

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The separation of ownership and management roles and the presence of asymmetric information introduce the likelihood of principal-agent conflicts as the manager's selfishness may lead to the misappropriation of corporate assets, for example, through pursuit of excessively risky or impulsive projects at the expense of resources providers (Jensen & Meckling, 1976; Shleifer & Vishny, 1986; John & Senbet, 1998). To restraint agency conflicts and limit agency costs, various internal and external mechanisms have been suggested through what is known as corporate governance. The governance structure defines the allocation of rights and responsibilities among different stakeholders in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, customers, and other participants such as employees) and stipulates the rules and processes of rendezvous in corporate affairs. The governance structure is the border through which corporations define and pursue their corporate goals while taking into account the impact of its social, regulatory and market environment (Tricker, 2009). Gregory and Simms (1999) contend that effective corporate governance is important as it promotes the effectual use of resources both within the firm and the economy at large, as well as assisting firms and economies in enticing lower-cost investment capital via the enhanced sureness of investors and creditors, both nationally and internationally. This implies that corporate performance is ostensibly mirrored in the

way the firm is managed as well as the efficacy of the firm's governance structure. Following major corporate collapses in various developed stock markets in the last two decades, efforts to enhance the efficiency of governance structures have been undertaken by those countries via the establishment of Corporate Governance Guidelines (British code (Mallin & Ow-Young, 1998; Dedman, 2000), the German code (Von Werder, Talaulicar & Kolat, 2005), the Spanish code (Fernández-Rodríguez, Gómez-Anson & Cuervo-García, 2004) and the Portuguese code (Alves & Mendes, 2004).

Most of the emerging economies of the world including Nigeria have each established a Code of Corporate Governance to ensure the incessant flow of funds and to boost the confidence of investors in their capital markets. However, the principles outlined in most of the Codes in these countries are largely derived from recommendations in developed countries and may not necessarily be applicable to developing countries. Consequently, each nation should adapt the code that suits its environment. In the case of Nigeria, the Code of Corporate Governance was formally introduced in October 2003 and this was largely derived from the recommendations of the Cadbury Report (1992) and the Hampel Report (1998) in the UK {Finance Committee on Corporate Governance, (FCCG) 2000}.

The debate on Corporate Governance intensified into the 20th Century due to increasing separation of ownership of companies from their management. Li (2011) opined that the separation resulted in shareholders being unable to exercise any form of effective control over boards of directors of large corporations, who were appointed by them to represent their interest. This raised accountability issues. Ownership had not only

become largely divorced from management, but that ownership was dispersed. On the other hand, the fact that most holdings were relatively small meant that shareholders had no difficulty in selling their holdings once they lose confidence in the way their company was being managed.

In the first scenario above, the inability of the majority of shareholders to hold boards of directors accountable put the agency problem firmly on governance agenda. In the second scenario, the relative weakness of boards of directors, the fact that shareholders were not in a position to hold them accountable or exercise control over them, did not lead to governance issue as was the first scenario.

The main motivation in corporate governance can be traced to the UK when in the 1980s and 1990s, a number of companies unexpectedly collapsed (Bank of Credit, Commerce, and Industry, the Minor Group, Polly Pecke International and Barings Bank). In each case, there appears to be serious accounting and financial reporting irregularities and inadequate internal controls and risk management. As questions were asked about how such well-established companies could collapse suddenly without warning, common grounds were found: investors were not kept informed about what was going on in the company; most of the published financial statements were misleading; external auditors were accused of failing to detect the warning signs; there were the activities of powerful Chief Executives who lacked business ethics; and board failure to restrain self-seeking company Chief Executives from acting improperly and inadequately (Cadbury, 1992).

Studies by Cadbury (1992), Vroom and Brian (2009) made recommendations on the relationship between institutional investors and company management and how it should be conducted. The significance of their recommendations was that it urged institutional investors to reassess their responsibilities for ensuring good corporate governance and the success of the companies they invested in. In the end, public confidence was retrieved, accuracy and reliability of financial information assured.

Meanwhile, corporate governance in Nigeria can be traced to the colonial days through independence that Nigeria obtained from Britain in 1960. Before independence, the British colonial government imposed an Anglo-Saxon base system of corporate law and regulation on the country (Okike, 2007; Adegbite & Nakajima, 2011a). After independence, the Nigerian government replaced the Companies Ordinance of 1922 with the 1968 Companies Act which was modeled on the UK Companies Act of 1948. This implies that Nigerian legal operating framework for corporations were not developed on the basis of country business environment (Adegbite & Nakajima, 2011), and that the government of Nigeria has traditionally failed to deal with the problem of company law and legal system from the perspective of the socio-political environment of the country (Okike, 2007). In 2006 Nigeria Securities Exchange Commission (SEC, 2006) revealed that despite all the provisions on corporate governance, there were corporate failures in financial and non-financial sectors of the country. There were indications that the banking industry and other firms were collapsing in their numbers leaving a trail of woes for investors, shareholders, suppliers, depositors, employees and other stakeholders. This

was as a result of the messy state of the nation in 2000 that led the government to make a bold step in initiating the corporate governance evolution. In addition, in order to address the problem and to align with international best practices, the SEC inaugurated a committee on corporate governance in June 2000 and the Code of Best Practices on corporate governance in Nigeria was submitted in November 2003. This Code of corporate governance practices was based on unitary board structure (as in the UK and USA) with emphasis on the identified triple constraints: the role of the board of directors and management, shareholders' rights and privileges, and the audit committee (Aganga, 2011).

