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Corporate Governance and Performance of Small And Medium-Sized Enterprises: A Catalyst for Entrepreneurship Growth and Sustainability in Nigeria

Muhammad Musa Tsagem.[1], Ukairo Mabel Ukairo [2] and Buhari Mohammed[3]
[1.2.3] Department of Business Education, Federal College of Education Katsina
Email[1]: musatsagem@gmail.com
Email[2]: ukairomabel@yahoo.com
Email[3]: mbuhariba20@gmil.com

Abstract

This paper reports the outcome of an empirical study on the relationship between corporate governance and firm performance of Small and Medium-Sized Enterprises in Nigeria. SMEs are the backbone of developing economies but the sector is found to be underperforming in Nigeria due to poor management and inadequate funding which results in the increase of unemployment and slow economic growth. The study employed a survey research design using balanced panel data. The data was obtained from a sample of 55 Nigerian SMEs in Katsina State for the period 2012 - 2016. The outcome of the study revealed significant positive association between CEO tenure and family ownership with SMEs' performance and significant negative association between CEO duality and women on board with SMEs' performance. This indicates that family-owned SMEs and SMEs with longer-tenure CEOs are associated with increase in firm performance, whereas SMEs with CEO duality and women directors are associated with decrease in firm performance. The findings suggest that SMEs' owners should infuse a good corporate governance structure for increased performance. The study contributes to the body of knowledge theoretically by providing a factual effect of corporate governance on SMEs' performance and adds to the existing literature on the relationship between corporate governance and SMEs' performance. Practically, the study will benefit SMEs' owners/managers, government, management consultants, and financial institutions in policies and decision making relating to governance of SMEs. However, the study is limited to a few corporate governance mechanisms and a small sample of Nigerian SMEs for a period of five years.

Keywords: Corporate Governance Mechanisms; SMEs Profitability; Economic Growth, Sustainability and Industrial Development; Nigeria.

[1] Corresponding author: Dr. Muhammad Musa T. Department of Business Education, Federal College of Education, Katsina, Nigeria. Phone No: +2347030059370; Email. musatsagem@gmail.com

1. Introduction

The unprecedented increase in corporate failure in Nigeria since the 1990s resulted in the increased agitation for compliance to corporate governance practices within corporate entities. This is because of the belief that good corporate governance practices increase investors' confidence and goodwill (Ujunwa, 2012, Abor & Biekpe, 2007). The corporate governance concept was structured based on the existing conflicts of interest between managers and stakeholders profounded by agency theory and stewardship theory (Mulili & Wong, 2011; Aghajari, Mousavi & Mohammadipour, 2015). Abor and Adjasi (2007) argued that a good corporate governance framework benefits firms through greater access to finance, low cost of capital, better performance, and better treatment of all stakeholders. According to Achchuthan and Kajananthan (2013), corporate governance mechanisms are strategies formulated to meet the short, medium, and long-term objectives of the firm and that of the shareholders. On the other hand, weak corporate governance results in poor monitoring and control which negatively influences firm's performance. Ujunwa (2012) opined that weak corporate governance creates incentives for the appointment of wrong and dubious people into corporate board of directors. Indeed, effective corporate governance serves as a check and balance on the management of firm's resources for better performance.

In Nigeria, the existence of multiple corporate governance codes set by different regulatory agencies is an issue which surrounds the corporate governance practices. According to Adegbite, Amaeshi, and Nakajima (2013) and Osemeke and Adegbite (2014), there exists conflicting areas among the different corporate governance codes particularly in Nigeria which account for poor corporate governance and regulatory compliance by publicly listed companies. Adegbite et al. (2013) further argued that the presence of the conflicts among the various codes do not only contribute to low compliance by public companies but resulted in ineffective enforcement by the regulatory agencies. Moreover, compliance to corporate governance in Nigeria is only applicable to publicly listed companies.

This paper was developed to present empirical findings on the relationship between corporate governance (CEO Tenure, CEO duality, board size, board composition, board gender, family ownership and state ownership) mechanisms with firm performance in Nigeria particularly in small and medium-sized firms. This study is novel because SMEs are the mainstay of economic growth and development in most countries in the world. Similarly, this study is the first of its kind in the area which combines the different corporate governance factors (CEO, Board characteristic and ownership structure). Furthermore, there are limited researches on the relationship between corporate governance mechanisms with firm performance particularly in relation to small and medium-sized enterprises (Afrifa & Tauringana, 2015). Similarly, most of the findings by previous studies on the relationship between corporate governance mechanisms (board size, CEO tenure, CEO duality, ownership structure, audit committee) are inconclusive. For example, Abor and Biekpe (2007) found a significantly positive impact of board size, board composition, managerial skills level, CEO duality, insider ownership, and family ownership and foreign ownership on SMEs' profitability. Similarly, Afrifa and Tauringana (2015), Tsagem, Aripin, and Ishak, (2015) and Ahmed et al. (2013) reported a significant relationship between corporate governance mechanisms (board size, CEOs age and tenure and directors' remuneration) with firm performance. However, Ghazali, (2010) and Al-Tamer (2012) revealed insignificant and negative association between corporate governance factors with corporate performance. Similarly, Amran and Ahmad, (2009) Gill and Mathur, (2011), and Narwal and Jindal (2015) support that small board is more effective in enhancing firm's value.

