

Original Article

Impact of Corporate Governance Practices on Earnings Per Share of Industrial Goods Companies Listed in the Nigeria Stock Exchange

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ABSTRACT: *The study was carried out to investigate the impact of corporate governance practices on earnings per share of industrial goods companies listed on the Nigerian Stock Exchange. Specifically, the study examines the relationship between the corporate governance variables board size, board independence, board diligence, and the earnings per share of industrial goods companies listed on the Nigerian Stock Exchange. The study was anchored on the agency theory and collected secondary data from the audited financial statements and annual reports of randomly selected listed industrial goods companies. Regression analysis was used to analyze the collected data via the Statistical Package for Social Sciences (SPSS) version 23 to verify the relationships between the corporate governance variables and earnings per share. Findings of the study showed a positive and significant relationship between board size, board independence, board diligence, and earnings per share. The study therefore concludes that corporate governance practice has an impact on the earnings per share of industrial goods companies listed in Nigeria and recommends, among others, that firm should encourage a reasonable board size, a larger percentage of independent directors on the board of the firm, and finally, enforce attendance to board meetings by board members.*

KEYWORDS: *Board Size, Board Independence, Board Diligence, Earnings per Share.*

1. INTRODUCTION

In Nigeria, companies whose products are used by enterprises for production and operation rather than for direct consumer consumption are included in the industrial goods sector. These goods are not typically intended for personal use and are likely larger and more expensive, unlike consumer goods. These goods are vital for manufacturing and operating businesses; they include a wide range of items like raw materials, machinery, equipment, and components. Many of these companies operate in a challenging and turbulent business environment that is both internal and external to them. Despite the challenging and turbulent business environment faced by these companies, the board and management of these companies are expected to strategically navigate through these challenges posed to ensure that the interests of all stakeholders are protected. The corporate governance landscape has continuously changed to help address the changing business needs and checkmate the excesses of the management team that oversees the day-to-day operations of the company. This is done in an effort to create effective management and sustainable trust in the corporate business environment to boost the confidence of investors and other stakeholders. It therefore follows that the practice of good corporate governance in the industrial goods sector in Nigeria cannot be overemphasized because corporate governance ensures accountability, transparency, and ethical practices within companies' operations. Corporate governance is an embodiment of a framework of rules, practices, and processes by which these companies are directed and controlled, and it has been one of the most effective ways of essentially building investors' confidence, attracting foreign direct investment, and fostering sustainable growth in any economy in the world. The constitution of the board of directors is one of the essential aspects of corporate governance, and the board of directors is appointed and constituted by the shareholders of the company to oversee the operations of the company. Consequently, the objective of the study was to investigate the impact of corporate governance practices on the earnings per share of listed industrial goods companies in Nigeria.

2. OBJECTIVES OF THE STUDY

The following specific objectives are stated for the study:

- To examine the relationship between board size and earnings per share of industrial goods companies in Nigeria.
- To determine the relationship between board independence and earnings per share of industrial goods companies in Nigeria.
- To ascertain the relationship between board diligence and earnings per share of industrial goods companies in Nigeria.

3. RESEARCH HYPOTHESES

- **H₀₁:** There is no significant relationship between board size and earnings per share of industrial goods companies in Nigeria.
- **H₀₂:** There is no significant relationship between board independence and earnings per share of industrial goods companies in Nigeria.
- **H₀₃:** There is no significant relationship between board diligence and earnings per share of industrial goods companies in Nigeria.

4. REVIEW OF RELATED LITERATURE

4.1. CORPORATE GOVERNANCE

Corporate governance is defined as the processes and procedures of utilizing the corporate governance codes or mechanisms to direct and manage the activities and events of a firm with the objective of balancing the achievement of corporate goals via accountability and transparency to shareholders and the stakeholders at large. Corporate governance has to do with proper management of the corporate resources by managers through effective and efficient board monitoring that would lead to better allocation of resources to achieve firm performance for the benefit of all stakeholders. Hence, corporate governance is concerned with accountability, boards, disclosure, investor involvement, and related issues, which suggests that the performance of an entity is to a large extent determined by the composition of the board (Ndum & Oranefo, 2021).