A major fillip for corporate governance in Nigeria was the consolidation of Nigerian banks in 2005, an exercise that saw nearly 80 banks eventually become 25 mega banks in order to attain a minimum capital base of approximately N25 billion or \$250 million (before further consolidation and growth in their capital bases). In response to the unique governance challenges that the new size of banks and process of mergers and acquisitions brought, the CBN issued in 2006 a mandatory corporate governance code for Nigerian banks. The insurance and pension regulators soon followed suit with corporate governance codes for their respective industries.

Besides the impetus that the introduction of various regulatory codes provided, socioeconomic factors also necessitated improvement in corporate governance. Nigeria's growing economic fortunes at least for the middle class led to increased awareness and activism from stakeholder groups. Also, there has been a proliferation of business

membership organisations that promote corporate governance among their members. Furthermore, Nigerian companies are becoming international players in both their operations and sourcing of capital. Hence for this class of companies at least, the need to meet listing requirements of foreign exchanges and appeal to international investors elevated the pertinence of corporate governance in Nigeria. Currently, one can assert that “corporate governance” is the main stream even as more sectoral regulators are developing codes of corporate governance. For example, in March 2014, the Nigerian Communications Commission (NCC) released the Code for corporate governance in the telecommunications industry (NCC, 2014).

However; the emerging challenge is the harmonisation of standards to evolve a clear set of shared standards of corporate governance that stakeholders could hold companies to in Nigeria. For instance, despite the progress made in the banking industry, in 2009 the Central Bank of Nigeria had to inject funds and replace the leadership of eight (8) Nigerian banks that had eroded their capital as a result of having a huge portfolio of non-performing loans, mostly due to related party transactions involving management and board members through special vehicle loan schemes. This set of bank failures was reminiscent of pre-consolidation bank failures that were attributed to weak regulation and to the bank failures of the 1990s.

It is observed that on paper, Nigeria has elaborate provision for corporate governance. However, it seems that most of them are not properly enforced. Hence mere compliance with corporate governance rules may not guarantee good corporate

governance. It follows therefore that while there is still need to improve the level of corporate governance, ultimately good corporate governance is personal to corporate managers. Consequently, effort must be made to increase the integrity of these managers through enforceable rules.

1.2 Statement of the Problem

Poor corporate governance has been identified as the primary factor that depletes the profitability of firms which eventually transformed into the global financial crisis of 2009. However, in spite of the introduction of the code of corporate governance (SEC, 2003) and subsequent reforms to enshrine good governance and improve firms' performance in Nigeria continue to post declining profits.

In addition majority of the empirical studies on effect of corporate governance mechanisms on firm performance from developed countries (such as Jensen 1993, Conyon and Peck 1998, Eisenberg, Sundgren and Wells 1998, Kiel and Nicholson 2002, Cheng, Evan and Nagarajan 2008, Guest 2009, Bruno 2013, El-Faitouri 2014, Gupta and Newalka 2015, Afrifa and Tauringana 2015). Also, in developing countries (Nigeria) such as (Sanda, Mikailu & Garba 2005, Olowookere 2008, Babatunde and Olaniran 2009, Uadiale 2010, Akpan and Riman 2012, Kwanbo and Abdul-Qadir 2013, Dabor, Isiauwe & Ajagbe 2015, Bebeji, Muhammed and Tanko, 2015) used diverse methodology, without current data and reached different conclusions. Since there is no consensus on the impact of cooperate governance there is the need for further study to establish the nature

of the impact, particularly in Nigeria. Hence, the study examined the effect of corporate governance mechanisms on the performance of listed firms in Nigeria.

1.3 Objectives of the Study

The main objective of this study is to examine the effect of corporate governance indicators on the performance of Nigerian listed firms.

Specifically, the study aims to:

- i) Examine the extent to which corporate governance indicators (board size, outside board directors, directors shareholding, block holding and independent audit committee) affect return on assets of listed firms in Nigeria;
- ii) Evaluate the magnitude to which corporate governance mechanisms (board size, outside board directors, directors shareholding, block holding and independent audit committee) affect return on equity of listed firms in Nigeria;
- iii) Assess the amount to which corporate governance indicators (board size, outside board directors, directors shareholding, block holding and independent audit committee) affects price earnings ratio of listed firms in Nigeria;
- iv) Evaluate the extent to which corporate governance mechanisms (board size, outside board directors, directors shareholding, block holding and independent audit committee) affect Tobin's Q (Equity Market Value / Equity Book Value) of listed firms in Nigeria;

v) Examine the magnitude to which corporate governance indicators (board size, outside board directors, directors shareholding, block holding and independent audit committee) affect labour productivity of listed firms in Nigeria.