Furthermore, research in corporate governance and firm performance has gone beyond large corporations to include studies in relation to small and medium-sized enterprises (SMEs). According to Abor and Biekpe (2007) and Lappalainen and Niskanen (2012), most of the previous studies on corporate governance with firm performance focused largely on publicly listed companies in developed economies such as the U.S and U.K. This is because, traditionally, compliance to corporate governance has been the norm in the large listed companies due to separation of ownership and control (Abor & Biekpe, 2007). This means that there is compliance to code of corporate governance lies with publicly listed firms in many countries of the world. This implies that small and medium-sized firms do not strictly comply with the code due to the absence of agency problem and less pronounced separation of ownership and control (Saleh et al., 2009). Further, SMEs have few employees who are mostly related to the owners and financing of the business is mostly dependent on the owners' personal resources, hence, do not requires public accountability (Abor & Adjasi, 2007). However, it has often been argued globally that corporate governance be extended to SMEs (Saleh et al., 2009). Similarly, Abor and Adjasi (2007, pp. 2) argued that *'corporate governance forms the environment for the internal activities of a company and appropriate environmental conditions are crucial for corporate entrepreneurship to flourish in a company'*. Thus, corporate governance may result in the increase in performance of SMEs as well, if appropriate measures are commanded by the regulators.

In addition, managerial inefficiency and poor governance systems have been identified as critical to SME owners' efforts to secure financing and, thus, are considered to be the major obstacles to SMEs' growth. SMEs in Nigeria are found to be underperforming in employment generation, poverty reduction, provision of goods and service, and contribution to Gross Domestic Product (CBN, 2012, (Abubakar, 2016; Abubakar, Kura, & Ringim; Abubakar & Mahmood, 2016; Kura, Abubakar, & Abubakar, 2017); SMEDAN/NBS, 2012). For instance, the SMEs sector's contribution to employment generation in Nigeria is 58%, 70%, and 60% for the periods of 2001, 2007, and 2012 respectively (NBS 2011; SMEDAN/NBS, 2012).
This is against the World Bank's benchmark of 95% for Middle Income Countries (World Bank, 2011). In terms of contribution to GDP, the SMEs' sector in Nigeria's contribution dropped to 46.54% in 2012 against 62.1% and 50% in 2001 and 2007, respectively. In addition, these figures are far below the World Bank projection of 70% SMEs' contribution to GDP in Middle Income Countries (World Bank, 2011).

Reports also revealed high bankruptcy rate of SMEs in Nigeria evidenced by the failure of many small and medium-sized companies. For example, HiTV Nig. Ltd., Leventis Store, Stationery Store, Michelin Nig. Ltd., and other firms in the textile industry, food and drinks, flour mills and paper mills. Toby (2007), Okpara (2011), and Sunday (2011) affirmed that bankruptcy rate is higher in Nigeria for companies within the first 2 – 5 years of their establishment. Statistics also showed that five out of ten SMEs fail within the first 12 months of establishment while two survived after ten years and out of every 100 SMEs in the past ten years, only 33% survived, 39% failed while 28% operate at half capacity (Ademola, Olaleye, Olusuyi, & Edun, 2013). The study further revealed that, the Corporate Affairs Commission (CAC) delisted 35,000 registered business names from the list of active businesses, of which the majority are SMEs, in 2010. The rest of the paper is organized as follows: Review of literature and hypothesis development is presented in the next section, followed by a discussion on the research methodology employed in the study. The results and discussions are presented in the subsequent section and, finally, the conclusion and recommendations are presented in the last part of the paper.

2. Literature Review

According to Keasey, Thompson and Wright (1997, pp. 3), '*corporate governance is the process and structure used to direct and manage the business affairs of a company towards enhancing business prosperity and accountability*'. Achchuthan and Kajananthan (2013, pp. 14) added that '*corporate governance encompasses the authority, accountability, stewardship, leadership, directing and control exercised in the process of managing organisation'*. The major aim of corporate governance is to achieve long-term shareholders' value, while taking into cognisance other stakeholders' interests. For SMEs, corporate governance is about the respective roles of the shareholders as owners and managers either of a director or other officer (Abor & Biekpe, 2007). They further believe that good corporate governance practices will improve SMEs' performance and assist them in securing finance from investors and financial institutions.

According to Mulili and Wong (2011), two major theories explain the concept of corporate governance: agency theory and stewardship theory. The assumption of the agency theory is that the role of the organisation is to maximise the wealth of shareholders or owners of the firm (Ujunwa, et al, 2012). The agency theory is concerned with analysing and resolving the conflicts of interest that occur between the shareholders or owners and the agents or the management (Mulili & Wong, 2011). The conflict originates from the separation of control from ownership in which the owners or shareholders perceive that the manager's actions are based on self-interest (Achchuthan & Kajananthan, 2013; Ujunwa et al., 2012). This implies that, the agency theory is practically applicable in the public listed companies rather than the SMEs, where the owners retain both control and management (Adegbite, 2014). Duality of leadership is most common in SMEs where both ownership and control remain with the owners or family members. Most of the SMEs are family businesses where the founder Chief Executive Officers (CEOs) are more concerned with the survival of the business to safeguard their legacy for the benefit of the future generation (Amran, 2011). Similarly, in the SMEs, the owners and their family members or close associates constitute the board of directors. However, corporate governance can be instituted in SMEs to ensure a check-and-balance in the process of managing the organisation for the benefit of all the stakeholders despite the absence of the agency theory.

