

Firm Performance and Board Political Connection: Evidence from Nigeria

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ABSTRACT

This study explores whether board political connection is important to firms performance in Nigeria which has a growing financial market. The study also provides a descriptive analysis of firms whose board members are politically connected in the context of Nigeria, with a special focus on their corporate governance features. A total of thirty listed firms in the Nigerian Stock Exchange were used. Secondary sources of data were used. The research data were analyzed based on regression analysis using ordinary least square method and correlation analysis. The empirical findings revealed that there is no significant positive relationship between board composition, board political connection and firm performance. There is a negative relationship between board size and firm performance. Therefore, managers should lay appropriate policy in order to maximize firm performance as well as organizing the firm's resources.

Keywords: Firm Performance, Political connection, Board Size, Board Composition.

INTRODUCTION

When it comes to competition; nothing differentiates better than result. All a firm's marketing campaign, strategic planning and efficient activities will not compensate for a lack of result. Results are what one can point to, results are measurable, and results silence every doubt in the customer's mind (Philips, 2011). It is due to the importance of result to firms, the board of directors is constituted. Board member possess power and influence over firms strategy, policy and decision making authority, and therefore a potentially significant event in any firm is a change in the composition of the board, either with the appointment of a new member of the board who is equipped with what the firm needs to produce significant result or an existing member ceasing to remain on the board. The degree of board effectiveness and independence is also closely related to its composition (John and Senbet, 1998; Hermalin and Weisbach, 1988)

The performance of any firm cannot be overemphasized and taken for granted in a country like Nigeria that is dominated by politics. Politics plays an important role in any business environment. Therefore, for a firm to have significant impact in the business environment, we must consider the very scenarios where board political connections are of essence. The performance of a firm in a country is dependent various factors. One of the major factors that determine the growth and performance of a firm is its board composition and connections. These connections can either be economical, social, political, financial, e.t.c. which goes a long way in affecting the firm's value, profitability, market share e.t.c. This study considers that board political connection affects the performance of firms in Nigeria. This is because the composition and connections of the board of directors of a firm to a large extent determines the survival of the firm in the market place. Therefore, the firm must do all it can to get the right calibre of individuals on its board so that it can be a force to be reckoned with in the market.

The world of business today is filled with so many uncertainties and unpredictable situations. And it's as result of these complexities in the business environment, those in charge of firms to look for those elements that affect their firms' performance. This they do by surveying markets, gathering information and establishing necessary connections that will make them achieve their goals and objectives in the business environment. This study seeks to answer the following question.

- i. Does board composition affect firm performance?
- ii. Can board political connection affect firm performance?
- iii. Will board size affect the performance of the firm?

REVIEW OF RELEVANT LITERATURE

INTRODUCTION

A board of director is a body of elected or appointed members who jointly oversee the activities of a company or organization. Other names include board of governors, board of managers, board of regents, board of trustee and board of visitors. It is often simply referred to as board.

In some European Union and Asian countries, there are two types of separate boards, an executive board, also called corporate executive form, for day to day business and a supervisory board, also called board of director (elected by shareholders) for supervising the executive board. A board's activities are determined by the powers, duties and responsibilities delegated to it and conferred on it by an authority outside itself. These matters are typically detailed in the organization's bylaws. The bylaws commonly also specify the number of members of the board, how they can be chosen and when they are to meet. The roles of the board of directors are as follows:

- i) The business of a firm is managed under the direction of the board of director, who delegate to the CEO and other management staff, the day today management of the affairs of the firm.
- ii) The board sees to the appointment of a qualified person as the CEO and other management staff.
- iii) The directors, with their wealth of experience, provide leadership and direct the affair of the business with the committees of the firm, its business plans and long-term shareholders.
- iv) The board provides other oversight functions.
- v) Setting their own salary and compensation
- vi) Accounting by the stakeholder for the organization performance. The legal responsibilities of the board and the board members vary with the nature of the organization, and the jurisdiction within which it operates. For public corporations, these responsibilities are typically much more rigorous and complex than those of other types.