4.2. BOARD SIZE

This is the total number of directors that constitute the board of a company. The boards of directors are appointed to act on behalf of the shareholders and other stakeholders and are directly accountable to the shareholders. The number of individuals on the board of directors is affected by the role of the board of directors in an advisory capacity, as well as the monitoring role in relation to the firm. However, it is encouraged to have sizeable directors in an organization, who would enable better communication and efficient decision-making (Eginiwin, 2013). Lawal (2012) argues that board size affects the quality of deliberation among members and the ability of the board to arrive at an optimal corporate decision. Hence, research has revealed that when a board gets too big or large, it becomes very difficult for such a board to coordinate its process and tackle strategic problems of the organization. Sadou et al. (2017) highlighted that larger boards are more effective and have greater influence over companies' performances. Also, a study by Abiodun (2012) revealed that a large board has a positive relationship with performance in Nigeria. Hussainey and Aljifri (2012), cited in Mohamed and Khairy (2016), found that the total number of board of directors has a positive relationship with the debt-to-equity ratio. On the other hand, some corporate governance literature has equally provided evidence of a negative association between board size and financial performance. According to Gill and Mathur (2011), larger board size has a negative impact on the profitability of the Canadian service firms. Eyenubo (2013) also revealed in their study that bigger board size affects the value of the firm negatively as well as their financial performance. González and García-Meca (2014) reported that board size has a negative relationship with earnings management measured by discretionary accruals.

4.3. BOARD INDEPENDENCE

The board of directors of firms is a composition of both executive directors and non-executive directors/independent directors. Board composition has a significant positive effect on firm performance (Aminu, Aisha, & Muhammad, 2015). According to the Nigeria Corporate Governance Code of 2018, the board of directors of a firm is expected to be made up of more non-executive directors (NEDs) for effective control. Independent directors play a crucial role in corporate governance because they act as monitors and advisors to improve the board performance and safeguard the interests of shareholders. Several studies have revealed that independent directors contribute significantly to improving various aspects of corporate governance and firm performance. Zhang, Zhu, and Ding (2013) found that independent directors have more diverse backgrounds and represent external stakeholders of companies. Romano and Guerrini (2012) also reported that the higher the percentage of independent directors on the board, the lower the likelihood of financial fraud. They argue that a higher relative weight of independent directors appears to ensure more effective control. Several studies have indicated a positive link between board independence and corporate financial performance (Sharif & Rashid, 2014; Kaur et al., 2016). Conversely, studies have equally revealed adverse effects of independent directors on a firm's performance (Michelon & Parbonetti, 2012; Janggu et al., 2014; Adeusi et al., 2013).

4.4. BOARD DILIGENCE

Board diligence is seen as the number of times that the board of directors of a firm meets to deliberate on strategic issues as they relate to the firm as demanded by their duties and responsibilities to the firm. A board meeting is an important component of corporate governance practice, as it provides an avenue for directors on the board of a firm to deliberate on various corporate issues that eventually make up the strategic decisions that are necessary for the attainment and success of a company's overall objectives. According to Eluyela et al. (2018), a regular board meeting is an internal issue that is at the discretion of the chairman of the board. However, boards that frequently meet may have time to develop and set strategic targets and also be able to monitor the activities of management, whose responsibilities are to run the day-to-day operations of the firm. The frequencies at which board meetings influence the financial performance of firms remain debatable. Findings

from different empirical studies revealed that board meetings and the financial performance of firms have produced inconsistent and conflicting evidence. While some of these studies revealed a positive relationship between board diligence and financial performance (Kaur, Raman, & Singhania, 2016; Satirenjit, Shireenjit, & Barry, 2015; Sharif & Rashid, 2014; Ntim & Osei, 2011), other studies revealed that the relationship is negative (Wasiu, Babatunde, & Idris, 2020).