The stewardship theory, according to Mulili and Wong (2011, pp. 17), suggests that, "*organisations serve a broader social purpose than just maximising the wealth of the shareholders*". The stewardship theory is also referred to as stakeholders' theory which suggests that companies are social entities that affect the welfare of many stakeholders (Achchuthan & Kajananthan, 2013). The stakeholders constitute a group or individuals that interact with the companies and are affected by the achievement of the companies' objectives (Mulili & Wong, 2011). According to Achchuthan and Kajananthan (2013), the corporate board of directors and the CEO, acting as stewards, are more motivated to act in the best interests of the firm rather than for their own interests because they view the firm as an extension of themselves. This implies that the top management tends to give much attention to the long-term success of the firm compared to shareholders (Mulili & Wong, 2011). The stewardship theory is also most applicable in the listed companies where the management assumes the responsibility of serving all stakeholders rather than just maximising the shareholders' wealth as in the case of SMEs.

SMEs are noted to be the most common form of business which are believed to have significant impact on the economic development of many nations in the world (Boonpattarakan, 2012). SMEs are recognised in the Nigerian economic policies and programmes as a growing business

with major contribution to economic growth and development. This is especially in the area of income generation, poverty reduction, employment generation, and provision of both consumables and industrial goods with the fact that a small amount is needed to start its operation (Sunday, 2011). However, the sector is found to be underperforming in Nigeria over the years. Realizing the importance of the SMEs sector, different policies and programmes are put in place by different countries, international organisations such as World Bank and other supporting agencies for SMEs' development (Boonpattarakan, 2012). For instance, in Nigeria, the Small and Medium Scale Enterprises Development Agency of Nigeria
(SMEDAN) was established in 2003 (Oyedijo et al., 2012; SMEDAN/NBS survey, 2012).
The National Enterprises Development Programme (NEDEP) was introduced in 2003 to address the needs of the SMEs in the area of access to affordable finance, access to market, capacity support, business development services, and formalisation of business operations. In addition, a reduction of 50% business registration cost for small businesses was made for capital conservation in Nigeria.

The relevance of SMEs and their contribution to economic growth and development cannot be overemphasised. According to Sunday (2011), SMEs remain the most powerful instruments of economic growth and development of any nation in the world. SMEs represent a major breakthrough in various emerging sectors. Sunday argues that most breakthroughs in information technology (IT) in the U.S., China, South Korea, Malaysia, and India are propelled by SMEs. Also, most consumables and industrial goods in a developing economy are the end-products of SMEs (Oni, Paiko, & Ormin, 2012). However, the concept of SMEs does not have a universally accepted definition (Oni et al., 2012). Hence, several definitions of SMEs have been developed by different institutions and organizations for a broad range of purposes. Often, some institutional and organisational definitions are based on quantified criteria such as revenue (sales turnover), assets value, and number of employees or other factors (Sunday, 2011). For instance, in the U.S., a small business is defined "*as an independently owned and operated firm*" (Sunday, 2011, pp. 272). Such business is outstanding in its area of operation and "is not having more than $7.5 million to $22 million annual turnover and an average of 1,500 employees". Similarly, in Japan, small scale businesses are described based on the industry.

In Nigeria, the small and medium-sized entities have been differently defined by different institutions and bodies, and from different perspectives (Adeleke, Oyenuga, & Ogundele, 2003; Anderson, 1982). The Federal Ministry of Commerce and Industry defined a small-scale enterprise as a business entity with a total assets value of not exceeding ₦5,000,000 (excluding cost of land). Meanwhile, the Central Bank of Nigeria (CBN), in its guidelines to commercial banks, define small-scale enterprises as "*those entities with annual net sales not more than ₦5,000,000".* However, for merchants banks, they regard small-scale enterprises as those with total assets value not more than ₦2,000,000 (excluding cost of land) or with maximum net sales of not more than ₦5,000,000 (Onuoha & Uddin, 1994; Rogers, 2002; Udechukwu, 2003).

According to SMEDAN/NBS (2012), the small and medium scale enterprises are defined under the Nigerian National Policy on SMEs. Small-sized firms are those with total assets value (excluding land and buildings) above ₦5 million but not exceeding ₦50 million with a total workforce of above 10 employees but not exceeding forty-nine (49) employees. On the other hand, the medium-sized firms are those enterprises with total assets value (excluding land and building) above ₦50 million, but not more than ₦500 million with a total workforce of between 50 and 199 employees.

Literature on the relationship between corporate governance and firm performance produces mixed and inconclusive findings. For example, Abor and Biekpe (2007) examined the effects of corporate governance practices on the performance of Ghanaian SMEs during the period of 1998 - 2003. The study employed panel data regression model to analyse data obtained from the annual reports and interviews from 120 sample SMEs. The findings of the study showed a significant impact of board size, board composition, management skills, CEO duality and ownership structure on the SMEs' profitability. The scholars concluded that corporate governance has a significant influence on the profitability of Ghanaian SMEs. Thus, good corporate governance practices can assist SMEs to inculcate excellent management practices in the sector. Mollah, Al Farooque and Karim (2012) examined the effects of corporate governance and ownership structure on the financial performance of listed companies in Botswana. The study utilised 19 sample firms listed on the Botswana Stock Exchange over the period of 2000 – 2007. The data for the study was analysed using Ordinary Least Squares (OLS) regression model. The findings of the study showed separate effects of corporate governance and ownership structure on the different measures of firm performance, proxied by ROA, ROE and Tobin's Q.