Typically the board chooses one of its members to be the chairman who holds whatever title is specified in the by law. The directors of the organizations are the persons who are member of the board. Several specific firms categorize directors by the preserves and absence of their other relationship to the organization. Insider director: An insider director is a director who is also an employee, officer, major shareholder, or someone similarly connected to the organization. Insider director represent the interest of the entity's stakeholders, and often have special knowledge of the its inner workings, its financial or market position and so on. An insider director who is employed as a manager, Executive of the organization is sometimes referred to as executive director (not to be confused with executive director sometimes used for C.E.O. position). Executive directors often have a specified area of responsibility in the organization such as finance, marketing, human resources or production.

- A. Outside director: An outside director is the member of the board who is not otherwise employed by or engaged with the organization and does not represent any of the stakeholders. A typical example is a director who is president of a form in a different industry.

Outside directors bring outside experience and perspective to the board. They keep a watchful eye on the way the organization is run. Outside directors are often useful in handling dispute between inside directors or between shareholders and the board. They are thought to be advantageous because they can be objective and present little risk of conflict of interest. On the other hand, they might lack familiarity with the specific issues connecting to the organization's governance. (en.m.wikipedia.org/wiki/board-of-directors)

The concept "Corporate governance" has attracts various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as "both the promise to repay a fair return on capital invested and committed to operate a firm, efficiently given investment". The implication of the definition is that corporate governance has an impact on the firm's ability to access the capital market. Metrick and Ishii argue that firm level governance may be more important in the developing markets with weaker institutions as it helps to distinguish among firms. Cadbury Committee (1992) defined corporate governance as "the system by which companies are directed and controlled". Zingale (1998) also defines a governance system as "the complex set of constraints that shape the ex-port bargaining over the quasi rent registered by the firm". According to Mayer (1997), corporate governance is concern with way of bargaining the interests of (investors and managers) into line ensuring that firms are run for the benefit of the investors. Corporate governance in concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope

of corporate accountability (Deakin and Hughes, 1997). It has been defined by (Keasey et al 1997) to include the structure, processes, cultures and systems that engender the successful operation of organization. Corporate governance is also seen as the whole set of measure taken within the social entity that is an enterprise to favour the economic agent to take part in the productive process, in other to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 1999).

In the light of the foregoing analysis, it may be stated generally that different system of corporate governance will embody what are considered to the legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Thus, corporate governance system may be thought of as mechanism for establishing the nature of ownership and control of organizations within an economy. In this context, 'corporate governance mechanisms are economic and legal institutions that can be altered through political process- sometimes for the better' (shleifer and vishny, 1997). Company law, along with the forms of regulation (including stock exchange listing rules, and accounting standard), both shape and is shaped by prevailing systems of corporate governance occurs through its effects on the way which the companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and slinger, 1997). Corporate governance describes how companies ought to be run, directed and controlled (Cadbury committee, 1992). It is about supervising and holding to account those direct and control the management.

Composition of the board with relation to the members of inside and outside director determines board independence and effectiveness (John and Senbet, 1998). Increase or decrease in the member of outside directors is expected to make impact on shareholders' wealth and the discipline of Chief Executive Officers (C.E.Os.), with an increase in the proportion of outside directors conveying a positive signal of board independence and efficiency and a decrease conveying a contrary signal. Hermalin and Weishach (1991) attempt to analyze differences in firm performance caused by board composition and ownership structure in order to measure the direct incentive and monitoring faced by top management. They view the board as one of the alternative control devices that limit agency problem between top management and shareholders. Their main conclusion is that there is a relationship between composition and performance, while there is a strong relationship between ownership structure and performance. Offering a couple of explanations for their puzzling finding on the relationship between board composition and performance, the authors argue that inside and outside directors have their respective advantages and disadvantages. If each board is optimally weighted between the insiders and outsiders, there would be on cross sectional relation between board composition and performance in equilibrium.