4.5. EARNINGS PER SHARE

Earnings per Share (EPS) are a financial ratio that is disclosed by firms in their published financial statements. This ratio is calculated as net income divided by the number of total outstanding shares (Ahmed et al., 2017). It represents the portion of a company's earnings, net of taxes and preferred stock dividends, that is allocated to each share of common stock. Earnings per share are used as an indicator of a company's profitability. It can be calculated via two different methods: basic and fully diluted. Fully diluted EPS, which factors in the potentially diluting effects of warrants, stock options, and securities convertible into common stock, is generally viewed as a more accurate measure. It is considered important because it is one of the most critical variables in determining a share's price, and external decision-makers often consider its use as a single, summarized measure of evaluating a company's performance.

Consequently, the study was anchored on the agency theory. The theory is based on the idea of separation of ownership (principal) and management (agent). This principle suggests that in the event that there is information asymmetry, the agent is bound to pursue an interest that may be in conflict with the interests of the principal (Sanda, Mikailu & Garba 2005). Hence, effective corporate governance can reduce agency costs and tackle problems related to the separation of ownership and control. It can be viewed as a set of mechanisms designed to reduce agency costs and protect shareholders from conflicts of interest with agents (Fama & Jensen, 1983).

5. METHODOLOGY

The ex-post facto research design was adopted for this study. In an attempt to make the work agree with the objectives and hypotheses of the study, secondary data were sourced from audited annual and financial statements of the nine (9) industrial goods firms listed on the Nigerian Stock Exchange. The data a ten years period from 2015 to 2024 and the data were analyzed using multiple regression models through the Statistical Package for Social Sciences (SPSS), version 23, at a 5 percent level of significance. The functional relationship is specified thus:

$$EPS = f(BS, BI, BD) \text{-----} (1)$$

The econometric model of this functional relationship is given as:

$$EPS = \beta_0 + \beta_1BS + \beta_2BI + \beta_3BD + \mu \text{-----} (2)$$

Where,

EPS = Earnings Per Share

BS = Board Size

BI = Board Independent

BD = Board Diligence

β_0 = Constant or Intercept.

β_1 -3 = Coefficients to be estimated or the coefficients of slope parameters

μ = Error term

6. DATA PRESENTATION AND ANALYSIS

TABLE 1 Descriptive Statistics for the Variables

	EPS	BS	BI	BD
Mean	93.8488	9.1889	7.7444	5.2556
Minimum	-240.00	6.0000	4.0000	4.0000
Maximum	826.00	16.0000	14.0000	7.0000
Std. Deviation	159.29104	2.90638	2.73784	0.95472

Source: Extract from the output analyzed data via SPSS version 23.

KEYS: EPS = Earnings per Share; BS = Board Size; BI = Board Independence;

BD = Board Diligence

The above displays the descriptive statistics of the data used for the study. The descriptive statistics considered were minimum, maximum, mean and standard deviation along with their respective values. The data from the descriptive statistics showed that EPS has a mean of 93.9, a minimum of -240 and a maximum value of 826 with a standard deviation of 159.29. The table also revealed that BS has a mean value of 9.1, minimum and maximum values of 6 and 16, respectively, and a standard deviation of 2.9. Further revelation from the table indicated that BI has a mean value of 7.7, approximately 8, a minimum value of 4, and a

maximum value of 14 directors who are not part of the executive directors who run the day-to-day management of firms in the industrial sector in Nigeria. Finally, the data from the descriptive statistics indicated that BD has an average value of 5.2, minimum and maximum values of 4 and 7, respectively, and a standard deviation of 0.95.

TABLE 2 Correlation of the Variables

	EPS	BS	BI	BD
EPS	1.000			
BS	.211	1.000		
BI	.121	.976	1.000	
BD	.381	.529	.472	1.000

Source: Extract from the output analyzed data via SPSS version 23.

KEYS: EPS = Earnings Per Share; BS = Board Size; BI = Board Independence;
BD = Board Diligence

The table above shows the correlation analysis among the variables employed in the study. EPS was observed to correlate positively with BS ($r = 0.211$), BI ($r = 0.121$), and BD ($r = 0.381$). This implies that an increase in the board size, board independence, and board diligence in the boards of industrial goods firms will bring about a respective increase of 21%, 12%, and 38% in the earnings per share of firms in the industrial goods sector in Nigeria. Further, the table also showed that all the explanatory variables of the study are positively correlated with each other. BS was positively correlated with BI ($r = 0.976$) and BD ($r = 0.529$), respectively, and BI with BD ($r = 0.472$).