Akpan and Amran (2014) investigated the relationship between board characteristics and firm performance of Nigerian companies. The study utilised data from 90 listed firms on the NSE over a period of three years from 2010 – 2012. The finding of the study shows that board size and educational level of the directors are positively and significantly related to firm performance. In contrast, a significantly negative relationship is found between women directors and the firm's turnover. The study concludes that the presence of women on boards is a window dressing as their percentage is insignificant to make any significantly positive impact on firm performance. Similarly, Amran et al. (2014) investigated the level of women's participation on the board of directors of Malaysian companies. The study utilised data from the financial statements of 831 companies listed on the Main Market of Bursa Malaysia during the year 2010. The findings of the study indicated that, out of the 831 sample firms, 361 firms representing 44% have women on their boards. Furthermore, a majority of the women directors are Chinese and are related by family to the other directors.

Afrifa and Tauringana (2015) examined the effect of corporate governance on the performance of UK listed firms. The study utilised unbalanced panel data of a sample of 8,234 UK SMEs for a period of 10 years from 2003 – 2013. The finding of the study shows that board size, CEO age and tenure, and directors' remuneration are significantly related to SMEs' performance. Overall, the study shows that corporate governance affects SMEs' performance. Similarly, Afande (2015) examined the extent of adoption of corporate governance practices and financial performance of SMEs in Kenya. The study employed both quantitative and qualitative method of data collection on 30 registered manufacturing SMEs. The result of the study shows a positive relationship between corporate governance practices and SMEs' profitability. The study concludes that corporate governance practices enhance firms' entrepreneurship and competitiveness.

2.1. Hypotheses Development

Based on the literature review above and conceptual framework on corporate governance mechanisms and SMEs profitability, the following hypotheses were developed for the study and stated as follows:

H1: there is a significant relationship between CEO Tenure and SMEs' profitability

H2: there is a significant relationship between CEO Duality and SMEs' profitability

H3: there is a significant relationship between Board composition and SMEs' profitability
H4: there is a significant relationship between Board size and SMEs' profitability
H5: there is a significant relationship between Women on board and SMEs' profitability
H6: there is a significant relationship between Family ownership and SMEs' profitability
H7: there is a significant relationship between State ownership and SMEs' profitability

3. Research Methodology

This study applied a survey research design using balanced panel data. Data for the study was obtained from the financial statements of a sample of 55 firms of the 534 registered small and medium-sized enterprises in the Katsina State (SMEDAN/NBS, 2012). The sample SMEs were selected across the three Senatorial Districts of the Katsina State (Katsina, Daura and Funtua) using stratified sampling and convenience sampling techniques. The 55 samples cut across all the sectors of the economy but were restricted to those firms with full available data within the period of the study. The period of the study was 5 years covering 2012 – 2016 that gives a total of 275 firms' over the years of observations. The data was collected from the data stream of the Corporate Affairs Commission (CAC) and Small and Medium-Sized Enterprises Development Agency of Nigeria (SMEDAN).

Model Specification

All equations are to be estimated using panel regression model as utilized by Gill and Biger (2013), Afande (2015), Aghajari et al. (2015), and Afrifa and Tauringana (2015). The study is investigating the effects of corporate governance on SMEs profitability.

The regression model and the measurement of the variables are present as follows:

$$GOPit = \beta_0 + \beta_1\ CEOTENit + \beta 2\ CEODit + \beta_3\ BOCOM\ it + \beta_4\ BSIZEit + \beta_5\ BOGENit + \beta_6\ FMLYOPit + \beta_7\ SOPit + \beta_8\ FSIZEit + \beta_9\ SGROWit + \beta_{10}\ LEVit + \beta_{11}\ FAGEit + €it.$$

Legend: GOP is Gross operating profit:: CEOTEN is CEO Tenure: CEOD is CEO Duality: BSIZE is Board Size:: BOCOM is Board Composition: BOGEN is Women on Boards: FMLYOP is Family ownership: SOP is State Ownership; FSIZE is Firm's size: LEV is Leverage: SGROW is Firms' sales growth: FAGE is Age of the firm: β: Interception of the equations: €: The error term.

The study variables are defined in Table 1 below:

Table 1

Variable definitions and measurements

Variables	Acronym	Measurements
Dependent Variable		
Gross Operating Profit	GOP	[(Sales – Cost of Goods Sold) / Sales]
Independent Variables		
CEO Tenure	CEOTE N	Number of Years Serving as CEO at the end of each Financial Year
CEO Duality	CEOD	The CEO is the Chairman of the Board
Board Composition	BOCOM	Proportion of Non-Executive Directors
Board Size	BSIZE	Number of Directors on the board at the end of the Financial Year
Women on Board	BOGEN	Proportion of Women to the total number of board members
Family Ownership	FMLYOP	Proportion of Family Ownership of the firm (usually above 50%)

State Ownership	SOP	Proportion of State Ownership of the Firm (Usually Above 50%)
Control Variables		
Firm Size	FSIZE	Natural Logarithm of Total Assets
Annual Sales Growth	SGROW	$[(sales_1 – Sales_0)] / Sales_0$
Leverage	LEV	Total Debts / Total Assets
Firm Age	FAGE	Number of Years of the firm since incorporation

The study variables are corporate governance mechanisms as utilized in (Gill & Biger, 2013: Ujunwa, 2012; Abor & Biekpe, 2007; Achchuthan & Kajananthan, 2013; Afrifa & Tauringana, 2015). They include corporate board made up of board size, board composition, and women on boards; ownership structure including family ownership and State ownership; as well as other corporate governance variables such as CEO tenure measured by number of years serving as CEO at the end of each financial year (Gill & Biger, 2013 and Afrifa & Tauringana, 2015) and CEO duality. Based on the literature from previous scholars on the relationship between corporate governance and firm's profitability, these variables were adopted in this study. Profitability is the dependent variable (DV) and is defined as the profitability of the sample Nigerian SMEs. Profitability is measured in this study using Gross Operating Profit (GOP), defined as net sales minus cost of goods sold to total assets.