To study the decision making, board size and firm performance, prior studies on group decision making suggests that large groups have to make compromises before reaching a consensus and, therefore, they are likely to make more moderate decision (Kogan and Wallach 1991; Moscovic and Zavalconic, 1969). Sah and Stiglitz (1991) discuss the implication of group-decision making process, Cleng(2008) finds that larger boards reduce variability in firm performance. On the other hand, Adams, Almeida and Ferriera(2008) find that firms in which board decisions are influenced by the presence of a powerful CEO exhibit high stock-return volatility, thus suggesting a greater risk due to decisions made by an individual. In a contingent claims frame work, covering firm risk would lower the equity holder value and increase debt holder value and vice versa (Black and Scholes, 1973). Furthermore, this shift in value should be a function of the amount of coverage in a firm's capital (Parrino, Poteshman and Weishash, 2005). By covering risk, a large board would shift wealth from equity holder to debt holder. There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decision, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller board, Jensen (1993) and Lipton &lorch (1992) argue that large board's gets to big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by individual directors and increase their decision making process. Empirical research supports this. For example, Yermack (1996) documents that for large U.S. industrial corporations, the market value of firms with small boards more highly. Eisenberg et al (1998) also find negative correlation between board size and profitability when using sample of small and mid size finish firms. Yermack's (1996) seminar paper presented evidence of a negative effect of board size on performance, a result which has been subsequently confirmed by many scholars. However, Coles et al (2008) found a U-shape relationship between board size and performance following their interpretation, complex firm requires a number of directors and of outsiders as compared to simple firms, while R&D intensive firm should better make intensive use of insider directors. However, by looking at the particular role covered by director in committees (i.e. finance committee, investment committee), a positive relationship between insider director who were members of the committees and performance emerged.

The importance of political connection to a firm is manifested in several ways for instances, Baum et al (2008) are of the view that the support of parliamentarians is extremely important for firms' minimization of transaction cost associated with government bureaucracy. In addition, parliamentarians often set the rules of the game e.g entry barriers and statutory capital requirement. Furthermore, the legislative powers enhance firms' profitability of winning tenders for participation in privatization process or for handling the transaction of state institutions. All these play out to enhance the profitability of the political affiliated firm. It is not well recognized that politically-connected enterprises behave differently from those lacking such links. For instance research has documented that politically-connected firms have higher leverage ratios than their non-connected peer (Johnson, 2003; Cull and Xu, 2005; and Khwaja and Mian, 2005). Furthermore, authors like (Roberts, 1990; Fisman, 2001; and Faccio, 2006) have shown that a large proportion of the value of connected firms could be explained by the presence of their political associations. Faccio and Parsley (2006) introduce a different approach in tracing for the political connections. They argue that political connection is based on the geographic origin and education and therefore suggest that politician systematically favour local firms and so location forms a basis of political connections. Faccio (2006) studies corporate political connections around the globe; she suggests that connections are particularly common in countries that are perceived as being highly corrupt: the connections are less common in the presence of the more stringent regulation of political conflict of interest. Niessen and Ruenzi (2009) worked in a sample of 605 German public companies observed in 2006, and find that politically connected firm are providing better accounting as well as stock market performance results. Bertrand et al (2004), by using a unique dataset of corporation listed on the Paris stock exchange over the 1992-2003 period found that firm run by politically-connected CEOs were not over performing industries but they were slightly profitable than firms run by CEOs with pure private sector background. The interpretation that politically-connected CEOs were distorting the labour demand of their firms to favour incumbents in upcoming political election by creating more jobs or by destroying fewer plants in politically contested areas, by hiring more (or firing less) workers. Firm had better access to subsidies and were allowed to pay lower local taxes, but the costs of this management style was out weighing its benefits and the net effects on performance turned out to be negative. Sometime businesses compete not only in business but also vie for political power. A politically-connected enterprise can be seen as one that currently has at least one legally or publicly associated representative in government who was once a member of the board, worked within its management cadre, or served on the board of a business group to which he belongs. A company can also be considered as politically connected if its large shareholder or top manager includes a member of parliament, minister or head of state, or if managers are closely related to any of the top official (Baum et al., 2008). Since politics gives access to the economy and possibility to be set the rule of the game, a strong political relationship could be considered as one of the most important intangible assets of any firm.

RESEARCH METHODOLOGY

The study population with regard to this work will cover all firms quoted on the stock exchange of Nigeria. In many cases study of the whole population proves difficult due to constraints that researchers have no power over to control. Hence, a sample of the population is then taken for study in place of the entire population. For the purpose of this study sample consist of thirty quoted firms in the Nigerian stock exchange is employed through simple sampling technique. The sources of data use in the study will be obtained mainly from secondary sources. The secondary source of data will be obtained from 2009 financial statements of the thirty companies. The method of data analysis used on this study is the regression analysis. The ordinary least square regression technique would be adopted in this study due to its cherished properties of unbiasedness and consistency.