1.4 Research Questions

- i. To what extent do corporate governance mechanisms affect return on assets of Nigerian listed firms?
- ii. How do corporate governance mechanisms affect return on equity of Nigerian listed firms?
- iii. To what extent do corporate governance mechanisms affect price earnings ratio of Nigerian listed firms?
- iv. How do corporate governance mechanisms affect Tobin's q of Nigerian listed firms?
- v. Are corporate governance mechanisms of any effect on labour productivity of Nigerian listed firms?

1.5 Research Hypotheses

In line with the objectives of the study the following null hypotheses were tested:

- H01: Corporate governance mechanisms have no significant effect on Return on Assets of Nigerian listed firms;
- H02: Corporate governance mechanisms have no significant effect on Return on Equity of Nigerian listed firms;

- H03: Corporate governance mechanisms have no significant effect on Price Earnings Ratio of Nigerian listed firms;
- H04: Corporate governance mechanisms have no significant effect on Tobin's Q of Nigerian listed firms;
- H05: Corporate governance mechanisms have no substantial effect on Labour Productivity of Nigerian listed firms;

1.6 Significance of the Study

The primary roles of business in generating employment and creating utilities are enhanced when they are well governed as this make possible the realisation of their objective functions.

This present work contributes to the literature as it utilised a twenty-six years period with a more recent data (1990–2015) as against other empirical studies in the literature reviewed, particularly in Nigeria. For example, Sanda et al. (2005), Magbagbeola (2005) Olowookere (2008), Akpan & Riman (2012), Amba (2013) used the periods 1993 to 2002, 1996 to 1999, 1999 to 2004 and 2002 to 2006, 2005 to 2008 and 2010 to 2012 respectively. The robustness of this result will enable the management and the owners to make informed decisions.

Furthermore, the work will benefit the shareholders, government and future researchers: The shareholders will be able to know which of the independent indicators influences the performance of listed firms than the other. The study will guide the

government on the type of policies to be made to enhance firm efficiency. Future researchers that want to further examine this topic will find the study as a form of reference point.

1.7 Scope of the Study

This study examined the relationship between corporate governance mechanisms and performance of listed firms in Nigeria. The researcher utilised data extracted from Annual statement of accounts of firms listed on the First-tier Securities Market of the Nigerian Stock Exchange. Data were collected from forty three (43) out of one hundred and sixty nine (169) companies that were listed on the Nigerian Stock Exchange as at December 31, 2015.

The firms were selected from major sub-sectors of the Nigerian economy which include: eleven (11) non-financial sub-sectors namely: breweries, building materials, construction, petroleum (marketing), healthcare, conglomerates, computer and office equipment, food and tobacco, chemical and office equipment, industrial/domestic products, and printing and publishing. While only two from the financial subsector were considered. These are the Banking and Insurance sub-sector.

The dependent variables used were return on assets (ROA), return on equity (ROE) (accounting based); price earnings ratio (PER), Tobin's Q (TQ) (market based) and labour productivity (LP) (efficiency based). On the other hand, the study focuses on five key corporate governance mechanisms which include board size (BS), number of

outside board directors (OBD), directors' shareholding (DRS), independence of audit committee (IAC) and block holdings (BH). Two additional variables: leverage (L) and firm size (FS) were introduced as moderating variables.

1.8 Limitations of the Study

Data of most firms that would have been included were not available at the time of collection hence 43 out of 169 listed companies that produced and submitted their financial statements to Nigerian Stock Exchange between 1990 and 2015 were used.

Another limitation is that despite the knowledge that statistical estimates are more robust when a probabilistic criterion is used in data gathering, this study will unavoidably err in that the sample used was based solely on data availability.

Furthermore, firms that were incorporated after 1990 were not included in the sample especially financial sectors that experienced series of reforms within the period under review. Also, some companies that would have been included have lost their identity through mergers and acquisition hence they were excluded.

1.9 Definition of operational terms

Labour Productivity: In the context of this research work labour productivity is defined as value added by each employee/labour where capital is gauged by the total fixed assets and employment is measured by a number of workers. Consequently, value added is fixed assets divided by a number of employees.

Return on Assets: ROA shows how proficient a company's assets are in generating profits. It indicates the effectiveness of the company's assets in increasing shareholders' economic interests (Haniffa & Hudaib, 2006). That is, ROA is measured by net income over total assets at the end of the year, and it is an indicator of how profitable a company is relative to its total assets. ROA gives an idea regarding how efficient management is at using its assets to generate earnings.

Return on Equity: The ROE focuses just on the equity component of the investment and it specifies the earnings left over for equity investors after debt service costs have been factored into the equity invested in the asset (Damodaran, 2007). ROE is the amount of net income returned as a percentage of shareholders' equity, and it measures a corporation's profitability by revealing how much profit a company creates with the money that shareholders have invested (Khatab, Mashood, Zaman, Salem, & Saeed, 2011). Thus, a higher ratio indicates a higher return. This measure is expected to indicate a positive association between corporate governance and firm performance.

