



**INTELLECTUAL CAPITAL, CORPORATE GOVERNANCE AND FINANCIAL
PERFORMANCE OF QUOTED NON-FINANCIAL COMPANIES IN NIGERIA
(2007-2017)**

ADESANMI TI MOTHY ADEGBAYI BI

ADP15/16/ H2433

B.Sc. (ACCOUNTING) (NSUKKA)

M.Sc. (ACCOUNTING) (IFE)

**A THESIS WRITTEN IN THE FACULTY OF ADMINISTRATION AND SUBMITTED
TO THE POSTGRADUATE COLLEGE, OBAFEMI AWOLOWO UNIVERSITY, ILE-
IFE, NIGERIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
AWARD OF DOCTOR OF PHILOSOPHY IN ACCOUNTING**

2019

ABSTRACT

The study analysed the trend and pattern of intellectual capital among quoted non-financial companies in Nigeria and evaluated the extent of corporate governance practices among quoted non-financial companies in Nigeria. It also examined the effect of intellectual capital on performance measures of quoted non-financial companies in Nigeria and investigated the moderating role of corporate governance on the relationship between intellectual capital and performance. These were with a view to providing information on the extent to which corporate governance strengthens the relationship between intellectual capital investment and financial performance of firms in Nigeria.

Secondary data were employed for this study. Purposive sampling technique was used to select a sample of 50 companies out of the total population of 80 non-financial quoted companies whose stocks were actively traded on the Nigerian Stock Exchange for the period of 2007 to 2017 and whose data on relevant information were readily available and accessible. The choice of base year 2007 was informed by global economic recession that affected the financial performance of quoted non-financial companies in Nigeria. Data on intellectual capital and corporate governance such as human capital, structural capital, capital employed, board characteristics, ownership structure and firms' economic data were sourced from the audited financial statements of sampled companies. Data collected were analysed using tables, percentages, content analysis and regression analysis.

The results revealed that the trend and pattern of intellectual capital among quoted non-financial companies in Nigeria vary ranging from -1.59 (Human Capital Efficiency), -0.81 (Structural Capital Efficiency) and -11.40 (Capital Employed Efficiency) to 428.43 (Human

Capital Efficiency), 343.51 (Structural Capital Efficiency) and 151.5 (Capital Employed Efficiency) across sectors and period. The result also showed that the extent of corporate governance practices among quoted non-financial companies in Nigeria as at 2017 was low at an average of 34.84 %. Furthermore, the result revealed that human capital efficiency ($t = 3.1319, p < 0.05$), capital employed efficiency ($t = 6.7011, p < 0.05$), firm size ($t = 2.2177, p < 0.05$) had significant effect on return on equity while capital employed efficiency ($t = 13.5989, p < 0.05$) and leverage ($t = 4.7112, p < 0.05$) had significant effect on return on assets. Finally, the result showed that human capital efficiency ($t = 2.1617, p < 0.05$), structural capital efficiency ($t = 2.3288, p < 0.05$), capital employed efficiency ($t = 12.9183, p < 0.05$) and leverage ($t = 2.5309, p < 0.05$) had significant effects on return on assets while corporate governance had moderating effect on the relationships between intellectual capital and the firm performance through the capital employed efficiency ($t = 2.7389, p < 0.05$), human capital efficiency ($t = 2.2293, p < 0.05$) and structural capital efficiency ($t = 2.1051, p < 0.05$).

The study concluded that corporate governance moderated the effect of investment in intellectual capital on financial performance in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Modern organizations acquire and allocate resources in such a way that maximizes returns on investment and creates values for its owners. These resources according to the classicalists include; land, labour and capital. As rightly noted by Trequattrini (2008), it is the number of resources which come in form of assets and finance invested in a firm that determines the amount of profit to be made. However, recently, the use of information technology, innovation and knowledge termed 'Intellectual Capital' (IC) have been taken into consideration to impact the productivity and performance of the firms. The emerging economy places value on the roles of information technology, innovation, structure and knowledge as a sustainable resource to acquire and maintain a competitive edge (Ramezan, 2011).

Organisations adopt highly intensive investment in their employees' development rather than directing their investments, attention and energy purely on tangible assets such as plants, equipment and machinery. This direct investment in employees' development is referred to as intellectual capital. The Organisation for Economic Co-operation and Development (OECD, 2008) defined intellectual capital as the economic value of structural capital and human capital, distinguishing it as a subset of intangible assets. Furthermore, intellectual capital is the knowledge used to transform information into a more valuable asset in order to yield an economic return using the talents of staff, the value of proprietary knowledge and processes, and the value of relationship with customers and suppliers (Stewart, 1998). Intellectual capital is

viewed as assets relating to employees' knowledge and expertise, customers' confidence in the company and the efficiency of company business processes.

Intellectual capital refers to the knowledge-based assets which the organisation focuses on to increase its efficiency of financial performance. It further categorised into human, structural and customer capital. Human capital is the combination of genetic inheritance, education, experience and attitude about life and business and structural capital in the form of organisational routines refers to the critical link that allows intellectual capital to be measured at an organisational level.

Customer capital is the combination of assets used by an organisation in relating with its past, present and potential customers, with its network of suppliers or research and development partners, in addition to the perceptions and views that they hold about the company (Brannstrom & Giuliani, 2009).

Intellectual capital is the most significant organisational asset in the digital economy and an organisation's success will be based on the strategic management of knowledge rather than the strategic allocation of physical and financial resources (Bontis, 1998). In the recent time, the means to measure the value of intellectual capital has been the focus of research because of limitations associated with the capability of financial statements to explain the difference between an organization's market value and book value, thus not reporting the full value of an organisation (Petty & Guthrie, 2000 & Holmen, 2011).

Some of the primary reasons organisations add intellectual capital to the measurement of organisational performance include the desire to help formulate strategies; assist in the firm's diversification and expansion decisions; use as a basis for management compensation and communicate with external shareholder in order to raise capital and enhance the reputation of the

organisation. An organisation's reputation can be enhanced by employing knowledgeable and innovative people (Chen, Cheng & Hwang, 2005).

According to Horibe (2015), performance and competitive advantage are no longer primarily a matter of machines and tools but of brains and harnessing those brains. This emphasises that the dynamic innate characteristics of intellectual capital mean that its individual components are often worthless by themselves but work only as a system. In the same vein, it is intellectual capital (IC) elements interaction that generates and creates value for companies. This value generation is of utmost importance especially to the profit-maximizing companies, who seek better performance in the level of profitability, liquidity, efficiency, returns and leverage.

The financial reliability, stability, and profitability of an organization solely depend on the process and practice of its corporate governance, and with effective corporate governance in operation, it is expected that the long-term value of stakeholders will be enhanced (Cohen & Kai manakis, 2007). Corporate governance is the system by which companies are directed and controlled (Cadbury Report, 1992). Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004).

Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value and provide accountability and control systems

commensurate with the risks involved. Demonstrably, good corporate governance practices are increasingly important in determining the cost of capital in a global capital market.

Sonmez and Yildirim (2015) opined that sound corporate governance is the core condition required for any organization for improving its financial performance. Good corporate governance practices are normally considered the reason for good corporate performance and