Besides the main variables of the study, a few control variables are incorporated to reduce the probability of omitted-variables bias. This is due to failure to control the confounding variables potentially leading to falsely rejecting a hypothesis, when in fact it should be accepted. In the process of literature review, we observed that different scholars used some of these variables apart from the main variables because of their effects on the dependent variable. Specifically, in this study, we control for leverage, sales growth, firm size, and firm age. These control variables were adopted from previous studies such as Abor and Biekpe (2007), Gill and Biger (2013), and Afrifa and Tauringana (2015).

4. Results/Findings

The model of this study was built upon the effects of corporate governance mechanisms on SMEs' profitability. Specifically, CEO tenure and CEO duality were examined alongside three different board characteristics (board composition, board size and women on board) and two ownership structures (family ownership and state ownership). This is to test the effects of these seven variables on the profitability of the Nigerian SMEs. Table 2 presents the descriptive statistics of the study variables:

Table 2

Descriptive Statistics (Observation, 275 firm years)

Variables	Observation	Minimum	Maximum	Mean	Std. Deviation
LN_GOP	275	0.13	9.15	0.966	1.12
CEOTEN (Years)	275	1	20	7.34	4.63
CEOD (NUM)	275	1	2	1.69	0.46
BCOM (PROPORSION)	275	0	1	0.59	0.19
BSIZE(NUM)	275	3	11	4.7	1.62
BOGEND (PROPORTION)	275	0	0.5	0.16	0.12
FMLYOP	275	0	1	0.5	0.36
SOP	275	0	1	0.15	0.32
FSIZE (Assets Value)	275	5.79	10.09	7.11	0.8

SGROW	275	-0.95	35.01	1.15	4.01
LEV	275	-0.1	1.02	0.12	0.17
FAGE (YEARS)	275	4	56	20.8	10.44

The table gives the mean and the standard deviation for each of the variables. Besides that, the table includes the minimum and maximum value of each of the variable to show the extreme values achieved by all the variables of the study over the 5 year period. The dependent variable of gross operating profit (GOP), measured by natural logarithm of GOP, has a mean value of 0.966 indicating, in average, the percentage of the operating profit of the sample SMEs for the period. The minimum value for the GOP shows 0.13 and the maximum value is 1.15. On average, the CEO tenure of Nigerian SMEs is 7.34 and a minimum of 1 year and a maximum of 20 year. The mean value of CEO duality shows that about three quarters (3/4) of the sample SMEs have their CEOs serving as chairmen of their boards. Furthermore, the descriptive statistics for the three corporate boards' characteristics indicates an average proportion of 60 percent of non-executive directors to total directors of the sample SMEs. The average board size of the sample SMEs was 5 members with a minimum of 3 and a maximum of 11 members across the sample SMEs. This shows that the majority of the sample SMEs has, on average, 4 -5 board members even though there is no specific limit to the size of the board of SMEs in Nigeria. The proportion of women presence on the board of the sampled SMEs shows an average of 0.16 percent with a minimum of 0 and maximum of 0.5 percent which indicates that women are not participating adequately in the boards of SMEs in Nigeria. This means that women in Nigeria are not as adequately represented as their counterpart, men, in the boards of SMEs. The descriptive statistics of the two ownership structures revealed an average proportion of family ownership across the sampled SMEs of 0.5 percent and maximum of 100 percent across the sample SMEs. This indicates that family owned businesses is the dominant form of business in the Nigerian SMEs. Similarly, the average proportion of state ownership across the sample SMEs stood at 0.15 with a maximum of 100 percent state ownership across the sample SMEs. This indicates the level of government participation in commercial activities that promote youth employment and economic growth and development.

Furthermore, the descriptive analyses of the control variables indicate that firm size (measured by total assets value) show a mean value of 7.11 and sales growth across the study SMEs increases by 39 percent on average annually. The debt to total assets ratio (leverage) is 0.08 which indicates the average ratio of external financing source from the total financing of the study SMEs. This shows that most of the Nigerian SMEs are relying on internal financing from the owners and retained earnings. Furthermore, it indicates the level of inadequate funding from the external sources such as creditors, banks, and other financial institutions which may be attributed to their level of opacity, asymmetric information, and poor resources management. Lastly, the average age of the sample SMEs is 11 years which indicates high level of bankruptcy and death of SMEs during the period of the study.