Price Earnings Ratio: PER is the price currently being paid by the market for each share of reported Earnings per Share. In other words, the P/E ratio measures investors' expectations and the market appraisal of the performance of the firm. This ratio is computed by considering the current price of a share divided by its earnings per share (EPS).

Tobin' Q: This is the market value of common equity plus book value of liabilities divided by book value of equity plus book value of liabilities (Equity Market Value /

Equity Book Value) as the market value of liabilities is equivalent to its book value. TQ ratio between 0 and 1 the stock is under-valued while TQ ratio greater than 1 the stock is over-valued.

Corporate Governance Mechanisms: These are defined as the selected internal and external indicators for measuring the corporate governance. They represent the independent variables used in the research work.

Governance Structure: In the context of this research work Governance Structure explain the allocation of rights and responsibilities of different stakeholder in an organisation. These include board of directors, managers, shareholders, auditors, regulators, creditors, and customers.

Board size: Board size refers to the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year. This will include independent directors, executive directors, and non-executive directors.

Outside board directors: An outside board director also known as a non-executive director is a member of a company's board of directors who are not part of the executive team. A non-executive director typically does not engage in the day-to-day management of the organisation but is involved in policy making and planning exercises. However, in the context of this research, it implies percentage of non-executive directors.

Directors' shareholding: These are shares which directors owned in the company or in a related corporation that its shares in which the directors have interest and the nature and

extent of that interest. In the context of this study, it is the percentage of total shares owned by the directors.

Block holders: A Block holder is an outside ownership (block-holding that exceeds 5% of the outstanding shares of the firm) or the number/percentage of shares held by institutions. In the context of this work, it shows substantial shareholders with 5% and above shareholding.

Independent audit committee: Independent audit committee is made up of independent outside directors that are charged to provide oversight management practices in key governance areas such as risk management, internal audit, value and ethics governance and financial stability. However, it indicates members of the audit committee that are not on the board in this study

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter discusses the conceptual framework, theoretical framework, theoretical review, empirical review and gap in literature.

2.1 Conceptual Issues

2.1.1 Corporate Governance

There has been increasing emphasis on corporate governance, both in terms of practice and in academic research (Ali Shah, Butt & Hassan, 2009; Bebchuk, Cohen & Ferrell, 2009). This is due to the collapse of many companies worldwide, such as WorldCom, Enrol and Arthur Andersen (Dao, 2008). However, Ramon (2001), as cited in (Mulili & Wong, 2011), states that differences in culture, legal systems and historical developments from country to country make it difficult to identify one definition of corporate governance. Corporate governance as a discipline in its own right is relatively new, with researchers in the disciplines of law, economics, accountancy and management all developing their own ideas about how it should be defined (Armstrong, 2005). The concept of corporate governance can be viewed from at least two perspectives: the narrow view and the broad perspective (Olayiwola, 2010). This depends on the view of the policymakers, practitioners and theorists (Solomon, 2010). The narrow viewpoint aims to maximise and protect the shareholder, while from the broader viewpoint; the corporation is responsible for a wider constituency of stakeholders other than shareholders (Maher & Andersson, 2000).

From the narrow viewpoint, Shleifer and Vishny (1997) define corporate governance in terms of the ways in which suppliers of finance to a firm assure themselves of a good return to their investment. This definition is shallow in that it emphasises the suppliers of finance and does not recognise the relationships between a firm's stakeholders and managers. Similarly, the Cadbury Committee defines a governance system as 'the system by which companies are directed and controlled' (Cadbury, 1992). The Australian Standard (2003) defines corporate governance as the process by which organisations are directed, controlled and held to account.

Sheikh and Chatterjee (1995, p. 5) define corporate governance as 'a system whereby directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs', while Sternberg (2004, p. 28) views it as 'ways of ensuring that corporate actions, agents and assets are directed at achieving the corporate objective established by the corporation's shareholders'.

The ASX Corporate Governance Council defines corporate governance (2007, p. 3) as: The framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized.

Lin and Hwang (2010, p. 59) define the benefits of well-organised corporate governance as follows: 'A good corporate governance structure helps ensure that the

management properly utilises the enterprises resources in the best interest of absentee owners, and fairly reports the financial condition and operating performance of the enterprise’.

These definitions are consistent with the views of some researchers who argue that the main obligation of a company is towards maximising the wealth of its shareholders (Friedman, 2008; Sternberg, 2004; Sundaram & Inkpen, 2004). The narrow perspective of these definitions is consistent with the conventional finance model that can be explained through the agency theory. The shareholder plays the role of principal and the manager is the agent. This view is similar to a recent definition of the Walker Review (2009, p. 23), which asserts that ‘the role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this’.

The OECD (2004, p. 11) defines corporate governance as: ‘Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders’. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate matters. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (OECD, 1999).

