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Post privatization Corporate Governance and the challenges of working capital in Nigeria

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ABSTRACT: *The paper examines the impact of Corporate Governance on liquidity ratio of Ashaka Cement Company. The variables studied were activity ratio as dependent variables and Corporate Governance proxies as independent variables. Data was collected from the secondary sources, and the statistical tools employed in the Methodology were; Performance Trend Analysis and OLS regression. Trend Analysis result suggests that, liquidity ratio was higher pre privatization periods. Inferential Statistics Result suggests that, minority ownership, board size and privatization have positive and significant impact on liquidity ratio of Ashaka Cement Company, while, Total Market Value of Shares and percentage of non executive directors have negative and significant impact on liquidity ratio of Ashaka Cement Company. However, workforce has positive and insignificant impact on liquidity ratio. The study concludes that, corporate governance has significant impact on liquidity ratio of Ashaka Cement Company. However, unfavourable macroeconomic environment militated against its efficiency. The study recommends that, Nigerian government should ensure favorable macroeconomic environment, Foreign Investors should secure global cement market opportunities to justify investment and enhance companies' earnings The findings may useful to corporate stakeholders and government policy makers.*

I. INTRODUCTION

Effective corporate governance enhances corporate performance via harmonisation of conflicting interests of stakeholders and stimulating balance growth among corporate objectives. It is a strong and efficient mechanism for restraining expropriation and securing foreign and domestic finance to introduce new technologies, prowess workers' and managerial expertise at all levels. Capitalist economies depend on the efficiency of their corporations which are largely determined by the way and manner the board of directors and the management are discharging their stewardship responsibilities. The effectiveness with which they discharge their responsibilities in the contextual framework of transparency, integrity and accountability, in serving the modest interest of corporate stakeholders and its overall objectives, determine the level of investors' confidence, the security of the wealth invested and maximisation of the expected returns on investment; which is the essence of any system of good corporate governance. "Greater clarity to the respective responsibilities of directors, shareholders and auditors strengthen trust in the corporate system. Thus corporate governance is the system by which companies are directed and controlled'' (cadbury, 1992). Failure in corporate governance system in a country's corporations, undoubtedly, preludes into conflict that will affect firms' stewardship and performance that consequently have adverse spill over effect on the economy.

II. LITERATURE REVIEW

Concept of Corporate Performance

The concept of corporate performance can be seen in two perspectives; broader and narrow perspectives. Corporate performance on a broader term can be gauged from economic, ecological, ethical, egalitarian and social dimensions. This is because corporations are the central economic actors whose impact on the society is great (Windsor and Greanias 1982). On the narrow perspective, firm performance is the degree to which a corporation accomplishes its goal or objectives and successfully harness is resources needed from the environment to meet organizational goals. It is the ability of a corporation to ensure harmonious functioning of the internal structures of the organization to meet the needs of its constituencies (Ogaboh, *et al*., 2010).

According to Ainsworth, Denies and Plumlee (1997), corporate stakeholders can primarily ascertain firm performance from Financial Statement, Financial Position, and Cash Flow activities. Financial Statement reflects the income earning generated by the company during an accounting period. Earnings are incomes from continuing operations which comprise revenue plus gains minus expenses and losses. Financial statement provides useful information to corporate stakeholders that enable them to assess firm cash flow prospect, evaluate firm resources, claims on those resources, and change on the resources. This would enable current and future investors, creditors and suppliers to make viable investment decisions regarding future earning potentials of the firm and evaluate the amount, timing and uncertainties of future cash flow from dividend, interest or selling firm stock (Ainsworth, Denies and Plumlee (1997).

Financial position conveys comprehensive information about the nature of corporate resources and obligations, its ability to meet the obligations and its future profitability prospect. This type of information is mainly for firm personal and internal uses that cannot be allowed or exposed to public consumption that will give advantage to competitors against the corporation. Such information is not conditioned with any standard of financial reporting. A cash flow activity reflects information about the liquidity and solvency potential of a firm. In this regard, the cash flow is categorized into three; operating activities, investing activities, and financing activities. Operating activities involve transaction from earning process which primarily involves inflow and outflow of cash in the firm. Cash inflow is earning activities obtained from dividend and interest received while cash outflow is operating expenses for the purchase of inventories. Investing activities involve acquiring property, equipment and plants. Financing activities involve borrowing and repaying creditors, raising funds from investors and distributing returns on or of investment (Ainworth, *et al*., 1997).