MODEL SPECIFICATION

The model in its econometric form is presented below:

$$\text{Firm P} = \beta_0 + \beta_1 \text{BCOM} + \beta_2 \text{PCON} + \beta_3 \text{SIZE} + e$$

Where P stands for performance

BCOM= Board composition

BPCON= Board political connection

BSIZE= Board size (Number of directors on the board)

E= error term

There several ways of measuring firm performance and there is hardly any agreement on which is the most efficient one. The dependent variable is firm performance. One of the financial qualities commonly used in

the literature to measure firm performance is earnings per share (EPS). EPS represent the earnings for the fiscal year for the listed companies. Earnings refer to profit after tax, minority interest and preferred dividend. The higher the EPS the better the firm's performance.

Due to the small sample size, the t-value obtained from the regression result would be used in testing the hypothesis of the study.

DATA PRESENTATION AND ANALYSIS

This deals with the presentation and analysis of the empirical results obtained from the estimation exercise. The study has attempted to empirically examine the impact of board political connection on firm performance. The variables used in the model include as earnings per share (EPS) as the dependent variable while the independent variables include board composition (BCOM), board political connection (BPCON), and Board size (BS). The model was estimated using the ordinary least square (OLS) estimation technique with the aid of computer software (Eviews7). The hypotheses stated was tested using the t-ratios obtained from the regression result.

Descriptive Statistics

Table 4.1: Descriptive Statistics

	BCOM	BPCON	BS	EXEC	NEXEC	EPS
Mean	0.607529	0.7	11.43333	4.566667	6.866667	32.04333
Median	0.6	1	11	4	7	10
Maximum	0.909091	1	20	11	11	918
Minimum	0.2	0	5	1	1	-1036
Std. Dev.	0.166475	0.466092	4.031628	2.64814	2.63574	281.9513
Skewness	-0.150824	-0.872872	0.204333	0.649336	-0.071525	-0.581501
Kurtosis	2.862496	1.761905	2.197493	2.793244	2.415876	11.28753
Jarque-Bera	0.137373	5.725624	1.013781	2.161619	0.45208	87.54469
Probability	0.933619	0.057108	0.602366	0.339321	0.797686	0.00000
Observations	30	30	30	30	30	30

Source: E-Views Output (2011)

The table above shows the descriptive statistics of the variables used. The minimum board composition of non-executive to the size of the board is about 20% while the maximum board composition of non-executive to the size of the board is about 90%. On average board composition of non-executive to the size of the board is about 61%. The minimum board size (BS) is about 5 members while the maximum board size (BS) is about 20 members. On average the board size (BS) is about 11 members. The minimum executive member on the board (EXEC) is about 1 member while the maximum executive member on the board (EXEC) is about 11 members. On average the executive members on the board (EXEC) is about 5 members. The minimum non-executive member on the board (EXEC) is about 1 member while the maximum non-executive member on the board (EXEC) is about 11 members. On average the non-executive members on the board (EXEC) is about 7 members. The minimum earnings per share (EPS) is about -1036kobo while the maximum earnings per share (EPS) is about 918 kobo. On average the earnings per share (EPS) is about 32kobo. The Jarque Bera statistics shows that most of the variables used in the study are normally distributed.

The result from the correlation analysis is presented below:

Table 4.2: Correlation Matrix

	BCOM	BPCON	BS	EXEC	NEXEC	EPS
BCOM	1	-0.16742	-0.12241	-0.68862	0.504625	0.141811
BPCON	-0.16742	1	0.346826	0.365983	0.162801	0.126839
BS	-0.12241	0.346826	1	0.764287	0.761717	-0.0668
EXEC	-0.68862	0.365983	0.764287	1	0.164349	-0.11805
NEXEC	0.504625	0.162801	0.761717	0.164349	1	0.016427
EPS	0.141811	0.126839	-0.0668	-0.11805	0.016427	1

Source: E-Views Output (2011)

The table shows that the co-efficient of correlation of a variable with respect to itself is 1.000. This indicates that there exists a perfect Correlation between a variable with respect to itself. The correlation co-efficient between the dependent variable and independent variables are discussed below:

