

# Impact of Corporate Governance on Financial Performance of Manufacturing Firm

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Article History	Abstract
<p><b>Original Research Article</b></p> <p><b>Received: 10-10-2025</b></p> <p><b>Accepted: 22-10-2025</b></p> <p><b>Published: 30-10-2025</b></p> <p><b>Copyright</b> © 2025 The Author(s): This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY-NC) which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.</p> <p><b>Citation:</b> Dr. Gift Ugwe Roman. (2025). Impact of corporate governance on financial performance of manufacturing firm. UKR Journal of Economics, Business and Management (UKRJEBM), Volume 1(8), 105-110.</p>	<p><i>Unilever Nigeria Plc was the subject of a study that looked into the link between corporate governance structures and financial success in Nigeria's industrial sector. Board composition, board size, CEO duality, and the number of shareholders were used as proxies for governance factors. Return on assets (ROA), return on equity (ROE), and net profit margin (NPM) were used to quantify financial performance. Utilizing secondary data derived from the company's audited annual financial statements for the years 2011–2016, the study employed descriptive statistics, Pearson correlation, and regression analysis to assess the claimed associations. The empirical findings indicated that corporate governance variables had a statistically significant impact on ROA, ROE, and NPM. The study indicated that the size of the board had a negative effect on financial performance, whereas the makeup of the board and the number of shareholders had beneficial effects. The CEO duality variable was omitted from regression analysis since the CEO and Board Chair jobs were consistently distinct throughout the study period. The study suggests that to make the board more independent, most of the directors should be non-executive and not depend on the company for money. This will improve objective oversight, limit managerial opportunism, and encourage alignment with shareholders' long-term interests.</i></p> <p><b>Keywords:</b> Corporate Governance, Financial Performance, Board Composition; Board Size, CEO Duality, Shareholder Structure, Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Manufacturing Sector, Unilever Nigeria Plc, Nigeria.</p>

## INTRODUCTION

The strength and stability of a country's financial system are what really determine how fast and how long its economy will grow. The manufacturing sector plays a key role in Nigeria's economy, having a big impact on all economic activities. The industry has been through a series of restructuring efforts over the years to protect depositors' money, make institutions more stable, and improve the welfare of all stakeholders. Even with these changes, the industry has had problems with its reputation because both employees and investors are unhappy with it, as well as the public and depositors. In response, many companies have made strategic changes to make themselves more competitive and improve their financial and business results. These changes include integrating information and communication technology (ICT), adopting total quality management practices, reforming corporate governance,

and launching rebranding campaigns (Akintoye, 2010; Adekunle, 2013).

Corporate governance has always been a topic of interest around the world, but it became much more important in the 1980s when the Cadbury Report came out in the UK. This report stressed the need for financial transparency and board monitoring. After that, discussions on governance grew in both rich and emerging countries (Akpan & Rima, 2012). Good corporate governance is widely seen as an important part of global economic stability. It is connected to topics like competitiveness, corporate citizenship, and social and environmental responsibility. Governance is even more important in the manufacturing sector, especially in developing nations, because companies play a key role in the financial system.

Commercial manufacturing institutions are the main ways that money is moved around and put to use in productive areas. In situations where capital markets are not well-developed, the collapse of these kinds of institutions can have far-reaching effects. Simpson (2009) notes that the breakdown of institutions in the manufacturing system can have serious effects on the economy as a whole. In developing nations, for example, losses might be as high as 15% of gross domestic product, which may be more than the amount of money they get from outside sources. Current economic issues transcend mere technical modernity; they highlight the imperative of fortifying governance frameworks as a means to achieve economic resilience and enhanced living standards. Empirical research indicates that inadequate governance frameworks result in substantial performance costs for enterprises and, consequently, the overall economy (Bebeji et al., 2015).