On academic and professional grounds, empirical studies use financial ratios to measure firm performance. This comprises activity ratios such as share turnover, asset turnover, working capital turnover, and account receivable turnover. These ratios are used in measuring operational efficiencies. Financial efficiencies are measured using Liquidity Ratio, Leverage Ratio and Profitability Ratio (Ainworth, *et al*., 1997, Ibrahim, *et al*, 2007 and Dhamija, 2010).

Agency Theory of Corporate Governance

Jensen, and Meckling, (1976) state that managers will act opportunistically to further their interest before shareholders. Investors in publicly traded corporation incur cost in monitoring and bonding manager in best serving shareholders. Agency cost is the sum of the cost of monitoring management, bonding the agents to the principal and residual losses. In addition Shleif, and Vishny, (1996) posit that the value of a firm cannot be maximised because managers posses discretion which allows them to expropriate value to themselves, for the fact that, they are signing a contract that specifies exactly their role on how to manage the firm and to allocate profit but the problem is future contingencies that are hard to describe and foresee. In this regard, a complete contract is technically unforeseeable. As a result managers obtains right to take decisions that are not defined or anticipated in the contract in which debt or equity finance are contributed (Ross 1973, Ferma, and Jensen, 1973, Grossman and Hart 1985, Hart and More, 1990).

However the model focuses on shareholders-managers problems without consideration to the conflicts that may arise from the organisational hierarchy and the influence of labour unions on the operational activities of the firm that have impact on firm's performance and corporate governance in general. Moreover the model ignores the ability of government to formulate laws and enforcement agencies to protect investors, introduce new financial reporting standard, discipline of competition and international capital market as well as investors that prove to be efficient in restraining insider's expropriation using cotemporary technological development.

Notwithstanding, the model will enable the research in investigating the factors that causes poor performance of public enterprises as well as gives guidance on how to examine the new agency problem of privatized firms in Nigeria.

III. METHODOLOGY

The purpose of empirical analysis, the study used Performance Trend Analysis and OLS regressions were used to analyze the data. Higgins (2003) opined that, one of most useful ways to evaluate trend of firm's performance, is performance trend analysis. To identify the factors affecting corporate governance efficiency on the performance of privatized cement companies, performance trend analysis was employed. Ordinary Least Square Regression model establishes the relationship between the Dependent and Independent Variables, which examines the significance impact of corporate governance on the performance of privatized cement companies in Nigeria. Liquidity Ratio (LQ) was used as dependent variable. It is calculated by dividing current assets by current liability.

Thus

$$LQ = \frac{CA}{CL} = \frac{CA}{CL}$$

Where

LQ = Current Ratio
CA = Current Assets
CL = Current Liability
CA = Current Assets
CL = Current Liability

HYPOTHESIS
Null Hypothesis: Corporate Governance does not have significant impact on performance (liquidity ratio) of Ashaka Cement Company.
Alternative Hypothesis: Corporate Governance has significant impact on the performance (liquidity) of Ashaka Cement Company.

$$LQit = \beta_0 + \beta_{01}TMVS_{1it} + \beta_{02}STOWN_{2it} + \beta_{03}INST_{3it} + \beta_{04}MINOWN_{4it} + \beta_{05}FOREI_{5it} + \beta_{06}BSIZE_{6it}\ \beta_{07}PED_{7it} + \beta_{08}PNED_{8it} + \beta_{09}DUAL_{9it} + \beta_{010}CACNE_{10it} + \beta_{011}WF_{11it} + \beta_{012}PMS_{12it} + \beta_{13}PNMS_{13it} + \beta_{14}PRIV_{14it} + u_{it}$$

$\beta_0, \beta_1, \beta_2, \ldots$ = are the parameters estimators, *i*= stands for *i*th cross sectional unit and *t* denotes time period
We intended to make use of the SPSS software version 20 in the data analysis.

