



# EFFECT OF CORPORATE GOVERNANCE AND RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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## Abstract

*This paper has discussed the relationship between corporate governance and risk management and the financial performance of Nigerian manufacturing companies using the following variables: Board Regulatory Compliance (BRC), Board Stakeholder Engagement (BSE), Insurance Coverage Ratio (ICR), and Research and Development Intensity (RDI). The secondary data were gathered on 10 manufacturing companies between the years 2014 and 2023, and the regression models were used, and the  $Q$  of Tobin as the dependent variable. Results showed that corporate governance and risk management had a tremendous impact on financial performance. In particular, BRC, BSE, and ICR had a positive and significant effect on financial performance, and RDI had a positive but insignificant effect. The size of firms was also a positive factor in influencing financial performance, which underscores the importance of economies of scale and high access to resources available to the larger firms. The research has highlighted that sound corporate governance systems and risk management systems are essential in the maintenance of financial performance in light of the financial challenges in Nigeria. It also addressed a significant gap in the literature and thus offered an insight into the role of governance and risk management in the manufacturing sector of an emerging economy. The results provided viable guidelines to the policy makers and corporate executives to adopt combined strategies for governance and risk management in order to achieve resilience and competitiveness. The research helped to add to the existing literature on corporate governance and financial outcomes, especially in the case of Nigeria, and emphasized the role of more focus on innovation and risk management strategies to reach long-term sustainability.*

**Keywords:** Board Composition, Tobin's  $Q$ , Corporate Governance, Risk Management

## 1.0 INTRODUCTION

Risk management and corporate governance play an important role in enhancing financial performance, especially in the manufacturing industry in Nigeria. In spite of the regulatory changes and stronger demands for accountability, the governance practices and risk management structures are still a challenge that impedes the achievement of optimal financial results. Corporate governance entails ideals, policies, and practices that provide accountability, transparency, and good governance amongst the stakeholders (Al-dhamari et al., 2022). The issues of poor board oversight, abuses of insiders, and non-compliance with regulations are still prevalent in Nigeria and impact financial sustainability (Ahmed et al., 2023). However, good governance systems will appeal to investment and improve performance (Sani & Dabo, 2021).

Operational and financial success is impossible without risk management, which involves identifying and eliminating risks such as disruptions in the supply chain, cost fluctuations, and more (Okoye et al., 2020). Risk management necessitates governance because it is necessary to have policies in place to effectively eliminate risks (Chukwuma and Ifeanyi, 2022). Corporate governance, risk management, and financial performance a dynamic aspects; companies with well-established systems of corporate governance are likely to have proactive risk management practices, which result in improved financial performance (Eze & Eke, 2023). Although infrastructure and economic volatility are some of the challenges facing the manufacturing industry in Nigeria, the need to have sound governance and risk management structures in the sector is of top priority to enhance the financial performance of the sector and to ensure sustainable growth.

### Statement of Problem

Risk management and corporate governance are significant to the financial performance of the manufacturing sector in Nigeria; however, the sector experiences challenges that hinder its sustainable and competitive performance. Nigeria still experiences inefficiencies in governance and risk management in many of its manufacturing companies, which result in the poor financial performance of the companies despite the reforms, such as the Nigerian Corporate Governance Code of 2018. Although past research has scrutinized the respective impact of corporate governance and risk management, very little is known about their joint impact in this industry, especially with the peculiar risks of instability in the supply chain and regulatory inconsistencies. Besides, most research is conducted in the context of financial institutions or sectors in general, which ignores the needs of manufacturing companies. These difficulties are compounded by the regulatory environment that has lacked consistency of compliance and a weak implementation process. This paper seeks to address these shortcomings by assessing the joint effect of governance and risk management on financial performance among the Congo manufacturing companies in Nigeria.

### Objectives of the Study

The main objective of this study is to examine the effect of corporate governance and risk management on the financial performance of manufacturing firms in Nigeria. Specific objectives include:

1. To evaluate the effect of board regulatory compliance and board stakeholders' engagement on the financial performance of manufacturing firms in Nigeria.
2. To analyse the impact of Research and Development intensity (RDI) and Insurance Coverage ratio on the financial performance of manufacturing firms in Nigeria.
3. To assess the combined effect of corporate governance and risk management on financial performance in manufacturing firms in Nigeria.

### Research Questions

1. What is the effect of board regulatory compliance and board stakeholders' engagement on the financial performance of manufacturing firms in Nigeria?
2. How do Research and Development intensity (RDI) and Insurance Coverage ratio impact the financial performance of manufacturing firms in Nigeria?
3. What is the combined effect of corporate governance and risk management on the financial performance of manufacturing firms in Nigeria?