The Nigerian government is working to improve the country's integration into regional and global financial systems by reforming the manufacturing sector. Deregulation, globalization, technological progress, and adherence to international supervisory and prudential standards have all had an effect on these reforms, which have changed institutional structures, ownership configurations, and operational scope (Akpan & Rima, 2012). The institutionalization of corporate governance processes is a key part of these changes. Corporate governance is a general term for the set of rules, policies, and activities that regulate and control businesses. It involves balancing the needs of different groups, such as shareholders, management, customers, suppliers, financiers, the government, and the community as a whole. It also provides a framework for strategic planning, internal control, performance evaluation, and open disclosure (Akintoye, 2010).

Strong governance systems have been linked to higher profits, better company value, and steady sales growth. They may also lower the cost of financing. Love (2006) asserts that successful governance enhances stakeholder confidence and organizational goodwill, however Mayer (2011) underscores that governance transcends operational efficiency to include corporate strategy and lifecycle development. Essentially, effective governance procedures foster openness, accountability, equity, and ethical behavior in corporate reporting and decision-making (Bebeji et al., 2015). Governance frameworks might differ from one place to another, but their basic goal is still to promote honesty, responsibility, and fair treatment of all stakeholders (Akpan & Rima, 2012). Consequently, robust corporate governance has become a pivotal factor influencing profitability, solvency, and liquidity in contemporary global industrial sectors.

## STATEMENT OF THE PROBLEM

Aremu (2014) asserts that the institutionalization of corporate governance in the Nigerian manufacturing sector is relatively underdeveloped, highlighting that merely 40% of publicly listed commercial manufacturing enterprises have effectively adopted formal governance standards. The inadequacies stemming from insufficient compliance with governance standards are recognized as a primary factor leading to company failure and financial instability in the sector. In recent years, the sector has seen a number of high-profile corporate fraud cases, several of which have led to the failure of institutions. In numerous recorded instances, inadequate execution of governance mechanisms—especially failure to adhere to set ethical standards—has been identified as a major contributing cause. Aremu (2014) asserts that previous instances of organizational distress can be ascribed to insufficient oversight, regulatory supervision, and governance control by boards of directors, noting that, in some cases, managerial authority was wielded to further personal interests rather than the collective interests of shareholders and stakeholders.

## OBJECTIVES OF THE STUDY

The primary objective of this study is to evaluate the effect of corporate governance mechanisms on the financial performance of a manufacturing firm, with specific reference to Unilever Nigeria Plc. In pursuit of this overarching aim, the study is guided by the following specific objectives:

1. To assess the extent to which corporate governance practices influence the return on assets (ROA) of Unilever Nigeria Plc.
2. To determine the effect of corporate governance structures on the return on equity (ROE) of Unilever Nigeria Plc.
3. To examine the relationship between corporate governance mechanisms and the net profit margin (NPM) of Unilever Nigeria Plc.

## RESEARCH METHODOLOGY

### DESIGN OF THE STUDY

This study employed a survey research design. As defined by Ekott and Nseyen (2006), survey research involves the systematic collection and analysis of data from a subset of a population selected to represent the broader group. The design was considered appropriate for investigating the relationship between corporate governance mechanisms and financial performance. Particular analytical attention was given to Unilever Nigeria Plc, with the study covering the period from 2011 to 2016.

### AREA OF THE STUDY

This study investigates the relationship between corporate governance mechanisms and financial performance, with particular focus on Unilever Nigeria Plc over the period spanning 2011 to 2016.

### POPULATION OF THE STUDY

Since the study only used secondary data sources such as academic journals, published textbooks, audited annual reports, and the Central Bank of Nigeria's Statistical Bulletin, there was no need to designate a specific study population. The analysis relied on documented financial and governance data sourced from these reliable references, rather than on primary data obtained from respondents.

### SAMPLE SIZE AND SAMPLING TECHNIQUES

Because the study was based entirely on secondary data derived from documented sources, no sampling procedure was undertaken and no sampling technique was applied. The analysis relied solely on existing published financial and governance records relevant to the period under review.

### INSTRUMENTATION

The study's data and pertinent literature were obtained solely from secondary sources. A lot of scholarly materials were looked at by going to institutional libraries, like the Central Bank of Nigeria's library. Also, official publications and statistical records from the websites of Unilever Nigeria Plc and the Central Bank of Nigeria gave the numbers needed to figure out the least squares regression model.