Independent Variable

a. Thus, the Corporate Governance proxies (Independent Variables) are defined as follows;

1. TMVS: Total Market Value of the Shares measures the Company's market capitalization. Its expected coefficient is positive, because, its reveals the level of investors' patronage and their assessment on the quality of the company's corporate governance.
2. STOWN: Measures the proportion of State Ownership in the company. The larger the proportion, the higher is the undue government interference. Therefore, its expected coefficient is negative which implies that restructuring will be difficult in the company.
3. INST: Institutional Ownership measures the proportion or percentage of institutional investors' ownership in the company. In view of that, its expected coefficient is positive which means that, the higher the proportion, the greater is the monitoring role of institutional investors. It also implies that managers would be under pressure to meet the expectations of institutional investors.
4. MINOWN: Minority ownership measures the proportion of minority shareholding in the company. The higher the proportion of their ownership, the higher the insiders' expropriation due to monitoring cost. However, the expected coefficient is negative, this is because, and the management will have incentive to connive with concentrated shareholders to promote their personal interests as against the minority owners.
5. FOREI: Foreign ownership measures the proportion of foreign investment shareholding in the company. The coefficient is expected to be positive, because, the higher the proportion of their ownership, the greater the possibilities of infusing new talents, new technologies and restructuring in the company. This implies that operational and financial reorganization will take place for a better performance.
6. BSIZE: the total number of directors in the board of directors measures the efficiency of delegated decision making and the level of investors' protection on company's operations. The expected coefficient is positive, because, cohesiveness of the Board members and having diverse expertise and experience may enhance the company performance. However, unwieldy group on the other hand may be detrimental to performance.
7. PED: the Percentage of Executive Directors on the board of directors. It is defined as the number of Executive Directors divided by the total number of directors on the board of the company. The coefficient expected sign is positive, i.e., the lower the proportion, the more independent is the board in making decisions.
8. PENED: the Percentage of Independent Directors on the board of directors. It is defined as the number of independent directors divided by the total number of directors on the board of the company. The coefficient expected sign is positive, i.e., the higher the proportion, the more independent is the board in making decisions.
9. DUAL: a binary variable representing CEO's who also double up as the Chairman of the board of directors. This variable takes the value of one if the CEO/Managing Director performs the dual role; otherwise it takes a value of zero. The coefficient expected sign is negative. This is because the effectiveness of the board as an internal governance device will be perceived to have been compromised by the roles not being separated. On the other hand, a unity of command structure can motivate the CEO to strive for excellent performance. If this is the case, the coefficient's sign is expected to be positive.
10. CACNE: a binary variable representing the Chairman of the Audit Committee. If the Chairman of the Audit Committee is a nonexecutive director, the variable takes the value of one; otherwise, this variable takes a

value of zero. This serves to test the degree of independence of the audit committee. An independent chairman is expected to contribute to a more rigorous regime of monitoring and therefore improves performance of the company.

11. WF: Work force measure the total number of the company employees. It reveals the impact of privatization on work force. The coefficient expected sign is negative. Higher size means higher cost of corporate governance.
12. PMS: it measures the percentage of management staff that is directly involved in the corporate decision making and policy implementation in the company. It is defined as the number of management staff divided by the total number of the workforce of the company. The coefficient expected sign is positive.
13. PNMS; it measure the total number of company employees that are not involved in the corporate governance. It is defined as the number of non management staff divided by the total number of the workforce of the company. It reveals the impact of privatization on work force. The coefficient expected sign is negative, because, the higher the size the higher the cost of corporate governance.
14. PRIVt: Privatization with time which is dummy variable. The expected coefficient is positive, because, privatization will promote corporate governance efficiency that will impact positively on company's performance

IV. RESULT AND DISCUSSION

Table 4.2: Distribution of Performance Trend Analysis Results of Ashaka Cement Company

Observation	**Liquidity Ratio**
1991	1.7:1
1992	1.7:1
1993	2.49:1
1994	0.05:1
1995	1.8:1
1996	1.9:1
1997	1.9:1
1998	2.3:1
1999	2.3:1
2000	1.5:1
2001	
2002	2.7:1
2003	1.8:1
2004	1.9:1
2005	1.5:1
2006	1.7:1
2007	0.8:1
2008	0.7:1
2009	0.6:1
2010	1:1
2011	1.3:1