TABLE 3 Multiple Regressions Result

Model		Unstandardized Coefficients			Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta				
	(Constant)	-243.818	81.011			-3.010	.003	
	BS	.73.831	25.111	1.347		2.940	.004	
	BI	82.712	25.287	-1.422		-3.271	.002	
	BD	.43.313	18.431	.260		2.350	.021	
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	.547 ^a	.300	.267	136.39805	.300	9.096	.000	1.873

a. Predictors: (Constant), BS, BI, BD b. Dependent Variable: EPS

Source: Researchers computation using SPSS version 23.

The summary of the regression result in Table 3 above indicates that R^2 has a value of 0.300, meaning that the explanatory variables BS, BI, and BD explain changes in earnings per share to an extent of 30%, while the remaining 70% are explained by other variables outside the model not captured by the study. Furthermore, the regression analysis's findings showed that BS, BI, and BD have a positive impact on the earnings per share (EPS) of Nigerian industrial goods companies.

7. DISCUSSION OF FINDINGS

The study examined the impact of corporate governance practices on earnings per share of listed industrial goods companies in Nigeria. In discussing the results, the regression results for the study were utilized to examine the relationship between the various explanatory variables board size, board independence, board diligence, and earnings per share of nine (9) industrial goods companies listed on the Nigerian Stock Exchange. Findings of the study are discussed below based on the objectives and hypotheses of the study:

7.1. BOARD SIZE AND EARNINGS PER SHARE

The regression result revealed that board size (BS) has a positive and significant relationship with earnings per share (EPS), with a p-value of $0.004 < 0.05$. The researcher, therefore, uses this as evidence to empirically state that board size has a significant influence on the earnings per share of industrial goods companies in Nigeria. Hence, the stated null hypothesis (H_{01}) was rejected. This finding implies that board size in industrial goods firms would significantly improve their performance in terms of earnings per share. This finding is supported by other studies that found a significant and positive relationship between board size and earnings per share (Hasan et al., 2023; Yuli, Dyah, & Aulia, 2023).

7.2. BOARD INDEPENDENCE AND EARNINGS PER SHARE

The regression result also revealed that board independence (BI) has a significantly positive relationship with earnings per share at a p-value of $0.002 < 0.05$. This gives the researchers the empirical evidence to reject the stated null hypothesis two (Ho2). This implies that there is a positive and significant relationship between board independence and earnings per share. The findings of this study are in line with several studies that equally found a positive and significant relationship between board independence and the financial performance of firms (Sharif & Rashid, 2014; Kaur et al., 2016).

7.3. BOARD DILIGENCE AND EARNINGS PER SHARE

The regression result reveals a significant positive relationship between board diligence (BD) and earnings per share (EPS) at a p-value of $0.021 < 0.05$. Hence, the null tree (Ho3) was rejected equally, and the alternative was considered. This implies, therefore, that changes in earnings per share in the industrial goods industry in Nigeria are significantly and positively affected by the board diligence, or the boards of directors' meetings. This finding is consistent with the results obtained by other researchers (Hasan et al., 2023; Yuli, Dyah, & Aulia, 2023; Emiaso & Okafor, 2023).

8. CONCLUSION AND RECOMMENDATIONS

This research examines the impact of corporate governance mechanisms such as board size (BS), board independence (BI), and board diligence (BD) on earnings per share of industrial goods firms listed on the Nigerian Stock Exchange. The study finally revealed that all of the corporate governance variables used in the study—BS, BI, and BD—have a significantly positive relationship with earnings per share (EPS). The study concludes that corporate governance influences the earnings per share of industrial goods companies listed on the Nigerian Stock Exchange. In line with the findings of this study, it was recommended that firms should pay attention to their board's size in relation to the size of the firm to overcome the challenge of a crowded board or an under-constituted board without compromising on the quality of members. Firms should encourage more independent directors in the composition of their board because it enhances firm financial performance, as revealed by the study. Finally, the boards of directors are encouraged to frequently hold meetings to improve their supervisory function over the firm's managers.

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