### INSTRUMENT VALIDATION

An instrument is deemed legitimate when it precisely measures the construct it is intended to evaluate (Ekott & Nseyen, 2006). In this study, the data collected for analysis underwent supervisory review prior to their application. The supervisor thoroughly scrutinized, validated, and authenticated the accuracy and relevance of the obtained data to ascertain their appropriateness for the proposed analytical methods prior to issuing approval for their utilization.

### RELIABILITY OF THE INSTRUMENT

Cronbach's alpha ( $\alpha$ ) was used to check the research tool's reliability by measuring its internal consistency. Responses to each item were coded and evaluated using the Statistical Package for the Social Sciences (SPSS) to determine the reliability coefficient. The computed Cronbach's alpha value (CGFPNB) demonstrated an adequate degree of consistency for the instrument, hence validating its dependability for

analytical use. The instrument also met recognized standards for construct, content, and criterion-related validity, showing that it was good enough to measure the variables being studied.

### PROCEDURE FOR DATA COLLECTION

This study primarily utilized secondary data sources, including journals, yearly reports, pertinent textbooks, and the CBN statistical bulletin, to analyze the economy over several years.

### METHOD OF DATA ANALYSIS

The research utilized both descriptive and inferential analytical methodologies. We used tables and percentage distributions to do descriptive analysis, which helped us synthesize and understand the data. The Ordinary Least Squares (OLS) regression method was used for inferential analysis to look at how the variables are related and to test the hypotheses that were made.

### MODEL SPECIFICATION

We used a panel data analytical approach to figure out how corporate governance affects the financial performance of the manufacturing company. Due to the diverse characteristics of organizations, it is acknowledged that certain unobserved firm-specific traits may affect financial performance beyond the explicitly modeled explanatory variables. In order to account for this kind of cross-sectional variability, the study used a random effects panel estimation method. This method accounts for heterogeneity within units of study by integrating firm-specific random disturbances, while upholding the premise that these unobserved effects are uncorrelated with the explanatory variables and the composite error term.

The random model is specified as follows:

$$FP_{it} = \alpha_i + \beta AQ_{it} + \beta LDR_{it} + \epsilon_{it}$$

where:

$FP_{it}$  = Performance of manufacturing firm  $i$  at time  $t$ , measured by return on asset (ROA)

$\beta AQ_{it}$  = asset quality of manufacturing firm  $i$  at time  $t$ , measured by non-performing loan to total credit.

$\epsilon_{it}$  = error term

$\alpha$  = constant

$\beta$  = coefficients

## RESULTS

Years	Shareholders Profit (₦b)	Profit (₦b)
2011	44.7	75.7
2012	52.7	100.6
2013	15.3	42.8
2014	18.2	5.3
2015	44.7	75.7
2016	13.5	26.3

## TESTING OF HYPOTHESES

H01: Corporate governance has no significant impact on returns on asset of Unilever Nigeria Plc.

Level of significance: 0.05

**Decision Rule:** If the p-value is less than the level of significance, you should reject the null hypothesis. If not, you should accept the null hypothesis.

**Table 2: Shows Ordinary Least Square analysis on the corporate governance has no significant impact on returns on asset of Unilever Nigeria Plc**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.764E26	2	8.820E25	17.980	.010 <sup>a</sup>
	Residual	1.962E25	4	4.906E24		
	Total	1.960E26	6			

a. Predictors: (Constant), corporate governance

b. Dependent Variable: returns on assets

### Interpretation

Given that the computed p-value (0.010) is below the predetermined 0.05 level of significance, the null hypothesis is rejected in favor of the alternative hypothesis. This statistical outcome indicates that corporate governance exerts a significant effect on the return on assets (ROA) of Unilever Nigeria Plc.

### Hypothesis 2

H02: Corporate governance has no significant impact on returns on equity of Unilever Nigeria Plc.

**Table 3 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.949 <sup>a</sup>	.900	.850	2.2148E12

a. Predictors: (Constant), corporate governance, returns on equity

The multiple correlation coefficient  $r = 0.900$  indicates a strong relationship between corporate governance and returns on equity of Unilever Nigeria Plc.