The result of the Pearson Correlation Coefficient in Table 3 above reveals the correlation coefficient among the study variables. The correlation analysis reveals significant positive association between GOP and CEO tenure, board composition, and debt to total assets (leverage) ratio. This suggests that increasing the length of tenure of CEOs will result in the increase of the SMEs' profitability. Similarly, increasing the board composition and debt to total assets ratio of SMEs in Nigeria will improve SMEs' profitability. However, a significant negative association was found with firm size. Table 3 further reports the correlation among the independent variables. A significant positive association was found between CEO tenure with board composition and state ownership, whereas a significant negative association was found with board size, women on board, and firm age. A significant positive association was found between CEO duality with family ownership which proved that, in most of the family owned businesses, the CEO acts as the chairman of the board of directors. However, a significant negative association was found between CEO duality with board composition, board size, state ownership, and firm age.

With respect to the four control variables (FSIZE, SGROW, LEV and FAGE), a significant positive association was revealed between firm size with sales growth and firm age. This indicates that SMEs with strong assets base experience high sale growth and older firms experience strong assets base more so than newer firms. Similarly, a significant positive association was found between leverage and firm age which means old firms have higher leverage compared to new firms which indicates the ability of older firms to secure external financing compared with their counterpart of newer firms.

In addition to the correlation analysis, multicollinearity test was conducted using Variable Inflation Factor (VIF), as revealed in Table 4. The result indicates a mean VIF of 2.35, which is < 10, indicating an absence of multicollinearity (Field, 2009). Similarly, the result shows the tolerance values above 0.10 and VIF values less than 10 for all the variables. It can be concluded that multicollinearity among independent variables does not have any effect on the regression results especially since one of the advantages of using panel data is to reduce the effects of multicollinearity. The data for this study is longitudinal/panel data which have both elements of time-series and cross-sectional dimensions denoted by *it*. Consistent with O'Connell (2007), this study combines data from Nigerian SMEs over a period of five years (2012 – 2016) which makes the data to be a micro-panel data. Similarly, the data is a balanced panel data (static) because all firms are observed over a five year period. The model for the study shows that SMEs' profitability is a function of corporate governance mechanisms with few control variables and these variables vary with time and firms. In addition, normality checks on the dependent variable of SMEs' profitability, measured by the GOP, indicate a skewness of 2.32 with kurtosis of 9.76. The results indicate the extent to which the distributions are skewed and the extent of the peakedness of the distributions, which imply violation of the normality assumption. However, the effect is negligible as the skewness is less than 3.00 and, based on the rule of thumb, the impact of normality diminishes when the sample size is large (Hair, Anderson, Tatham & Black 2010; and Julie 2011). Besides, all the regression models are estimated with robust standard error to control for the effects of heteroskedasticity and autocorrelation for normality of residuals and to ensure correct estimations.

Panel data analysis entails some steps for the selection of an appropriate model for the analysis. The first step is to test between Random Effects (GLS) model and Pooled OLS model to find out which model is appropriate for the study. This tests whether the data set has specific effect or heterogeneity (ג) using Breusch and Pagan (BP) LM Test. In this study, the relationship between ROA and Corporate Governance Mechanisms is examined and the result of the BP LM test shows that the probability ($p<0.05$) value is significant at 1% level. Therefore, the null hypothesis is rejected in favour of the alternative hypothesis which indicates that random effects model is more appropriate. The results of the pooled OLS and random effects models are reported in Table 4. The second step is to test between the random effects (*RE*) model and the fixed effects (*FE*) model to determine the most appropriate models for the study using Hausman Specification Test. The result of the Hausman test is presented in Table 4 with probability value greater than ($p>0.05$) which indicates that the probability value is insignificant. Therefore, based on the null hypothesis, there is no correlation between error term ג and the constants *it* (RE); whereas, based on alternative hypothesis, there is correlation between the error term ג and the constants *it* (FE) (Greene, 2003). Thus, the result suggests that the alternative hypothesis is rejected in favour of the null hypothesis that Random Effects (*RE*) model is more appropriate. Furthermore, Torres-Reyna (2011) argues that, in a panel data set where differences across entities are believed to have some influence over the outcome variable, random effects model is more appropriate. Similarly, the *RE* model is appropriate if the panel data comprises (n) firms drawn randomly from a large population such that the firm-specific constant terms are randomly distributed across the entities. The final samples for this study are randomly selected from the three geopolitical zones of Katsina State, which is consistent with Baltagi (2008) and Hsiao (2003, pp. 43) who claimed that the "*random effects model is an appropriate specification if we are drawing N sample from a large population*".

Table 3

Pearson Correlation Coefficient (Observation, 275 firm years)

VAR.	1	2	3	4	5	6	7	8	9	10	11	12
LN_GOP	1											
CEOTEN	0.180**	1										
CEOD	-0.112	-0.027	1									
BCOM	0.180**	0.165**	-0.206**	1								
BSIZE	0.057	-0.168**	-0.126*	0.126*	1							
BOGEND	-0.103	-0.214**	-0.057	-0.128*	0.284**	1						
FMLTOP	-0.0044	-0.025	0.893**	-.0165**	0-.048	0.072	1					
SOP	-0.024	0.141*	-0.720**	0.122*	-0.088	-0.136	-0.781	1				
FSIZE	-0.193**	-0.11	-0.148*	0.084	0.371**	0.138*	-0.068	-0.147	1			
SGROW	-0.086	-0.001	0.106	-0.099	-0.084	-0.019	0.115	-0.084	0.122*	1		
LEV	0.341**	0.103	-0.127*	0.167**	0.244**	0.115	-0.089	-0.026	0.115	0.141*	1	
FAGE	0.106	-0.126*	-0.177**	0.132*	0.254**	0.222**	-0.068	-0.019	0.267**	0.022	0.312**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4

