



Monitoring characteristics and financial performance of conglomerate firms in Nigeria

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ABSTRACT

The continued spate of unethical behavior by the management of corporate entities which result in their failure leads to the need of good corporate governance. The paper empirically investigates impact of monitoring characteristics and firm performance of listed conglomerate firms in Nigeria. Correlational research design was used for the purpose of this study as it was found suitable to look in to a relationship between the variables. The sample of the study is 6 firms from the period of 2007-2012. Panel multiple linear regression technique of data analysis was adopted. The result reveals that monitoring characteristics have significant impact on firm performance as measured by ROA of conglomerate firm in Nigeria. Therefore the study recommended that the management of listed conglomerate firm in Nigeria should give a priority to block holders CEO duality and independent directors while considering a decision on how to allot shares, while allotting less number to institutional shareholders as will cause decrease on the return on asset.

Key words: Monitoring, Characteristics, Performance, Conglomerates

1. Introduction

Firm performance can be assess using different parameters by those interested in the firm performance, different category of users have divergent need from the financial information of which they consider as the firm performance. Shareholders who serve the entity with the initial necessary fund to startup operation normally their performance measure is the profitability that is the ability of company's asset to generate returns which will be distributed to them as dividend, company performance can also be measured using return on equity (ROE) which is the ability of owners' equity to generate cash inflows. As such the equity holders of an entity normally are not the once who run the affairs of that company, they do

employ or assign other people to operate the entity for them, which leads to principals and agents relationship, by this a binding contract do exist between the two parties. From the part of the managers is to act honestly to the best interest of their principals which normally is a value maximization of the firm so that the company will reach to the high level. And from the part of the principals is to adequately compensate the agents (agency costs) in order for the agent not to act in such a way that will hurt their principals where they have conflict of interest.

There have been massive fraud and unethical practices within and among a number of organizations in Nigeria. Quadri (2010) posited that recent insider trading, massive and prevalent frauds leads to mandatory retirement of CEOs of banks, due to corrupt practices and inefficient rubber stamped board, have combined to signal the absence of or failure of existing corporate governance structure. In addition, the Companies and Allied Matters Act (CAMA) 2004 which was enacted to ensure that the relationship among the board, shareholders and the management including other stakeholders is balanced for healthy running of an entity has proved absent. The events had serious devastating effect on stakeholders in terms of losses in their investments. The events also resulted in the loss of hundreds of jobs especially in the manufacturing sector and drastic drop in the share prices of most listed companies on the Nigerian Stock Exchange Market. The shock to the stakeholders and the public led to the yet unanswered question of 'how' such event could have happened when companies were declaring billions of Naira as profit.

Therefore, the trust which investors had on the credibility and the quality of financial report presented by the management of companies could no longer be sustained as they were considered misleading. Hence, a higher need to protect stakeholders' interest so as not to have another overwhelming shock becomes imperative. The cumulative effects of the ugly events led to the total overhaul of the Nigerian Code of Corporate Governance by the Securities and Exchange Commission (SEC) in 2011. The overhaul was particularly instructive because the audit committees of companies were severely criticized because they are charged with the responsibility to oversee the financial and other reporting process of organization in order to enable them show credibility, integrity and transparency in their operations, including financial reporting. Information asymmetry due exist between the management and the owners of the business and as such the code of corporate governance (2011) described some monitoring mechanisms to help reduce agency problems which would invariably lead to the reduction of agency cost when the substantial interests of owners are aligned with the company's interests (Yayah, Abdullah, Faudziah & Ebrahim 2012).

Block holdings, those who hold normally 5% and above shareholding interest in a firm are explained as part of the monitoring mechanism due to the influence they have in the company's decision making process. CEO duality simply means a single person to serve as chairman and the CEO of the firm. Institutional shareholders also were among the monitors as they have two main advantages for being institutions with higher experience and also block holders.

The main objective of the paper is to ascertain to which level firm monitoring characteristics influences the performance of listed conglomerates firms in Nigeria. The following are the specific objectives;

To examine the impact of Block shareholders (BLS) on firm performance of Nigerian listed conglomerate firms in Nigeria.