## 2.0 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

### Financial Performance

One of the important metrics of the efficiency or profitability of an organization and value creation is the financial performance. It provides information in the manufacturing industry on the effectiveness of firms in accessing resources in order to attain strategic goals, in the face of competitive and capital-intensive business contexts. Major financial performance measures such as Return on Assets (ROA) and Q of Tobin are very important in determining operational and strategic efficiency. ROA is a measure of management and operational efficiency of companies in terms of how well they manage their assets to make a profit, because in the manufacturing industry, much investment is made in assets such as machines and inventory. The Q of Tobin, a market-based indicator, is used to assess the market value of a firm as compared to the replacement value of the company assets to give an insight into the future in terms of profitability and future growth. This would be useful in the manufacturing industry of Nigeria, where foreign direct investment is a significant factor. ROA, as well as Tobin Q, gives information on the internal efficiency and the external market performance. Capital-intensive operations, macroeconomic instability, and supply chain disruptions are some of the problems facing the manufacturing companies in Nigeria, which is why these metrics are useful in determining resilience. High ROA could be a positive indicator of cost control, whereas a positive Q of the Tobin shows the confidence of investors in the expansion opportunities of the company, which is necessary to attract foreign investments and develop sustainable growth.

## Corporate Governance

Corporate governance guarantees transparency, fairness, and accountability in companies and ensures that the behavior of managers is in accordance with stakeholders' interests. In Nigeria, corporate governance is not well developed, and its implementation is usually curtailed by poor enforcement, formality, and other problems, such as nepotism in board appointments. Diversity and independence of boards are the most important aspects of effective governance, which are usually undermined by informal connections and laxness in the enforcement. The quality of governance disclosures also plays an important role in creating trust, yet the quality of these disclosures differs considerably across the firms. Corporate governance provides remedies to such problems, including drawing in foreign direct investment (FDI) and improving the performance of the financial results. Good governance has the potential to create trust, enhance risk management, and bring firms to international best practices. To bridge the gap between formal governance structures and the actual implementation in Nigeria, there is a need to create institutional reforms, capacity building, and involvement of the stakeholders. Corporate governance is to be considered as a strategic tool for organizational resiliency and competitiveness.

## Risk Management

Risk management is an important process in any organization, particularly in dynamic economies such as Nigeria, where uncertainties may change the operations and finances of the organization. In manufacturing, risk management has developed to be a siloed strategy to an integrated strategy that reacts to strategic, operational, and financial risks. Kaplan and Mikes (2021) focus on the necessity to incorporate risk considerations into all decision-making levels. Foreign exchange volatility and political instability are systemic risks in the manufacturing businesses in Nigeria, and companies need to adopt proactive risk management strategies. According to Adeoye and Elegbeleye (2023), companies with effective risk assessment and real-time monitoring systems have greater resilience in their operations, yet not all Nigerian companies can successfully make this transition. Risk assessment as part of quantitative methods and non-financial measures, such as supply chain stability, is crucial in the identification of risks. Risk prediction and mitigation can be improved with the help of data analytics and machine learning. Although risk reduction measures such as insurance and hedging measures are paramount, their application in Nigeria is low because of premiums and a lack of awareness.

## Connection of Corporate Governance, Risk Management, and Financial Performance.

The interplay between corporate governance, risk management, and financial performance is important to the sustainable growth, particularly in the turbulent markets. Good governance and risk management are mutually beneficial and lead to organizational success.

**Corporate Governance as a Risk Management Catalyst:** Corporate governance would provide the frameworks and guidelines for risk management and strategic decisions. Bhagat and Bolton (2020) point out that independent and diverse boards are the main success factors in the ability to implement the right risk management in alignment with corporate goals. The diverse boards can be used to manage market volatility and operational risks in the manufacturing sector in Nigeria because they improve resilience to the manufacturing sector.

**Risk Management as a Mediator:** Risk management is a connector between governance and financial performance. According to Abbas et al. (2020), active risk structures assist companies in minimizing uncertainties such as supply chain disruption to improve financial performance. Adeoye and Elegbeleye (2023) discovered that Nigerian companies that have integrated risk management activities perform better than their counterparts, especially during economic lows. Measures such as R&D intensity and insurance coverage ratios are indicative of the effectiveness of a firm in risk management. **Financial Performance as Feedback:** Financial performance is the use of financial performance as a feedback loop to enhance good governance and risk management. Companies that have higher financial performance are more appealing to the board members and have more developed risk



management technologies (Okoye et al., 2023). Measures of such dynamic relationships as Tobin Q and Return on Assets (ROA) provide the insight.