In this case, the company is considered a social entity that has accountability and responsibility to a variety of stakeholders, encompassing shareholders, creditors, suppliers, customers, employees, management, government and the local community (Freeman & Reed, 1983; West, 2006; Mallin, 2007). Rezaee (2009) describes corporate governance as an ongoing process of managing, controlling and assessing business affairs to create shareholder value and protect the interests of other stakeholders. According to this definition, there are seven important functions of corporate governance: oversight, managerial, compliance, internal audit, advisory, external audit and monitoring.

These definitions support other schools that argue that a firm has an obligation not only to its shareholders, but to all stakeholders, whose contributions are necessary for the success of the firm (Donaldson & Preston, 1995; Freeman, 1984). In these terms, Solomon (2010, p. 6) defines corporate governance as ‘the system of checks and balance, both internal and external to companies, which ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity’.

The aim of corporate governance is to facilitate the efficient use of resources by reducing fraud and mismanagement with the view not only to maximise, but also to align the often conflicting interests of all stakeholders (Cadbury, 1999; King Report, 2002). Thus, this view considers a corporation to be an extension of its owners, with its central aim being to provide goods or services to customers, primarily to maximise the wealth of its owners (West, 2006).

According to Mallin (2010), the essential features of corporate governance are that: it assists in ensuring that an adequate and appropriate system of controls operates within a company and that assets may therefore be safeguarded; it avoids any single individual having too much influence; and it tries to encourage both transparency and accountability in the relationship between company management, the board of directors and other stakeholders, which investors are increasingly looking for in both corporate management and performance.

Wilson (2006) explained that no company whatsoever can be too big financially or otherwise to fail if the practice of good corporate governance is jettisoned. In his words: *The clear lesson that the failures of conglomerates ilke 'The Enron, Parmalat, World Com, Barings Bank' taught the corporate world was that no company or bank can be too big financially or otherwise to fail. A common strand that ran through these monumental corporate failures was the poor corporate governance culture, to wit, poor management, poor regulation and poor supervision.*

As such, events on the global marketplace have clearly defined the position of corporate governance as the heart of business corporations if they actually desire to stay in businesses”(p1). Globally, the concept and practice of corporate governance is continually being entrenched and Africa is not left out. Little wonder Jayashree (2006) in Oso & Bello (2012) describes “Corporate governance is a way of life and not a set of rules. It is more of way of life that necessitates taking interest in every business decisions. A key element of good corporate governance is transparency in projects through a code

of good governance which incorporates a system of checks and balances between key players: board of management, auditors and shareholders”(p2) (Jayashree 2006) in Oso & Bello (2012)

As a matter of fact, corporate governance in Nigeria and many African countries is still at lower ebb or at a rudimentary stage as espoused by Wilson (2006). The scholar submits that only 40% of companies (banks inclusive) quoted on the Nigerian Stock Exchange have recognised codes of corporate governance in place. This unwholesome situation has largely attracted attention so much that various initiatives have been put up by the World Bank, International Monetary Fund (IMF), United Nations Development Programme (UNDP), Central Banks, Organisation for Economic Cooperative Development (OECD), Commonwealth Association for Corporate Programme (CACG), Financial Institute Training Centre (FITC), Pan-African Consultative Forum on Corporate Governance (PACFCG) and Bank for International Settlements (BIS) to practically raise the awareness and the practice of good corporate governance around the world.

It is therefore highly essential to give a clear picture of what corporate governance is all about for better understanding and adherence to its basic principles by all players involved. Various challenges confronting the practice of good corporate governance in Nigeria would also be reviewed within the framework of Nigerian business environment upon which appropriate communication model will be postulated to improve the situation

in terms of behavioural and attitudinal change among key players of corporate governance.(Oso et al 2012)

From this array of definitions, it is very clear that corporate governance has come to stay. It stands as inevitable for the survival of Business Corporation in Nigeria and beyond. It is the cornerstone upon which the corporate goal and sustainability can be achieved and any company that acts otherwise does so at its own peril. Corporate governance can be described as the way by which the interest of the shareholders and other stakeholders are protected from the hands of the selfish managers who take the advantage of non-challant attitude of shareholders who have refused to discharge their off-site function in monitoring their investments.

2.1.2 Dependent Variables

Previous literature reviews have shed light on the profitability and value of a firm as a measure (proxy) of firm performance by providing prior key research that presents the relationship between corporate governance practice and firm performance along with more recent suggested amendments for this proxy. Generally, a considerable number of recent studies on firm performance using corporate governance practices have applied mainly accounting-based performance measures such as ROE and ROA in addition market-based measures, such as Price Earnings ratio and Tobin's Q, as proxies for firm performance (Babatunde & Olaniran, 2009; Haat, Rahman & Mahenthiran, 2008; Zeitun & Tian, 2007; Hassan & Halbouni 2013; Almatari 2014; Mule & Mukras 2015; Roa & Desta 2016 and Nidhi & Anil, 2016). Olowookere 2008, only used productivity-base

such as labour productivity in his study but limited to non-financial firms. In line with empirical studies from recent literature on firm performance, this study uses the terms for accounting based, market based and productivity based measurement to measure firm performance. As the aim of the study is to examine the effect of corporate governance mechanisms on firm performance, this research adopted the measures that have been used for listed companies in previous studies namely: return on equity; return on assets; Tobin's Q and Price earnings ratio while labour productivity is included in this study.