- i. There exists a positive relationship between EPS and BCOM with a value of 0.14 which means the strength of relationship between them is about 14% which shows a weak positive relationship between board composition and firm performance. An increase in board composition in terms of more independent directors would lead to an increase in firm performance.
- ii. There exists a positive relationship between EPS and BPCON with a value of 0.12 which means the strength of relationship between them is about 12% which shows a weak positive relationship between board political connection and firm performance. The more politically connected the board is the better the performance of the firm.
- iii. There exists a negative relationship between EPS and BS with a value of -0.06 which means the strength of relationship between them is about 6% which shows a weak negative relationship between board size and firm performance. A increase in board size would lead to a decrease in firm performance.
- iv. There exists a negative relationship between EPS and EXEC with a value of -0.11 which means the strength of relationship between them is about 11% which shows a weak negative relationship between executive directors on the board and firm performance. An increase in number of executive directors on the board would lead to a decrease in firm performance.
- v. There exists a positive relationship between EPS and NEXEC with a value of 0.02 which means the strength of relationship between them is about 2% which shows a very weak positive relationship between non-executive directors on the board and firm performance. An increase in number of non-executive directors on the board would lead to an increase in firm performance.

The result from the Ordinary Least Square Regression analysis is presented below:

Table 4.3: Ordinary Least Square Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-123.2906	276.4233	-0.446021	0.6593
BCOM	271.3018	328.3320	0.826303	0.4162
BPCON	116.9167	124.0918	0.942179	0.3548
BS	-7.988181	14.25078	-0.560543	0.5799
R-squared	0.154861	Mean dependent var		32.04333
Adjusted R-squared	0.114193	S.D. dependent var		281.9513
S.E. of regression	289.4905	Akaike info criterion		14.29769
Sum squared resid	2178923.	Schwarz criterion		14.48451
Log likelihood	-210.4653	F-statistic		0.503061
Durbin-Watson stat	2.145904	Prob(F-statistic)		0.683508

Source: *E-Views Output (2011)*

The coefficient of determination (R-Square) with a value of 0.15 means that about 15% of the total systematic variations in the firm performance on the Nigerian Stock Exchange have been explained by the explanatory variables namely composition(BCOM), board political connection (BPCON), Board size (BS). The Adjusted R-square shows that after adjusting for the degree of freedom the model could still explain only about 11% of the total systematic variations in the firm performance on the Nigerian Stock Exchange, while about 89% of the systematic variation in the firm performance on the Nigerian Stock Exchange was left unaccounted for by the model which has been captured by the stochastic disturbance term in the model. This indicates a poor fit of the regression line which means that other factor that could explain variations of the firm performance on the Nigerian Stock Exchange other than corporate governance mechanisms and political connections of the firm, which was not included in the model.

On the basis of the overall statistical significance of the model as indicated by the F-statistics, it was observed that the overall model was statistically significant since the calculated F- value of 0.50 was less than the critical F-value of 5.2 at 5% level of significance. This shows that there exist no significant linear relationship between in the firm performance on the Nigerian Stock Exchange and all the explanatory variables taken together. On the basis of the individual statistical significance, as shown by the t-ratios in the table above, it was observed that none of the variables were statistically significant at 5% and 10% level of significance. This means board composition(BCOM), board political connection (BPCON), Board size (BS) do not have a significant influence on the firm performance on the Nigerian Stock Exchange.

In order to improve on the ordinary least square regression result a higher order estimating technique was adopted using the Cochrane orcutt Iterative techniques. The result is presented below:

Table 4.4: Cochrane Orcutt Convergence achieved after 9 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-67.64559	294.6146	-0.229607	0.8203
BCOM	264.9837	335.5354	0.789734	0.4374
BPCON	118.3992	132.5929	0.892953	0.3807
BS	-12.40957	15.94769	-0.778142	0.4441
AR(1)	-0.109115	0.218943	-0.498372	0.6228
R-squared	0.263836	Mean dependent var		32.70310
Adjusted R-squared	0.242191	S.D. dependent var		286.9184
S.E. of regression	299.8525	Akaike info criterion		14.40004
Sum squared resid	2157877.	Schwarz criterion		14.63578
Log likelihood	-203.8006	F-statistic		0.409136
Durbin-Watson stat	2.016085	Prob(F-statistic)		0.800241
Inverted AR Roots	-0.11			

Source: E-Views Output (2011)