1. To investigate the influence of CEO duality on firm performance listed conglomerate firms in Nigeria
2. To ascertain the effect of institutional shareholders (IS) on the performance of listed conglomerate firms in Nigeria
3. To determine the contribution of Independent directors (ID) on the performance of listed conglomerate firms.

The following hypotheses were formulated in a null form;

- Ho₁: Block shareholding has no significant impact on the performance of conglomerate firms in Nigeria.
- Ho₂: CEO Duality has no significant impact on the performance of conglomerate firms in Nigeria
- Ho₃: Institutional shareholders have no significance influence on the performance of conglomerate firms in Nigeria.
- Ho₄: Independent director's ownership has no significance impact on the performance conglomerate firms in Nigeria.

The contribution of this paper include adding to the existing body of literature for the potential researchers to build on it and it will be of benefit to the Nigerian manufacturing companies especially the conglomerate sub-sector to adhere strictly to the corporate governance code on company's monitoring characteristics as it will guide them on the effect of each monitoring variable on their financial performance. The remaining part of the paper is organize as follows; section two deals with the literature review, section three discuss the methodology while section four present and analyses the data as the section five conclude the paper.

2. Methodology and Model Specification

The study uses correlational research design for such reason as it allows testing of expected relationship between and among variables. The population of the study consists of all six listed conglomerate firms in the Nigerian stock exchange as at December 2012 which also serve as the sample size. Secondary source of data was used to extract information from the annual report and account of selected firm between the periods of 2007-2012. Multiple linear regressions were used as a technique of data analysis. The justification for this technique was that it has the ability to test the statistical association or relationship between two or more variables and allows for the prediction of the expected outcomes.

The following model is hereby specified.

Table 1: Variable definition and measurement

Variables	Definition	Measurement	Source
PERF	Performance	Profit after tax divided by total assets	Allam, Adel & Sameh (2013); Sunday, Charles & Abojede (2012)
BLS	Block shareholding	Number of equity owned by persons and institutions that hold 5% and above the company's equity divided by total shares	Hamze, Bentolhoda & Hamed (2012); Farouk & Luka (2013); Bashir, Musa & Shehu (2012)
CEO	Chief executive officer duality	A dummy variable that takes on 1 if the CEO is also the chairman of the board and 0 if otherwise	Allam, Adel & Sameh (2013); Bathola (2008)
IS	Institutional investors	The total number of stocks owned by institutional investors divided by total shares	Allam, Adel & Sameh (2013); Hanze, Bentolhoda & Hamed (2012); Bashir, Musa & Shehu (2012)
ID	Independent directors	Total number of shares owned by independent directors of a given firm as a percentage of the outstanding shares of the firm (the higher percentage, the greater the director shareholding).	Garba et al. (2005)

Source: Authors Review

3. Result and Discussion

The regression results describe the impact of firm monitoring characteristics on its performance as measured by ROA. The descriptive statistics are presented in Table 2.

Table 2: Descriptive Statistics

Variable	N	Statistic	Minimum	Maximum	Mean	Std. Deviation
PERF	36		0.08	0.22	0.1253	0.02940
BLS	36		0.01	0.66	0.1120	0.15762
CEO	36		0.06	0.19	0.1014	0.2925
IS	36		0.50	0.80	0.6877	0.07682
ID	36		0.19	0.66	0.4066	0.11718
Valid (listwise)	36					

Source: Authors computation using SPSS 16.0

Table 2 reveals that ROA has an average value of 0.12 together with its minimum and maximum associates of 0.08 and 0.22 respectively, this describes that the ROA is increasing gradually. Block holders and CEO duality has a mean value of 0.11 and 0.10, while 0.01 and 0.06 represent their minimum values respectively, therefore describing an upward increase. On one hand the maximum values are 0.66 and 0.19 respectively. Thus institutional shareholders and independent or Non-executive directors reveal average values of 0.69 and 0.41 while 0.50 and 0.19 represent their respective minimum values, their maximum values stood at 0.80 and 0.66 respectively. However it is observed that institutional shareholding has the highest standard deviation of 76% which implies that institutional investors contribute less in monitoring the activities of firm managers in the conglomerates sub-sector of the Nigerian manufacturing sector, which was followed by the CEO duality with a standard deviation of up to 29%. Therefore descriptive statistics explain that the proxies for the study witnessed a tremendous increase within the range of the period under review.

