



## CORPORATE GOVERNANCE AND ENTREPRENEURIAL PERFORMANCE OF LISTED CONGLOMERATES IN NIGERIA

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### Abstract

*The study was conducted on the effect of corporate governance on entrepreneurial performance of listed conglomerates in Nigeria. Corporate governance was the independent variable, and it was proxied by board size and board composition while the dependent variable was entrepreneurial performance which was proxied by firm value. The population of the study comprised of listed conglomerates on the Nigerian stock and the period of study was between 2011 to 2020. The data was sourced from the financial statements of the firms and OLS regression was used to analyse the collected data. The result of the study showed that board size had a positive and significant effect on entrepreneurial performance, while board composition had no significant effect on entrepreneurial performance. The study therefore concluded that board size influences entrepreneurial performance. The study recommended that the management of the conglomerates should maintain the size of their boards just the way they are during the years considered for the study.*

**Keywords:** Corporate governance, Entrepreneurial performance, Conglomerates

### Introduction

Building and growing a venture is an important aspect of the life cycle of every business, as such, organizations continue to work their parts towards increasing their performance so that they can remain in business for a long time. Entrepreneurial performance is the output that is derived from the entrepreneurial activities (business) that an organization carries out over a period of time (Li, Terjensen, & Umans, 2018). Since the organization performs entrepreneurial when it is able to make use of its resources and develop business strategies that will be effective and position them better, it is therefore important for all managers to look into their performance levels and understand what can affect it. Increasing performance is however not always the case in the business world because there are times whereby organizations struggle to keep up with their performance levels due to certain factors that could be internal or external (Aslam & Haron, 2020). Since businesses don't always remain in high performance, then consistent digging into various components that can increase performance becomes important. Corporate governance is seen as one of the measures that could be employed by organizations to regulate their activities and bring about decorum which could affect the performance of the firm overtime.

Corporate governance has been seen as the driver of the operations and performance of a company, this is because, it encompasses relationships ranging from

stakeholders, frameworks, decision making and responsibility in the organization (Bhagat & Bolton, 2019). It is the set of rules, defined practices as well as processes through which an organization is directed and controlled. Hence, it could be said that corporate governance defines how, where, and what would be done to ensure the firm is positioned better while considering the stakeholders of the business. Though a line of relationship has been drawn between corporate governance and performance, managers will need to put in a lot of work to ensure that the governance structure is well implemented in such a way that it can bring the required result for the firm (Khan, Hussain, Ur-Rehman, & Maqbool, 2019).

The conglomerates tend to carry out different range of business activities at once and ensuring that the firm is gaining from its numerous investments need complex monitoring and a well-defined system. The Nigerian conglomerate industry is gradually building up but there is need for the existing firms to perform better as the country is witnessing increased hike in exchange rates and inflation all coming together to reduce the firm's income. The need to increase the entrepreneurial performance of these firms is therefore vital in the current situation the country is in, hence the need for a study of this kind. Looking also at studies done in the area of entrepreneurial performance, it is seen that there are few related literatures that have made use of corporate governance dimensions to solve the pending

issue. Also, most of the related studies done on entrepreneurial performance are done in other industries like manufacturing and small and medium enterprises, this therefore provides the room for the current study.

Based on the identified issues, the study therefore seeks to examine the effect of corporate governance on entrepreneurial performance of listed conglomerates in Nigeria. The hypotheses of the study are stated in null form.

H<sub>01</sub>: Board size has no significant effect on entrepreneurial performance of listed conglomerates in Nigeria.

H<sub>02</sub>: Board composition has no significant effect on entrepreneurial performance of listed conglomerates in Nigeria.

The study is limited to the listed conglomerates in Nigeria. Corporate governance measures is also limited to board size and board composition while entrepreneurial performance was measured as firm value.

## **Literature review**

### **Entrepreneurial Performance**

Businesses are established with the intention of making profit while carrying out its business activity, hence, it is considered the major goal of the firm and the key area to be looked at by researchers when there are issues with the firm. Entrepreneurial performance has been defined as the result of the business activities of a firm which was generated over the time of the business (Li, Terjensen, & Umans, 2018).