2.1.2.1 Return on Equity (ROE)

The ROE focuses just on the equity component of the investment and it specifies the earnings left over for equity investors after debt service costs have been factored into the equity invested in the asset (Damodaran, 2007). ROE is the amount of net income returned as a percentage of shareholders' equity, and it measures a corporation's profitability by revealing how much profit a company creates with the money that shareholders have invested (Khatab, Mashood, Zaman, Salem & Saeed, 2011). Thus, a higher ratio indicates a higher return. This measure is expected to indicate a positive association between corporate governance and firm performance. ROE is calculated as the net income divided by total equity.

2.1.2.2 Return on Assets (ROA)

ROA shows how proficient a company's assets are in generating profits. It indicates the effectiveness of the company's assets in increasing shareholders' economic interests (Haniffa, & Hudaib, 2006). That is, ROA is measured by net income over total

assets at the end of the year, and it is an indicator of how profitable a company is relative to its total assets. ROA gives an idea regarding how efficient management is at using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets and is displayed as a percentage; in this way, ROA shows the efficiency of management in using its assets to generate earnings (Khatab, et al., 2011).

2.1.2.3 Price Earnings Ratio

There are relatively few empirical investigations that analyse the impact of price earnings ratio on stock prices. Many researchers suggest that PE indicates the future market return. So it can be the price currently being paid by the market for each Naira of reported Earnings per Share. In other words, the P/E ratio measures investors' expectations and the market appraisal of the performance of the firm. This ratio can be computed by considering the current price of a share divided by its earnings per share (EPS). This market based measure of performance can easily be judged as someone can predict future stock returns through PE ratio. Muhammad and Rashid, (2014) investigated the impact of dividend yield and price earnings ratio on stock returns. The relationship between size and stock price were also determined. In this study, data of 111 non-financial KSE listed firms for period of 1998 to 2009 was used. Advance econometrics techniques were employed for analysis and determining the relationship of these variables. The impact of dividend yield and price earnings ratio on stock returns was determined by using fixed effect model. The findings of study reveals that price earnings ratio and size of firm have significant positive impact on stock prices. There were found

significant negative relationship between dividend yield and stock prices. The findings also suggest that investors can apply investment criteria that employ size of firm and price earnings ratio anomalies to earn abnormal return.

Zare and Ahmad, (2011) found the factors which affect earnings per share. They used the samples of 110 listed firms of Tehran Stock Exchange from the period 2004 to 2010. With the help of multiple regression methodology, they suggested that earning per share and equity returns had stronger relationship with future earning changes that is P/E ratio. Furthermore, they stated that higher Market-Book-Value and higher dividend factor made the relationship with future earnings stronger. This study concluded that EPS took decisions for investors and portfolio managers to predict future earnings more in Iran's capital market

2.1.2.4 Tobin's Q

Tobin's Q measures performance in terms of company valuation; it is identified as market capitalisation plus the total company debt divided by total assets (Weir, Laing, & McKnight, 2002). Kohl & Schaefer, (2012) describe Tobin's Q as the current market value of the company divided by the replacement cost of the assets, which is measured by the book value of the firm's assets. Market value is calculated in various ways by different researchers (Bhagat, & Jefferis, 2005). Tobin's Q is the ratio of the firm's market value to its book value. The firm's market value is calculated as the book value of assets minus the book value of equity plus the market value of equity (Belkhir, 2009). It

has also been calculated as the market value of assets divided by the book value of assets (Ehikioya, 2009).

A firm's Tobin's Q is greater if it is more than 1; this Tobin's Q value implies that the firm is implementing a growth strategy and gives investors a positive perception regarding the firm's growth opportunities. That is, a ratio greater than 1 indicates that the market value is higher than the company's recorded assets. Hence, a higher Tobin's Q encourages companies to invest more capital, as the value of the company is more than the price they paid. In contrast, a ratio below 1 gives investors a perception of negative growth expectations and indicates that the firm should not reinvest in the same stock of assets. A good or improving investment opportunity is regarded as an indicator that the firm is exhibiting, or has embedded, good corporate governance principles and structures (Evans, Evans & Loh, 2002). In summary, Tobin's Q compares the ratio of a company's market value and the value of a company's assets.

The primary measure of firm value is Tobin's Q; its main benefit is that it reflects the value of intangible factors, such as management competence, growth opportunities and corporate governance, compared to other measures (Kohl & Schaefer, 2012). Consequently, the higher the Q value, the more effective the corporate governance and the better the market perception of the company. A lower Q value suggests less effective corporate governance and greater managerial discretion (Weir, Laing & McKnight, 2002).

2.1.2.5 Productivity as a Measure of Performance

Fabricant defined productivity (as cited in Ali, 1978, p. 55) in the following words, “always a ratio of output and input”. This is the most common definition of productivity.