Table 3: Correlation matrix

Variable	PERF	BLS	CEO	IS	ID
PERF	1				
BLS	0.223	1			
CEO	0.687**	-0.002	1		
IS	-0.475**	0.133	-0.276	1	
ID	-0.11	-0.589**	-0.039	-0.276	1

Source: Authors computation using SPSS 16.0

From Table 3 above it indicates that two independent variables; BLS and CEO are positively related with the dependent variable performance, while the other two explanatory variables institutional shares and independent directors document a negative relationship with performance. However CEO duality has a strong relationship with performance of conglomerates sub-sector of the Nigerian manufacturing sector. In addition all the explanatory variables are positively related by themselves. However the table shows the absence of a serial correlation between the variables. This was also proved by the value of Durbin Watson 1.797 indicating a complete absence of a serial correlation. Hence variable inflation factor (VIF) and Tolerance Value are another two good measures for a multicollinearity effect, the table 3 shows that the VIF are consistently less than 10 and the tolerance values are consistently less than 1 which presents a complete absence of multicollinearity between the variables.. The F statistics value of 13.927 confidently tells us that the model of the study was properly selected combined and used.

Table 4: Summary of regression result

Variable	Coefficient	t-values	p-values	Tolerance values	VIF
Constant	.124	2.974	.006		
BLS	.065	2.608	.014	.651	1.535
CEO	.610	5.397	.000	.912	1.096
IS	-.120	-2.729	.010	.869	1.151
ID	.037	1.082	.287	.621	1.611.
R					.802
R ²					.642
Adjusted R ²					.596
F-statistic					13.927
F Sig					.000
Durbin Watson					1.797

Source Authors Computation using SPSS 16.0

Table 4 reveals that the cumulative association between the proxies was given by the value of R .802. This is signifying that the relationship between the performance and monitoring mechanism of listed conglomerate firm in Nigeria is up to 80% indicating that any change in the monitors will increase the profitability of Nigerian conglomerate firms. Adjusted R² is the multiple coefficient of determination given by 0.596 indicating that the cumulative variation of the regressand as caused by the regressors is up to 60%. This means that the monitors are able to predict the performance of listed conglomerate firms in Nigeria. Thus the level of prediction is up to 60% whereas the remaining 40% are said to be taken care by other factors.

In order to examine the impact of block shareholders on firm performance, a t- value of 2.608 and a beta coefficient of 0.065 were given by the regression statistics, significance at 5%. This indicates that Block shareholding significantly and statistically influences the profitability of Nigerian conglomerate

firms, which means for any 5% increase in the ownership of block holders the performance of conglomerate firms in Nigeria will also increase by 6.5%. Thus the result explain the reality as block shareholders tends to have a significant influence on the decision making process of a firm. Additionally, institutional shareholders possess greater skills and experience which if used as a devising mechanism to the firm, will no doubt affect the performance of an entity positively. This finding also explain the agency theory of Jensen and meckling (1976) which argue that conflict of interest exist between that of the agent and for the firm in general which if left unchecked will adversely affect the performance of an entity. However the policy implication of the result is that the management of conglomerate firms in Nigeria should allot a reasonable number of shares to block holders while in issue, because that will boost their performance as the block holders will help checkmate the unethical behavior of some managers for ranking their interest in preference to that of organization. The first hypothesis formulated which state that block shareholders has no significant impact on the performance of conglomerate firms in Nigeria is hereby rejected base on the finding. This result contradict to that of Farouk and mailafia (2013) who credited a negative impact, the result support the result of Jensen (1989) who found a positive significant impact but if combined with the changes in management. The finding also supports Garba *et al* (2005) who posited a significant impact in all cases except one PE. Hamze *et al* (2012) found no significant impact.