**Bidirectional Relationship:** The relationship between financial performance, risk management, and governance is not only directional, but also in the form of a virtuous cycle where each aspect affects others (Bhagat and Bolton, 2020). Integrated governance and risk management in the manufacturing industry of Nigeria have led to financial performance, which has attracted investors and induced subsequent enhancements. This paper has indicated that through the exploitation of this interconnectedness, it is possible to develop stronger organizations that will be able to survive in unstable conditions.

## **Theoretical Framework**

### **Stakeholder Theory**

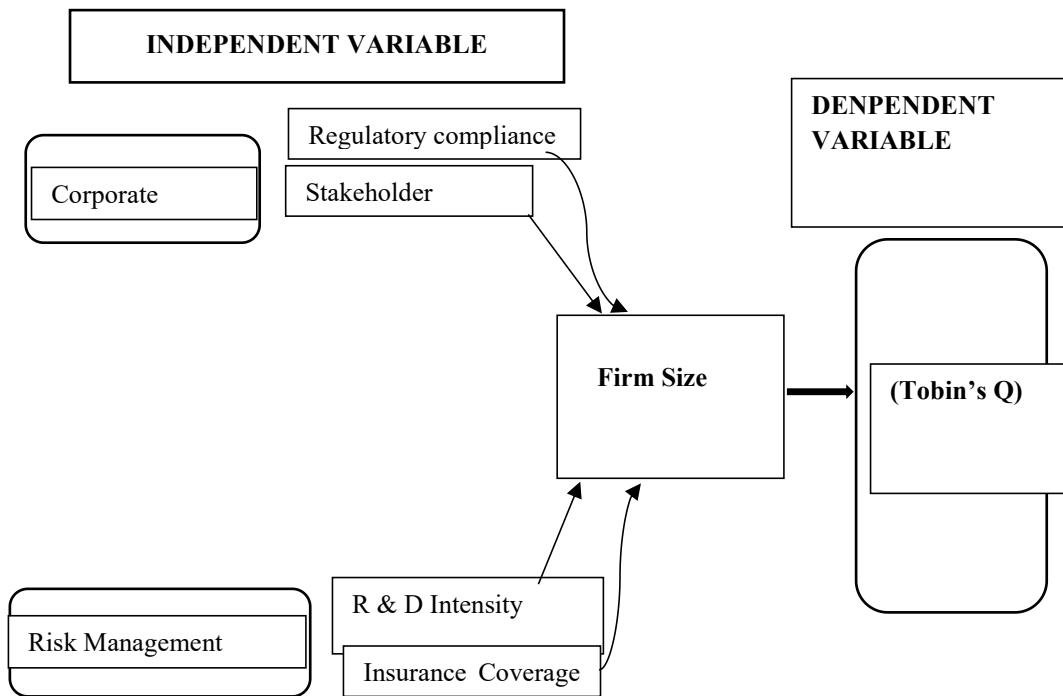
Stakeholder theory, coined by R. Edward Freeman (1984), researches the shareholder-centred approach, and as a result, it contends that all groups, including employees, customers, suppliers, and communities, should be taken into consideration when conducting business. The theory facilitates interdependence between the firms and stakeholders and supports sustainable business practices, which will result in value creation to both the organization and society. Although the stakeholder theory has been criticized as being too vague in its efforts to balance the interests of conflicting parties, it is consistent with contemporary ideas of sustainability, ethical procedures, and corporate governance. This strategy can enhance decision-making, risk management, and financial performance in the long term in the Nigerian manufacturing industry.

### **Empirical Review**

Olayinka and Adewale (2021) conducted research focusing on determining how corporate governance affects the financial performance of manufacturing companies in Nigeria. They observed that board independence and good governance practice had a positive impact on financial performance, whereas the model of CEO duality affected the financial performance negatively. The paper has highlighted the need to have independent and strong boards to enhance profitability and sustainability. Their results indicate that the improvement of mechanisms of corporate governance is important in improving financial performance. The proposed research will go a step further to include risk management and governance, bearing in mind that these two issues are intertwined in Nigerian companies.

Ojo and Ibe (2020) investigated how corporate governance and risk management influence the financial performance of manufacturing companies in Nigeria. They discovered that good governance and risk management were positively related to financial performance as they assisted firms in dealing with any uncertainty in the market and avoiding operational risks. The researchers advised the enhancement of governance systems and risk control behavior, which would lead to greater stability and development of the firm. This is in line with the current study, which will also examine the interaction of certain risk management strategies with governance to determine the effects on the financial performance of corporations in Nigeria.