Source: Author's computations

The result suggests that liquidity ratio of Ashaka Cement Company was 1:7:1 in 1991 and 1992, which means current assets are greater than current liabilities with 0.7 , which is fair. Even though, a benchmark for healthy working capital is ratio 2:1 times. This situation improved remarkable in 1993, the ratio rose to 2.49:1 in 1993 which is the maximum ratio of current assets to current liabilities in pre privatization period under review. Traditionally, institutions obtain soft loan or short term loans to argument working capital in Nigeria, however, Banks strike in 1994 became a serious obstacle to that effect, the liquidity ratio declined to 0.05:1, which was the minimum ratio of current assets to current liabilities in pre privatization period. Impliedly, the current liabilities were 5% greater than current asset which is an indication of serious financial crises or insolvency in the company. In 1995, government put in place stabilization policies to control bank strike and inflation through the reduction of interest rates and stabilization of exchange rates which became incentives for the company board to improve working capital, thus, the liquidity ratio rose to 1.8:1 in 1995 and raised to1.9:1 in 1996 and 1997 concurrently. Liquidity ratio, again, rose to 2.3:1 in 1998 and 1999 and suddently declined to 1.5:1 in 2000. Notably, 2001 was a transition period of Ashaka Cement Company from public ownership to private ownership; therefore, the performance trend of the company at that period was neither interpreted nor analyzed.

Post privatization result reveals that, the liquidity ratio rose to 2.7:1 in 2002 which is the maximum ratio of current assets to current liability in both pre and post privatization periods. This could be attributed to fact that the company entered into a Technical Operating Agreement with the new foreign partners (Lafarge SA), which culminated into a structural adjustment to improve the quality of corporate governance and the overall performance of the company. They created a democratic and efficient means of delegated decision making through decentralized initiatives and better decision process, a true participation but not necessarily consensus, management leading by example and proactive employee contribution to group success. These measures were complimented with extensive program of reorganization of staffing, working practice, training, recruitment and new remuneration package arrangement. In the same year, the company corporate governance approved voluntary retirement of 790 permanent staff and paid their entitlements. The ratio declined to 1.8:1 in 2003, rose to 1.9:1 in 2004, and declined again to 1.5: in 2005 thereafter rises to 2:1 in 2006. Federal Government granted licenses for the importation of cement in 2007, which increased supply without embarking on any fiscal policy to created marching demand in the economy coupled with negative impact of global financial crises in 2009, these factors, resulted to very poor liquidity ratio within these periods. The ratio declined to 0.7:1 in 2007, 0.6:1in 2008 and 2009, which is the minimum ratio of current assets to current liability post privatization. Fortunately, in 2010 the company's Liquidity ratio improved reasonably to 1:1 in 2010 and 1.3:1 in 2011 respectively. Some scholars view higher liquidity ratio, in most cases is a manifestation of agency problem, meaning that the management is taking the advantage of excess working capital to expropriate the company financial resources by paying their undue claims. On the other hand, healthy working capital safe guards the confidence of the creditors particularly those with contract of receiving interest repayment and the ability of the company to meet the obligations of suppliers and distributors.

Table: Distribution of Regression results of Liquidity ratio on the set of independent variables of Ashaka Cement Company

Independent variables	Coefficient	Significance
1 (CONST)	17.722	0.044
TMVS	-7.053E-10	0.000
MINOWN	10.845	0.002
BSIZE	0.591	0.027
PNED	-23.922	0.084
WF	0.000	0.615
PNMS	-0.004	0.547
PRIVt	2.689	0.008
R	0.935	
R^2	0.874	
Ajd R^2	0.806	
F stat	12.880	0.000

Liquidity ratio result discloses that, the ratio of current assets to current liabilities (dependent variable) is associated to corporate governance proxies (the independent variables) to the tune of R= 0.935. This implies that, there is a strong relationship between healthy working capital (LQ) and corporate governance performance. The result of R^2 reveals that about 87.4% variation of the working capital (LQ) is explained by the corporate governance proxies. The result of Adjusted R^2 discloses that corporate governance proxies jointly accounted for 0.806 variations in liquidity ratio (LQ). The calculated F-statistics is 12.880 and the estimated significant value is 0.000. In conducting the test at 1% statistical significance the model is strong in explaining the variation in liquidity ratio of Ashaka Cement Company. In view of that, it is concluded that, the model has a good fit.