To test the hypothesis which states CEO duality has no significant impact on the performance of conglomerate firms in Nigeria. The regression result gives a t-value of 5.397 and beta coefficient of 0.610 which is at 1% level of significance. This reveals that CEO duality has positively, strongly, statistically and significantly impacted on the performance of conglomerate firms in Nigeria, it further explains that firms that practices separation of the CEO post with that of chairman may benefit more by increase performance. This result proved our priory expectation that dual control tends to have a positive impact on a firm performance and also the reality has been proved that the post of CEO and that of chairman if separated may have a positive impact on the performance, the finding is also in line with the agency theory. The management of conglomerate firms in Nigeria is hereby advice to separate the position of CEO and the chairman to two different people as it will strengthen the management efficiency and give a room for effective dual control which will invariably have a positive impact on performance. This provides an evidence of rejecting the second hypothesis. This contradicts the findings of Ahmadu, Aminu and Tukur (2005), also in support of Bathola (2008).

Table 4 above shows that institutional shareholding has a t-value of -2.729 with a beta coefficient of 0.12 which is at 5% level of significance. This reveals that institutional shareholding has negatively and statistically impacted on the performance of conglomerate firms in Nigeria. This signifies that for any 5% increase in the number of shares held by institutions the performance of conglomerate firms in Nigeria will decrease by 12%. The finding contradicts with the researcher expectation and this may be as results of institutions consider short term result in preference of long term result. The management of conglomerate firm is advice while considering a policy on the issue of shares to give less preference to institutions as they consider short term return than the long term which may not be feasible to the firm and lead to decrease in performance. Thus with this result it serve as an evidence of failing not to reject the third hypothesis which state that institutional shareholders has no significant impact on the performance of conglomerate firms in Nigeria. The result support that of Wahal (1996), Bathola (2008).

The independent director's t-value was given as 1.082 and a beta coefficient of 0.037. This indicates that independent directors have positively and statistically impacted on the performance of conglomerate firm in Nigeria. It further explains that for any change in the board with regards to independent directors, the performance of conglomerate firms will be directly affected. This is in

accordance with our expectation that the more people with independent mind are given the opportunity to monitor firm activities the better the critical assessment and objective advice and services will be given, this will invariably have a positive impact on the performance of conglomerate firm in Nigeria. Thus independent directors while allotted a shareholding in a company are said to serve as monitoring mechanism which will help increase performance, hence validate agency theory. The policy implication derivable is the authorities in conglomerates firms in Nigeria should give attention by appointing independent people with independent mind as non-executive directors as their monitoring power have a positive impact on firm performance. Thus this result fail not to reject the fourth hypothesis that states independent directors have no significant impact on conglomerate firm in Nigeria. This findings support that of (Bhagat 1999), (Black 2000) and (Bathoola 2008).

5. Concluding Remarks

This research work examines the impact of monitoring characteristics on the firm performance of listed conglomerate firm in Nigeria. Block shareholding, CEO duality, institutional shareholding and independent directors form the proxies for monitoring characteristics while the ratio of profit after tax to total asset (ROA) represent the dependent variable of the study. It was found that block holding, CEO duality and independent directors have a positive influence on the performance of listed conglomerate firm in Nigeria while institutional shareholding was proved to have a negative impact on the performance. the result explain that firms that separate CEO position and that of chairman are more likely to have a greater increase performance furthermore firms with more block holders and independent directors will also experience increase performance but not as much as that of CEO duality. But the result also reveals that a firm on the conglomerate sub-sector of the Nigerian manufacturing sector on which institutions possesses a significant proportion of their equity holding tend to suffer decrease in profitability. The firms in the conglomerate sub-sector are hereby recommended to give more priority by separating the post of CEO and chairman and also consider block holders because they have the influence to monitor firm performance which will lead to increases performance independent directors. On the other hand they should less preference to institutional shareholders.

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