Based on the definitions provided by scholars, this study defines entrepreneurial performance as the output generated from the use of the firms' assets over time.

### **Board Size**

The size of the board is the total number of board members, non-executive directors, independent directors and gray managers. The size of the body in business organizations varies with organization's needs and resources and associated costs. The question remains: Is there an ideal board size? One size does not suit everyone.

For the purpose of this study, board size is defined as the percentage of the individuals that constitute the board of an organization.

### **Board Composition**

The executive directors have specialized expertise, expertise and valuable knowledge about business policies of companies and everyday activities.

However, there is a need for external managers to add new ideas, independence, objectivity and expertise in their field (Arayssi, Jizi, & Tabaja, 2020). As such, agency theory supports the participation of independent non-executive directors in promoting the independence of the board of directors.

For the purpose of this study, board composition is defined as the percentage of non-executive members to the percentage of executive members on the board of an organization.

## **Empirical review**

Aslam and Haron, (2020) examined the impact of corporate governance on performance of Islamic banks from 29 Islamic countries. The periods of 2008 to 2017 were studied and the data was collected from the financial statements. The data was analysed using OLS regression and the study discovered that audit committee and shariah board had a positive impact on performance of Islamic banks. Board size and risk management committee have negative and significant effect on the performance of IBs.

Bhagat and Bolton, (2019) examined the influence of corporate governance on firm performance in United States. The study employed the use of quantitative approach and the data was collected from the database of the financial institutions considering the years 2003 to 2016 as the period for the study. The collected data was analysed using OLS regression. The study discovered that corporate governance has a positive influence on firm performance. However, carrying out the study in a different environment can show a different finding.

Khan, Hussain, Ur-Rehman, and Maqbool, (2019) looked at the mediating role of innovation between corporate governance and organizational performance in Pakistan.. the study looked at the effect of board size, board independence, board diversity and board meeting on organizational performance. Primary data was used in the study and it was collected with the aid of questionnaires. A sample of 407 were used and the study employed the use of PLS-SEM to conduct the analysis. The study discovered that board size and board diversity had a positive effect on organizational performance and innovation mediated the relationship.

Loh and Nguyen, (2018) examined the effect of corporate governance on business performance in Singapore. The study employed the use of quantitative approach and the data was collected from listed companies on Singapore's stock exchange. The study employed the use of OLS regression to analyse the collected data. The study discovered that there is a positive relationship between corporate governance and

business performance. The study discovered that corporate governance impacts on business performance.

### Theoretical framework

#### Agency theory

The study is anchored upon the agency theory. The agency theory involves managers (agents) and owners (principals) in the business process, as it involves a collection of contracts between the two parties that handle the management and management of these resources. This study is looking at the relationship between corporate governance and entrepreneurial performance as such there is an agency relationship since the firm is managed by managers who are the agents that manage the resources of the owners/shareholders. Agency theory assumes that the agents must act in the best interest of the owners so the theory provides a framework for the current study.

#### Methodology

The study adopted a quantitative approach and ex-post facto design. This was done to be able to achieve the objective of the study which is trying to see the extent of effect between the variables identified. The population of the study comprises of the listed conglomerates on the Nigerian Stock Exchange. A total of five (5) conglomerates were identified as at 31 December, 2021 and the study employed a census of the population. A period of 2011 to 2020 which is a period of 10 years. OLS regression analysis was employed to analyze the collected data. Entrepreneurial performance was measured using Tobin Q, while BS was measured by dividing total number of the board members, board composition on the other was measured using the ratio of directors to non-directors.

The empirical analysis involves estimating the relationship between board size, board composition and entrepreneurial performance. The model is therefore presented as such:

$$EP = \beta_0 + \beta_1 BS + \beta_2 BCOMP + \varepsilon$$

Where EP represents entrepreneurial performance, BS represents board size, BCOMP represents board composition.

#### Analysis and Discussion

The descriptive statistics showed that the average performance for the firms studied was .2952 which is approximately 30%, signifying that most of the conglomerate's value during the periods considered for the study were not up to 50%. The result also showed that there was an average of 51% of board size from the firms. Board composition was seen to have an average of 38%. The result is presented in table 1.