**Conceptual Framework**



**3.0 METHODOLOGY**

The research design employed in the study is the quantitative research design with a correlational design aimed at investigating how corporate governance, risk management, and financial performance are related in the Nigerian manufacturing companies. The study population will be firms that are listed on the Nigerian Stock Exchange; a sample of 10 firms will be acquired through stratified random sampling. The secondary source data was gathered by using annual reports and the NSE database. Tobin Q is used in measuring financial performance, board composition, and stakeholder interaction in measuring corporate governance, and R&D intensity and insurance coverage ratio in measuring risk management. The analysis of data involved descriptive statistics, analyzing correlation, multiple regression, and panel data analysis to determine the relations and effects of the variables.

**4.0 RESULTS AND DISCUSSION**

**Correlation**

**Table 4.2 Correlation Matrix**

	TOBIN Q	BRC	BSE	ICR	RDI	FS
TOBIN_Q	1.000000	0.246685	0.557660	0.711690	0.859892	0.616016
BRC	0.246685	1.000000	0.650642	0.375433	0.529233	0.652224
BSE	0.557660	0.450642	1.000000	0.642098	0.163375	0.136748
ICR	0.711690	0.375433	0.642098	1.000000	0.068682	0.202458
RDI	0.259892	0.329233	0.163375	0.068682	1.000000	0.148668
FS	0.216016	0.252224	0.136748	0.202458	0.148668	1.000000

The correlation analysis indicates that there is a strong positive relationship between Tobin Q and Research and Development Intensity (r=0.860) and the Insurance Coverage Ratio (r=0.712), which shows the importance of innovation and risk management in the performance of the company. The correlations between Board Stakeholder Engagement (r=0.558) and Firm Size (r=0.616) are moderate, which means that they affect performance. There is a high correlation between the Board Regulatory Compliance and Stakeholder Engagement (r=0.651) and a moderate correlation between Board Regulatory Compliance and RDI (r=0.529). The results highlight the significance of combining

governance, risk management, and innovation to promote the performance and competitiveness of the firm.

### Test of Hypothesis

The first hypothesis tested whether board regulatory compliance and stakeholder engagement affect financial performance in Nigeria.

#### Test of Hypothesis One

Option	T stat	Prob	Decision
Corporate Governance	1.487019	0.0000	Reject Ho1

The t-statistic of 1.487019 with a p-value  $<0.0001$  indicates a significant influence of corporate governance on financial performance.

The second hypothesis tested whether RDI and Insurance Coverage ratio significantly impact the financial performance of Nigerian manufacturing firms.

#### Test of hypothesis two

Option	T stat	Prob	Decision
Risk management	3.181594	0.0190	Reject Ho1

The t-statistic of 3.18 with a p-value of 0.0190 shows risk management significantly impacts financial performance, rejecting the null hypothesis.

The third hypothesis tests whether corporate governance and risk management jointly influence financial performance, using t-statistics for analysis.

#### Test of Hypothesis Three

Option	T stat	Prob	Decision
Corporate Governance		0.273700	0.0053
Risk management		0.611762	0.0074
			Reject H03

The third hypothesis reveals that both corporate governance ( $t=0.273$ ,  $p=0.0053$ ) and risk management ( $t=0.6118$ ,  $p=0.0074$ ) significantly influence the financial performance of manufacturing firms in Nigeria.

### Discussion of Findings

The researchers discovered that corporate governance has a moderate effect on the financial performance of Nigerian manufacturing companies, with such variables as board compliance and shareholder engagement also being important, but not as influential as the size of the firm and risk management. This is in line with the literature that implies that governance enhances both transparency and decision-making, but it has context-dependent impacts (Claessens et al., 2022). Risk management, including insurance coverage, was revealed to have a positive influence on financial performance that was strong and similar to the findings of other researchers, such as Smithson et al. (2019). The joint examination of governance and risk management showed that the two concepts have a synergistic effect on performance, which is consistent with the results of Bhagat and Bolton (2018) and underlines the significance of the combination in a volatile business setting in Nigeria.

### CONCLUSION AND RECOMMENDATIONS

This paper has analyzed how corporate governance and risk management affect the financial performance of Nigerian manufacturing companies between 2014 and 2023. This study comprised 5 chapters, where the first chapter contained the objectives of the study, the literature, the methodology,



findings, and conclusions. The regression analysis showed that the corporate governance practices, including the board compliance and stakeholder engagement, have a significant impact on the firm's performance as well as the risk management strategies, including insurance coverage. The size of the firm and innovation (R&D) also had a positive impact on performance, but the impact was low with innovation.

The research finds that good governance and proper management of risk contribute to better financial resilience and performance of Nigeria, which has a volatile business environment. Some of the recommendations are to enhance the corporate governance systems, invest in risk management strategies, and focus on R&D to enhance innovation. Moreover, the government and other regulatory organizations are also expected to create a conducive environment to facilitate the adoption of governance and risk management practices, which will allow sustainable development and competitiveness within the manufacturing sector.

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