reject the alternate hypothesis that corporate governance has a significant effect on the PAT of the selected quoted family firms in Nigeria. The Durbin-Watson (<2 or =2) is 1.85 and this denotes that the regression equation has a serial correlation and it is free from autocorrelation problem; this means that the estimated equation can be relied upon in making valid inference about the influence of the independent variables on corporate governance of quoted selected family firms in Nigeria. The researcher did not find any empirical study which is inconsistent and not inconsistent with the study of the effect of corporate governance on PAT.

Table 4: Regression result for dependent variable profit after tax (PAT)

Variable			Profit after tax	
		Pooled	Fe	Re
FM	Coeff.	13,631	2658	6,920
	Prob.	0.00*	0.79	0.22
BOS	Coeff.	-3024	-309	1,760
	Prob.	0.17	0.91	0.44
FG	Coeff.	-9386	1112	1,200
	Prob.	0.02*	0.80	0.75
NED	Coeff.	3281	1155	3,160
	Prob.	0.25	0.74	0.28
NID	Coeff.	7774	-2936	519
	Prob.	0.01*	0.41	0.86
Constant	Coeff.		9733	-8460
	Prob.		0.63	0.60
R-squared				0.03
F-stat			0.66	
prob. >F				0.66
Durbin Watson				1.85
Hausman	Prob.			0.11

denotes significant at 5% level of significance

4. CONCLUSION AND RECOMMENDATIONS

The method at which a company's system, structure, and operations is directed, monitored, and controlled is very strategic, crucial, and essential for its overall performance and not just the financial performance. Due to the non-significant effect of corporate governance characteristics on the financial performance (PAT) of family businesses in

Nigeria, the minimum and the maximum number of the family members, female gender, non-executive/executive, and independent directors on the Board should be based on the size of the business. Family members who do not have executive positions should try as much as possible not to interfere with the business's daily operations either directly or indirectly to attain a positive financial performance.

This study improved existing research on corporate governance's impact on financial performance by looking at selected quoted family businesses in Nigeria. The findings of this study, in line with previous empirical studies and analysis, have provided mixed results on the impact of corporate governance on the financial performance of selected family businesses in Nigeria.

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