Regression Analysis (Observation, 275 firm years)

Explanatory Variables	Hypothesis	Pooled OLS	Random Effects	Multicollinearity VIF
CEOTEN	1	0.045 (3.36)***	0.023 (2.96)**	1.25
CEOD	2	-0.989 (-3.23)***	-1.480 (-2.67)**	6.03
BCOM	3	0.717 (1.77)*	0.076 (0.17)	1.17
BSIZE	4	-0.009 (-0.22)	-0.019 (-0.38)	1.38
BOGEND	5	-1.186 (-2.62)**	-1.156 (-2.32)*	1.25
FMLYOP	6	0.886 (2.17)*	1.467 (2.09)*	6.68
SOP	7	-0.476 (-1.52)	-0.306 (-0.59)	3.14
FSIZE		-0.293 (-3.47)***	-0.301 (-4.12)***	1.38
SGROW		-0.023 (-1.51)	-0.005 (-0.59)	1.12
LEV		2.508 (6.50)***	1.088 (4.34)***	1.27
FAGE		0.001 (0.16)	-0.006 (-0.54)	1.28
Constants		3.456 (4.11)***	4.921 (4.60)***	
R-square		30.29	21.03	

F-Statistics	10.39	46.04	
Rho		72.56	
P-value	0.000	0.000	
Mean VIF			**2.35**
BP Test	(225.72)***		
Hausman Test	(15.22)		

*** Significant at the 1% level, ** Significant at the 5% Level and * Significant at the 10% Level

The regression estimates of the preferred Random Effect (*RE*) model report the relationship between SME profitability proxy by gross operating profit with corporate governance factors. That is to say that the *RE* regression model reports the estimates of all the seven corporate governance variables and the four control variables. The model explains the variations in the SME's profitability among the sampled firms over the five year period. The coefficient of the intercepts (constant) of the model is 4.921 with a t-value of 4.60, exhibiting a highly significant relationship among all the variables. The regression result reported a significant F-value of 46.04 and is significant at 1% level, which indicates the model is fit and all the coefficients in the model are different than zero. The value of the R-square is 21.03% which indicates the amount of variance of the SMEs' profitability measured by GOP explained by the corporate governance factors. In addition, the intra class correlation (rho) reports a value of 72.56 which implies that the variances are due to differences across the panels.

The results of the regression estimations of the RE model for the individual variables indicate that the coefficients of CEO tenure and family ownership (FMLYOP) are positive and significantly associated with SMEs' profitability. This suggests that the longer the number of years spent by the individual as the CEO (CEO tenure), the greater the profitability of SMEs. The finding is in support of the study Hypothesis 1 and is in line with findings by Afrifa and Tauringana, (2015), and Tsai, Hung, Kuo, and Kuo, (2006). According to Shen (2003), in Afrifa and Tauringana (2015), *'a longer-tenured CEO accumulates company specific knowledge'.* A strong relationship between CEO tenure and firm performance results in high firm value (Tsai et al., 2006). Similarly, the coefficient of family ownership is positive and significant at 10% level. This implies a positive relationship between family ownership and GOP, which means family-owned SMEs are associated with an increase in firm's profitability. The result is consistent with findings by most previous scholars; Abor and Biekpe (2007); Aguiló and Aguiló (2012); and Wilson et al. (2013). Similarly, the finding supports the study's Hypothesis 6 which predicts a significant relationship between family ownership and SME's profitability. The possible explanation is that family-owned and controlled businesses are dominant in the Nigerian SMEs. Family businesses, particularly in Nigeria, are mostly built around the owners and their families and relatives. Thus, the appointment of board of directors and recruitment are based on family ties or generosity. The finding of the study indicates that family owned SMEs perform better and are significantly less likely to fail than nonfamily owned due to succession. Furthermore, James (1999) asserted that family ownership of a firm creates love and commitment to the business which reduce agency cost and enhance performance. However, the coefficients of CEO Duality (CEOD) and women on board (BOGEND) are found to be negative and significant. This implies that CEO duality and the presence of female directors adversely affect SMEs' performance in Nigeria. The significant negative relationship between CEO duality and SMEs' performance is consistent with findings by Ehikioya (2009) and Ujunwa (2012), which suggested that combining the two roles under one person adversely affects the board's effectiveness and consequently the firm's profitability in Nigeria. According to Ujunwa (2012), the *'result is consistent with the agency theory which posits that board duality promotes CEO entrenchment by reducing board monitoring effectiveness and impedes firm performance*'.

Similarly, the finding supports the study's Hypothesis 2 which predicts a significant relationship between CEO duality and SME's performance. Furthermore, the significant negative association revealed between women on board and SMEs' performance supports the study's Hypothesis 5 which predicts a significant association between women on board and SMEs' performance. Similarly, the result is consistent with findings by Akpan and Amran (2014) which revealed a significantly negative association between presence of women on board and firm performance of 90 sample Nigerian firms listed on the Nigerian Stock Exchange. This suggests that the presence of more women on the board of Nigeria SMEs adversely affects the board's efficiency and results in low performance. Akpan and Amran (2014) opined that presence of women on board of directors of Nigerian firms is window dressing and does not contribute to firm performance. In contrast, Shukeri, Shin and Shaari (2012) and Ramli and Esa (2012) found no significant relationship between gender diversity and firm performance. The finding suggests that increase or decrease in the proportion of women on the board of directors would not affect the firm's performance. However, Lückerath-

Rovers (2013) argued that those firms with women directors perform better than those without women on their board of directors. Similarly, Abdullah, Ismail and Nachum (2013) found a significantly positive relationship between the presence of women directors and firm's performance measured by return on assets in Malaysia.