The constant value 17.722 is the average value of liquidity ratio (LQ) and its P-Value is 0.044 in the absence of corporate governance variables. Holding other variable constant, the result suggests that, a unit increase in TMVS leads to decrease of -7.053E-10 in liquidity ratio (LQ) and its estimated significant value is 0.000. The coefficient contradicts the expected positive coefficient of the study, which stipulates that market values of shares represent the assessment of investors on the quality of company corporate governance, the strength and ability of company to meet short term loan obligations, long term loan repayment potential and dividend payment capabilities that enable creditors and investors to decide on whether to engage in any contractual agreement with the corporation or otherwise, which consequently impact on the value of shares of the company in secondary market. Nevertheless, the market value of the company shares has no direct impact on liquidity. Rather, it serves as a catalyst of exploiting sources of funds to enhance liquidity situation of the company. The p-value 0.000 reveals that total market value of shares has significant impact on Ashaka Cement Company liquidity ratio (performance) in conducting surrogate test at 1% statistical significance. Hence, TMVS has negative and significant impact on company's performance (LQ).

A unit increase in MINOWN results into 10.845 increases in liquidity ratio (LQ) and the estimated significant value is 0.002. The positive coefficient defies the expected negative coefficient of the study, which views a unit increase in MINOWN will result into creating an illegal means for the management team and concentrated shareholders to manipulate corporate decision making in favour of their illegitimate interest, at the detriment of the other stakeholders. Furthermore, the P-value of MINOWN 0.002 is signifying that, minority ownership has significant impact on the company's operational efficiency. Thus minority ownership has positive and significant impact on company's performance (LQ).

Similarly, a unit increase in BSIZE leads to 0.591 increase in liquidity ratio (LQ) and the estimated significant value is 0.027. The coefficient confirmed the expected positive coefficient value of the study which opines that an increase in board membership with right people enhances board decision making efficiency and management performance surveillance. More so, the p-value 0.027 reveals that, BSIZE has significant impact on the company's performance (LQ). Conducting surrogates test at 5% statistical significance. Thus, board size has positive and significant impact on Ashaka Cement Company's performance (LQ).

A unit increase in PNED leads to -23.922 decrease in liquidity ratio (LQ) and the estimated significant value is 0.084. The negative coefficient of the result is inconsistent with the expected positive coefficient of the study, which argues that an increase in percentage of non executive directors will enhance board independence. This means, board decision making is devoid of management influence and the statutory responsibilities of the independent directors are not being compromised. The p-value 0.084 reveals that the PNED has significant impact on company's performance (LQ) in conducting the test at 10% statistical significance. In conclusion, it can, therefore, be stated that percentage of non executive directors has negative and significant impact on company's performance (LQ).

A unit increase in WF brings about 0.000 increases in liquidity ratio (LQ) and the estimated significant value is 0.615. The coefficient of the result is contrary to the expected negative coefficient of the study, which postulates that an increase in WF will lead to increase in operational efficiency. Moreover, the significant test result reveals that the workforce has p-value 0.615, which means it has no significant impact on the liquidity ratio. Thus, workforce has positive and insignificant impact on Ashaka Cement Company's performance (LQ).

Finally 2.689 was the difference in liquidity ratio (LQ) after Privatization compared to pre privatization and the estimated significant value is 0.008. The privatization positive coefficient is consistent with expected positive coefficient of the study, which state that privatization will promote corporate governance efficiency that will impact positively on company's performance (LQ). The result confirmed what was obtained in trend analysis result that post privatization has higher liquidity ratio compared to post privatization. The p-value 0.008 reveals that privatization has significant impact on the company's performance in conducting the test at 1% statistical significance. For these reasons, it can be said that privatization has positive and significant impact on company's performance (LQ).

Policy Recommendation

The study concludes that, corporate governance has significant impact on liquidity ratio of Ashaka Cement Company. However, unfavourable macroeconomic environment militated against its efficiency. The study recommends that, Nigerian government should ensure favorable macroeconomic environment, Foreign Investors should secure global cement market opportunities to justify investment and enhance companies' earnings The findings may useful to corporate stakeholders and government policy makers.

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