Kendrick and Creamer proposed two definitions of productivity (as cited in Afzal, 2004:p. 07). They specifically expressed in the following words, (a)” Functional definitions for partial, total factor and total productivity, (b) Loose description of relationship usually in ratio form, between outputs and all of the associated inputs in real terms”. In these definitions, authors have differentiated partial productivity from total productivity. Nevertheless, their focus is on relationship between the output and input. Mali has proposed similar concept of productivity (as cited in Afzal, 2004). According to Mali,(1978, p. 85) “Productivity is the measure of how well resources are brought together in organisations and utilised for accomplishing a set of results”. Productivity is the process of reaching the higher level of performance with the least expenditures of resources.

Sumanth (1990, p. 04) believed that “productivity is a family of ratios of output to input”. The living standard of the country is measured by the productivity. Productivity is measured by the goods and services produced by per unit of national resources. Sink, (1985,p. 15) explained that “productivity is a relationship between outputs from a given system during or over a given period of time, and inputs to that system during that same period, should be generic and universal”.

Also Lawlor (1985) gave two concepts of productivity. According to Lawlor (1985, p. 33) that, (a) “productivity is the relationship between goods produced/ service provided and sold

(Output) and the resources consumed in doing it (input) (Output/input= productivity).;

(b) Productivity is a comprehensive measure about how efficiently and effectively organisations satisfy the following aims/objectives: achievement, efficiency of the process, effectiveness-comparability with other organisations and trend- productivity measured over a period”.

Campbell and Campbell, (1998a) viewed this issue in a different manner. According to them productivity is a concept that has captured the imagination and energy of managers and behavioural scientist for decades. In their statement, productivity looks a concept more than a definition. Baig, (2002, p. 08) defined productivity in the following words: “doing things right at the least possible cost in least possible time with the highest possible quality and to the maximum level of satisfaction of the customers and employees”.

Chen, Liaw & Chen, (2001, p. 378) defined productivity in the following words: “productivity is often used to evaluate the aggregate performance of a business unit, generally defined as the ratio of outputs to inputs. However, for different applications and research domains there are different definitions of productivity”. This definition supports the established fact discussed in previous pages that productivity has different meanings in different situations. Vittal (2002) has attached another concept with productivity and

that is the objective of the organisation. Vittal (2002, p. 28) says that, “productivity, at a very element level can be defined as output by input. But mere increase in output is of no value unless the output also has a bearing on the objectives of the organisation or the environment under which the transaction takes place”. According to Srinivasan (2002, p. 74), “the concept of productivity has undergone a sea change with the advent of the e-Age. In the new business paradigm, the traditional definition has to be modified; in fact it has already been redefined in this knowledge era”. Srinivasan (2002, p. 74) further stated, “It has come to be recognised that there are several intangible, nevertheless vital ingredients that constitute the sum of productivity”. In the above statement, Srinivasan (2002, p. 74) it is clear that simple output and input ratio is not the true meaning of productivity, firms produce some intangible things, which are also vital. In addition, there is a need to measure intangible output too while measuring productivity.

As stated by Sink (1985), “Engineers, Psychologists, Economists, Politicians, Sociologists, Organisational behaviourists and Managers all have different perception on the concept of productivity”. According to Baig (2002, p. 08), “Productivity has different meanings to different people. A summary of the Baig’s (2002, p. 08) presentation is given hereunder: For employers it improves competitive position in the market while for Employees it increases compensation, development of skills and other capabilities. Similarly, for the customers, it lowers the price, improves quality and timely delivery, On the other hand for the society, it lowers inflation, improves living standards

and environmental protection. In case of Government, it implies more revenues, more resources for social services.

Productivity is also a matter of concern for government officials. Today other people are also discussing productivity including environmental engineers, social scientists as well as industry itself. The meaning of productivity is different for every sector of life. For example, industrial engineers want more output with less input; on the other hand, environmental engineers are focusing to save the environment by attempting to lessen pollution. There is a subtle difference of understanding of productivity among all the people concerned.

Ali (1978) has divided productivity definitions into following eight groups. They include: productivity as a ratio of output to input, as efficiency in industrial production measured by some relation of output to input and as the relationship between the amount of goods or services produced and one or more input used to produce that product. Others are as measurement or the efficiency, with which input can be converted into output over some given period of time, as the attainment of goals verses all relevant inputs and as management problem which involves how best to manage excess capacity.

It is true that management is ultimately responsible for all of the functions of any firm, In addition, productivity is primarily a function of company's effectiveness to meet the need of the market and is also the most convenient way to express an index number in current period as compared to the performance in a base or reference period, which is quoted to 100.

Performance and Innovation Unit (2001, p. 3) defined productivity in the following words: “productivity is the efficient and effective use of resources by the organisation”. In this approach effectiveness has also been taken into account along with efficiency. This approach seems more comprehensive when compared to others. The main focus of this approach is on resource utilisation. It also ignores other factors like market satisfaction and environment. Overall, this approach is more suitable to assess productivity of the firms. Nevertheless, this approach ignores the quality factor of products or services. Productivity also covers the quality aspects of the production. Industrial Engineers can use this approach to calculate the productivity focused on resource utilization.