**Table 1: Descriptive summary**

Variable	Obs	Mean	Std. dev.	Min.	Max
EP	50	.2952	.1260748	-.12	.52
BS	50	.512	1.471506	-2.97	9.3
BC	50	.3836	.0687129	.23	.45

Source: STATA Output, (2022)

The correlation between the variables of the study showed that there is a positive relationship between BS and EP with a Pearson r of .40, while board composition (BC) and EP had a relationship of .17. This signifies that an increase in board composition will increase the value of the firm positively. BC and BS were also seen to have a positive relationship with a Pearson r of 0.0225 which signifies that there is a relationship between the variables and there is no issue of multicollinearity. The result is presented in table 2.

**Table 2: Correlation summary**

	EP	BS	BC
EP	1.0000		
BS	0.4010	1.0000	
BC	0.1714	0.0225	1.0000

Source: STATA Output, (2022)

The normality test conducted on the data using Shapiro-Wilk test showed that EP has no normal distribution, and this was justified with a p-value of 0.00038. BS was also seen to lack normality as there was a significant p-value of 0.00000. BC also had a p-value of 0.00036. The result is presented in table 3.

**Table 3: Swilk Test**

Variable	Obs	W	V	Z	Prob>z
EP	50	0.89685	4.851	3.368	0.00038
BS	50	0.44485	26.108	6.957	0.00000
BC	50	0.89625	4.880	3.380	0.00036

Source: STATA Output, (2022)

The regression result showed 63% or approximately 64% of entrepreneurial performance is explained by corporate governance, which showed that as the firm value increases, so does the corporate governance. This was found to be statistically significant at 2%. The regression results also showed that there is a positive and significant relationship between BS and EP as there was a coefficient of .034228 and a significant value of .004, while on the other hand, an insignificant p-value of .762 was found between BC and EP. Table 4 therefore presents the result.

**Table 4: Regression Summary**

<b>Prob&gt;F = 0.0210</b>  <b>R-squared = 0.6388</b>				
	<b>Coef.</b>	<b>Std. Err</b>	<b>T</b>	<b>p&gt; t </b>
<b>BS</b>	.034228	.0114491	2.99	0.004
<b>BC</b>	.1832408	.601843	0.30	0.762

**Source:** STATA Output, (2022)

The study conducted a heteroskedasticity test to check for errors in the residuals and it was discovered that there was a p-value of 0.4966, signifying that the data is homoscedastic since it is not significant at 5%. Due to the result of the HETTEST, the study did not proceed to GLS and used the OLS to test the hypotheses developed. The result for the HETTEST is presented in table 5.

**Table 5: Heteroskedasticity test**

<b>Chi(2)</b>	0.46
<b>Prob &gt; chi2</b>	0.4966

Looking at the hypotheses developed, the study discovered that BS has no significant relationship with

EP, and looking at the result, it is seen that BS has a positive and significant effect on BC with a significant value of 0.004. Hence the null hypothesis one is rejected. The findings further support the finding of Bhagat and Bolton (2019) who also discovered a positive and significant relationship between the variables.

The study also developed a hypothesis stating that BC has no effect on EP. The result showed that BC does not significantly affect EP, as such, the hypotheses was accepted. This finding was in line with the finding of Li, Terjensen, and Umans (2018).

**Conclusion and Recommendations**

The study was conducted on the corporate governance and entrepreneurial performance of listed of listed conglomerates in Nigeria. After the analysis, it was discovered that board size had a positive and significant effect on entrepreneurial performance as such, the study concluded that board size has an effect on entrepreneurial performance. The study also examined the effect of board composition on entrepreneurial performance and it was discovered that a positive but insignificant effect exist. Based on the finding, the study concluded that board composition does not have any effect on entrepreneurial performance.

Looking at the conclusions, the study therefore proffers the following recommendations. The study concluded that board size has an effect on entrepreneurial performance, hence it is recommended that the management of the conglomerates should endeavour to consider the size of their board at all times and maintain the current range of numbers within the time frame of the study. This will help in improving their value.

Secondly, since board composition had no effect, it is therefore recommended that the management of the conglomerates should look into their board composition and see if some adjustments can be made. Within the years studied, there are more non-executives than the executives on the board, so more could be done on the composition of the board that can lead to a significant result.

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