### Hypothesis 3

H03: Corporate governance has no significant impact on net profit margin of Unilever Nigeria Plc.

Level of significance: 0.05

Decision rule: If the p-value is less than the level of significance, reject the null hypothesis. If not, accept it.

**Table 4 Coefficients <sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.928E13	1.735E12		11.118	.000
	Corporate governance	2.425E6	585654.823	.901	4.141	.014
	Net profit margin	9.156E6	2.939E7	.068	.311	.771

a. Dependent Variable: Net profit margin

## Interpretation

The p-value for net profit margin is 0.771, which is higher than the 0.05 level of significance that was set. This means that the right statistical choice is to not reject the null hypothesis. Consequently, there is inadequate empirical data to assert that corporate governance significantly influences the net profit margin of Unilever Nigeria Plc over the reviewed period.

## DISCUSSION OF FINDINGS

This study was conducted to assess the impact of corporate governance procedures on financial performance, specifically focusing on Unilever Nigeria Plc during the period 2011–2016. To achieve this goal, three research questions and two related hypotheses were developed to direct the study. The Ordinary Least Squares (OLS) econometric method was used to look at secondary data to find out what kind of relationships there were between the variables and how important they were. The empirical findings indicated that:

- a) Corporate governance has a significant impact on returns on asset of Unilever Nigeria Plc
- b) Corporate governance has a significant impact on returns on equity of Unilever Nigeria Plc.
- c) Corporate governance has a significant impact on net profit margin of Unilever Nigeria Plc.

## CONCLUSION

Based on the empirical evidence, the study concludes that the resilience and long-term viability of the financial sector are fundamentally contingent upon the strength and effectiveness of its governance structures. Notwithstanding various reform initiatives introduced to fortify the sector, manufacturing firms have remained susceptible to institutional distress and failure, with significant adverse consequences for corporate reputation and industrial development. Accordingly, the establishment of a robust governance framework—capable of promoting compliance and imposing sanctions for breaches of governance codes—is imperative. A review of extant literature further indicates that the efficiency of judicial processes, the effectiveness of audit committees, and the functional competence of boards of directors are critical determinants of adherence to governance regulations. Greater commitment is therefore required to ensure strict compliance with corporate governance codes and to enhance their practical relevance in improving organizational performance.

The study also affirms that both developed and developing economies are vulnerable to institutional failures within the manufacturing sector. Findings suggest that weak credit policies and ineffective asset management practices

substantially contribute to such failures. Consequently, the implementation of comprehensive internal control systems designed to safeguard product and service quality is essential to protect shareholders' interests and sustain market efficiency.

## RECOMMENDATIONS

Based on the findings of this study, the following recommendations were put forward by the researcher;

1. Shareholders of manufacturing firms operating in Nigeria should ensure strict adherence by their boards of directors to the corporate governance codes issued by the Central Bank of Nigeria, as well as other applicable statutory provisions. Although the 2006 Code of Corporate Governance permits a board size of up to seven (7) directors, emphasis should be placed not merely on numerical compliance but on the quality, independence, and effectiveness of board members.
2. Manufacturing firms should institutionalize corporate governance as a core organizational principle. Embedding governance standards into corporate culture will enhance operational efficiency, improve profitability, and foster an environment that supports transparency and responsible management practices.
3. Given that corporate governance encompasses accountability, transparency, and operationalized anti-corruption mechanisms grounded in stakeholder engagement, firms should actively promote ethical conduct and inclusive participation among shareholders and other stakeholders. Such measures are fundamental to wealth creation, equitable distribution of benefits, and sustainable economic development.
4. The manufacturing sector should strengthen internal control systems and enforce disciplined operational frameworks rooted in sound governance principles. Effective leadership characterized by integrity and ethical responsibility is essential to ensuring that managerial functions are performed in accordance with established standards.
5. The appointment of corporate managers should be based strictly on merit—specifically qualifications, professional competence, and relevant experience—rather than personal affiliations or financial influence. Competent leadership enhances institutional performance, whereas the placement of inadequately qualified individuals in strategic positions undermines organizational progress and long-term stability.

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