It was observed that the value of the R-square improved from 0.15 to 0.26. The coefficient of determination (R-Square) with a value of 0.26 means that about 26% of the total systematic variations in the firm performance on the Nigerian Stock Exchange have been explained by the explanatory variables namely composition (BCOM), board political connection (BPCON), Board size (BS). The Adjusted R-square shows that after adjusting for the degree of freedom the model could still explain only about 24% of the total systematic variations in the firm performance on the Nigerian Stock Exchange, while about 76% of the systematic variation in the firm performance on the Nigerian Stock Exchange was left unaccounted for by the model which has been captured by the stochastic disturbance term in the model. This indicates a poor fit of the regression line which means that other factor that could explain variations of the firm performance on the Nigerian Stock Exchange other than corporate governance mechanisms and political connections of the firm, which was not included in the model. On the basis of the overall statistical significance of the model as indicated by the F-statistics, it was observed that the overall model was statistically significant since the calculated F-value of 0.40 was less than the critical F-value of 5.2 at 5% level of significance. This shows that there exist no significant linear relationship between in the firm performance on the Nigerian Stock Exchange and all the explanatory variables taken together. The Durbin Watson statistic with a value of 2.0 indicates the absence of first order autocorrelation in the model.

On the basis of the individual statistical significance, as shown by the t-ratios in the table above, it was observed that none of the variables were statistically significant at 5% and 10% level of significance. This means board composition (BCOM), board political connection (BPCON), Board size (BS) do not have a significant influence on the firm performance on the Nigerian Stock Exchange. The result showed that there exist a direct relationship board composition (BCOM), board political connection (BPCON), and Board size (BS) with firm performance. Only Board Size (BS) showed an inverse relationship with firm performance.

CONCLUSIONS AND RECOMMENDATION

The consequences of involving or allowing politics and business in Nigeria have been explored in this study through direct measure of political connection of board members. Previous researchers on political connection have found Nigerian firms to have benefited one way or the other from members of the board of directors who are politically connected. The result of this study is consistent with view of some authors that corporate connections with political officials have no effect on the performance of a firm. Among all the firms studied there is clear indication that board size and board composition have no impact on firm performance. It is

a known and established fact that the main purpose of every business organization is to make profit. Profit to large extent determines the survival of a firm in a business environment. It also determines how seriously the firm would be taken by investors. It is as a result of these factors, firms look out for ways to enhance their performance in order to remain in business. One of the ways whereby firms seek to enhance performance is by searching for credible and experienced individuals who are aware of the happenings in the business environment to occupy important position and also to make critical decisions that will affect the future of the firm.

This study has been able to prove that politics is a reality today which should not be neglected. It also considers the weakness and strength of political connections to a firm analyzed by different authors. Therefore, the conclusion of this study is as follows:

- i. There is no significant positive relationship between board composition and firm performance.
- ii. There is no significant positive relationship between board political connection and firm performance.
- iii. There is a negative relationship between board size and firm performance.

This study provides some evidence where regulators can implement certain rules in order to increase good corporate governance. The problem doing business in a country with weak law enforcement and low transparency is that business leaders are encouraged to seek political connection as a way to enhance their business. In order to increase the level of corporate governance, regulators or independent agencies should be set up on how politicians should get involved in any both directly or indirectly.

There should be the corporate governance benchmark and promotion given out to firms who scores highest and penalty for firms who scores below the benchmark. This can serve as one of the investors' criteria. This study provides some insight on firm's business and political power. When making an investment decision, investor needs to consider both firm business strategy and how firm operates according to the good corporate governance policy. Managers should lay appropriate policy in order to maximize firm performance as well as organizing the firm's resources. As a good corporate governance policy, board of directors must consist of independent directors from outside to monitor and provide necessary guidance.