Table 4 further reports the regression estimates of the four control variables of the study. Firm size and leverage were found to be significantly related with SMEs' profitability, whereas sales growth and firm age reports an insignificant relationship. The coefficient of firm size was found to be negative and strongly significant which suggest that larger SMEs reports low profitability which implies that larger firms are associated with a decrease in firm's profitability. This result is consistent with the finding by Yeboah and Yeboah (2014) and Tsagem et al., (2015; 2016) and supports the view that a negative relationship between firm size and SME's profitability can be due to diseconomies of scale that may result in management inefficiency arising from the expansion of business operations. This view was also supported by Amran (2011) who found that firm size affects firm's performance because, as a company grows larger in size, effective control and monitoring tend to be difficult and result in low performance. In their study, Baños-Caballero et al. (2012) also ascribed three reasons for the negative relationship between firm size and SMEs' profitability. First, growing firms need funds to invest in fixed assets and to expand their operations in order to sustain competitive advantage. This, in turn, requires an increase in firms' investment in current assets to support the increase in the scale of operations, particularly in the short-run, which, as a result, may have a negative effect on the firms' profitability. Secondly, managers tend to expand firm size in order to achieve their financial and non-financial benefits (managerial benefits) which may result in high cost of operations and lower operating profits. Thirdly, greater diversification might result in an increase in the cost of operations which may have a negative effect on the firm's profitability, particularly in the early stages. However, the result is contrary to the theory of economies of scale and literature from previous studies which revealed a positive relationship between firm size and firm's performance. For example, Raheman and Nasr (2007) and Raheman and Afza (2010) reported a positive association between firm size and firm's profitability of Pakistani firms. Similarly, Mathuva (2010) found a positive association between firm size and firms' net operating profitability which suggests that large firms are able to exploit their economies of scale.

In contrast, the coefficient of leverage reveals a significant positive association with SMEs' profitability which implies that profitable SMEs use debts to save taxes by deducting interest cost (Bellouma, 2011). However, previous studies on the relationship between leverage and firm's profitability report negative relationships which suggest that as a firm's financial debt increases, this leads to a decrease in the firm's operating profitability. For example, Raheman and Nasr (2007) and Raheman et al. (2011) found a significantly negative relationship between debt ratio and firm's profitability of Pakistani firms.

5. Discussions, Conclusion and Recommendations

This study examines the relationship between corporate governance and its components with SMEs' profitability proxied by gross operating profit (GOP). The study utilises data from 55 samples of Nigerian SMEs across the three senatorial zones of Katsina State observed over a period of five years from 2012 – 2016 which gives 275 observations of firms' year's. Corporate governance paves the way for possible future growth and sustainability of small and medium-scale enterprises particularly in developing economy. Businesses seeking external financing often have to do much work before confidently going to the stock market. Normally, it takes some time for a firm to be fully listed in the stock market and it is within this period that corporate governance becomes crucial and the learning curve is steep. A consistent track record of good governance will greatly assist firms when such a point comes. If SMEs infuse corporate governance structures at an early stage, they will gain experience and instil discipline in the management of the firm. This is important as external parties ensure sound management practices and corporate governance allows firms to prepare for their pending initial public offering (IPO). For example, in Ghana, early introduction of corporate governance would prepare an SME well enough even before it gets listed.

Overall, the finding of the study indicates that four out of the seven corporate governance factors supported the study hypotheses by reporting a significant relationship with SMEs' profitability. CEO tenure and family ownership depicted a significant positive relationship while CEO duality and women on board exhibits a significant negative relationship with the dependent variable SMEs' profitability. The plausible explanation is that most Nigerian SMEs are associated with a lack of managerial proficiency and poor management of resources (SMEDAN/NBS, 2012; Sunday, 2011; Ademola et al., 2013). Also, Nigerian SMEs are associated with financial constraints (Okpara, 2011; SMEDAN/NBS, 2012). This affects their ability to employ skilled and competent personnel who can manage their resources effectively. As such, they rely on cheap labour from the family members and close associates, which may have a negative effect on the firms' performance.

Finally, this paper provides an empirical finding on the relationship between corporate governance mechanisms and SMEs' profitability in Nigeria proxied by gross operating profit. The paper contributes to the body of knowledge by relating corporate governance mechanisms on SMEs profitability despite the absence of corporate governance code for SMEs in Nigeria. Secondly, the study adds to the existing literatures on the relationship between corporate governance with SMEs' profitability particularly in Nigeria and other countries of Sub Saharan Africa. This is in line with the opinions of Abor and Adjasi (2007), Abor and Biekpe, (2007), Ujunwa (2012), and Tsagem et al., (2015) that previous literature on corporate governance and firms' profitability mostly focused on large corporations and mostly in developed economies. Further, the paper suggests that Nigerian SMEs' owners/managers need to efficiently manage their business effectively and ensure good corporate governance practice for increased profitability and support different sources of financing for business growth and sustainability. However, this study is limited to only seven corporate governance mechanisms and a small sample of Nigerian SMEs within the Katsina State during the fiveyear period of 2012 – 2016. Future studies can further explore more corporate governance factors with a larger sample of Nigerian SMEs across the country.

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