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APPENDIX

	BCOM	BPCON	BS	EXEC	NEXEC	EPS
BCOM	1.000000	-0.167424	-0.122409	-0.688622	0.504625	0.141811
BPCON	-0.167424	1.000000	0.346826	0.365983	0.162801	0.126839
BS	-0.122409	0.346826	1.000000	0.764287	0.761717	-0.066799
EXEC	-0.688622	0.365983	0.764287	1.000000	0.164349	-0.118048
NEXEC	0.504625	0.162801	0.761717	0.164349	1.000000	0.016427
EPS	0.141811	0.126839	-0.066799	-0.118048	0.016427	1.000000
	BCOM	BPCON	BS	EXEC	NEXEC	EPS
Mean	0.607529	0.700000	11.43333	4.566667	6.866667	32.04333
Median	0.600000	1.000000	11.00000	4.000000	7.000000	10.00000
Maximum	0.909091	1.000000	20.00000	11.00000	11.00000	918.0000
Minimum	0.200000	0.000000	5.000000	1.000000	1.000000	-1036.000
Std. Dev.	0.166475	0.466092	4.031628	2.648140	2.635740	281.9513
Skewness	-0.150824	-0.872872	0.204333	0.649336	-0.071525	-0.581501
Kurtosis	2.862496	1.761905	2.197493	2.793244	2.415876	11.28753
Jarque-Bera	0.137373	5.725624	1.013781	2.161619	0.452080	87.54469
Probability	0.933619	0.057108	0.602366	0.339321	0.797686	0.000000
Observations	30	30	30	30	30	30

Dependent Variable: EPS

Method: Least Squares

Date: 12/08/11 Time: 08:48

Sample: 1 30

Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-123.2906	276.4233	-0.446021	0.6593
BCOM	271.3018	328.3320	0.826303	0.4162
BPCON	116.9167	124.0918	0.942179	0.3548
BS	-7.988181	14.25078	-0.560543	0.5799
R-squared	0.154861	Mean dependent var		32.04333
Adjusted R-squared	0.114193	S.D. dependent var		281.9513
S.E. of regression	289.4905	Akaike info criterion		14.29769
Sum squared resid	2178923.	Schwarz criterion		14.48451
Log likelihood	-210.4653	F-statistic		0.503061
Durbin-Watson stat	2.145904	Prob(F-statistic)		0.683508

Dependent Variable: EPS

Method: Least Squares

Date: 12/08/11 Time: 01:13

Sample(adjusted): 2 30

Included observations: 29 after adjusting endpoints

Convergence achieved after 8 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-67.64559	294.6146	-0.229607	0.8203
BCOM	264.9837	335.5354	0.789734	0.4374
BPCON	118.3992	132.5929	0.892953	0.3807
BS	-12.40957	15.94769	-0.778142	0.4441
AR(1)	-0.109115	0.218943	-0.498372	0.6228
R-squared	0.263836	Mean dependent var		32.70310
Adjusted R-squared	0.242191	S.D. dependent var		286.9184
S.E. of regression	299.8525	Akaike info criterion		14.40004
Sum squared resid	2157877.	Schwarz criterion		14.63578
Log likelihood	-203.8006	F-statistic		0.409136
Durbin-Watson stat	2.016085	Prob(F-statistic)		0.800241
Inverted AR Roots	-.11			

FIRMS	BS	EXEC	NEXEC	EPS	BPC
Japaul oil & Maritime Service Plc	7	4	3	12.91	1
First Bank	15	8	7	4.44	1
HIS Nigeria Plc	5	4	1	0.14	0
PharmaDekoPlc	10	4	6	10	0
Golden Penny Plc	13	2	11	145	1
Dangote Flour Mills Plc	10	3	7	107	1
Diamond bank Plc	14	9	5	48	1
EcobankPlc	15	9	6	-0.64	1
FCMB Plc	13	5	8	4	1
Wema Bank Plc	7	3	4	-116	0
UBA	20	9	11	60	1
Union Bank Plc	14	5	9	-21.18	1
<i>Intercontinental Bank Plc</i>	16	5	11	-1036	0
Skye bank Plc	18	7	11	0.76	1
Unity Bank PLC	15	6	9	-0.99	1
Stanbic IBTC	18	11	7	33	1
Guarrantee Trust Bank Plc	14	6	8	128	1
TCN	11	1	10	10	1
Unilever Plc	11	5	6	10	1
UAC	10	4	6	148	1
FIDSON	8	4	4	10	1
MAY & BAYER	6	3	3	10	1
EVANSMEDICAL	11	4	7	-1.14	0
BigTreat	9	2	7	10	0
GUINNESS	14	4	10	918	0
Cadbury	7	2	5	-69	1
NIWIL	5	1	4	10	0
UTC	7	1	6	10	0
NBC	9	1	8	566	1
NEIMETH	11	5	6	-49	1

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