Environmental engineers are more concerned with depletion of natural resources. However, it does not mean that other people are not concerned with the safety of nature. This approach is the most popular in the current age. In current period, the major point of discussion among the industrialists, economist and all other related authorities is to save environment. Some decades back, it was not that much important as it is today. The main reason of such ignorance was slow pace of industrial activities in the past. This approach seems to be one of the most suitable approaches.

On the other hand; industry is facing a tough situation due to compliance on environmental issues. According to Porter and Linde, (1995, p. 134), companies can achieve higher productivity by adopting the environmental protection laws. However, this approach is only a survival point for nature. Firm's productivity should be judged with

reference to the loss it makes to nature. Lawlor, (1985, p. 20) asserts that the productivity issue is a complex one involving many factors. Hence attention should be on the following eight factors: economic climate, markets, change, organisations, people, rewards, information and technology that have been selected as having the greatest bearing on productivity. Bernolak has projected another view of productivity (as cited in Monga, 2000, p. 13) that most managers do not know what productivity really means; how vital it is for them and their organisations. However, he believes that productivity can be improved significantly, depending on the measures and method of analysis.

National Productivity Centre [NPC] (1999, p. 03) has defined productivity more specifically. According to NPC (1999, p. 03); “productivity compares the amount of output with the amount of input resources used to produce the output at any given period of time”.

Campbell and Campbell (1998b, p. 83) are of the view that efficiency and productivity are interchangeable words. According to them, “there is a clear consensus that it is useful to reserve the term productivity for efficiency indices. That indicator in question is a ratio of outcomes, measured in some way; to inputs, also measured in some way”. This is a very narrow concept of productivity. One can have more efficient system with bonded labour or making planet polluted. However, in some particular situation this term is acceptable.

Gharneh (1997, p. 01) has widened the concept of productivity. According to Gharneh (1997, p.01), “productivity is a road to competitive enterprises, the economic

development of countries and welfare and well being of nations". In this statement, productivity is something else other than ratio. It is a way, method or technique to have more with less.

Brinkerhoff and Dressler (1990, p.16) have given their conclusion about productivity in the subsequent words: In a nutshell, productivity reflects results as a function of effort. If productivity improves, it means that more results are being gained from a given amount of effort. In a classical sense, productivity is defined as a ratio such that the output of an effort under investigation is divided by the input required to produce the output (Brinkerhoff and Dressler (1990, p.16)). In the above mentioned statement two major concepts have been elaborated: a) - productivity is a result of effort and b) - ratio of output to input.

Industry Commission (1997, p. 03) has defined productivity more precisely in the following statement: Productivity is a measure of the capacity of individuals, firms, industries or entire economies to transform input into output. More specifically productivity is a measure of the rate at which output (of goods and service) are produced from given amount of input. In this statement productivity is not the simple ratio rather it is capacity of the organisation and individuals who take part in the production process.

Traditionally productivity is considered as a ratio between input and output. Productivity is often confused with efficiency and rationalisation or profitability. In reality, the modern understanding of productivity is doing things right at the least possible cost, in the least possible time with the highest possible quality and to the maximum level

of satisfaction of the customers and employees. In this sense productivity is a total business concept rather than a “rationalisation of production” and the productivity has social dimensions, not only economic ones (Prokopenko, 1999, p. 10). Prokopenko (1999, p. 10) has added some other dimensions in the concept of productivity. This looks a more comprehensive statement when compared to all those mentioned above.

Daniels (1997, p. 52) has indicated another avenue of productivity in the following words, “the approach and attitude to productivity improvement is much more important than the type or nature of any techniques”.

Nachum (1999, p. 943) has defined productivity in the following words: Productivity is defined as the level of output produced by per unit of input. Changes in productivity reflect changes in the ratio between input and output, e.g. increase/decrease in output produced from a given input, or same output produced with more/less input. In a scenario where product life cycle is becoming short every day, significance of innovation is one of the fundamental requirements for high productivity. Taylor; English & Graves (1994, p.13) have stated the importance of new product development in the following words, “as product life cycles have decreased and manufacturers are facing with increasing global competition, engineering designs play an increasingly important role in the successful manufacture of products”. This obviously definitely shows that survival of firms mainly depends upon innovation.

2.1.2.5.1 Labour Productivity

Company-level productivity measures are other ways to provide a more comprehensive gauge of firm performance than profit rates using public financial data. This is the process of gauging the efficiency with which inputs are converted to useful outputs. Productivity corresponds to the total economic value created by the capital or labour employed within the enterprise. If productivity rises over time, additional value is created and economic wealth grows. Labour productivity is the most common productivity measure, partly because it is the easiest to compute. Labour productivity corresponds to output per unit of labour input (or value-added per worker-hour, as computed in this study). Labour productivity at the level of the economy as a whole provides an indicator of a nation's real income per capita, or average economic welfare.

Economic theory and past research findings lead to expectation that:

- ❖ Capital and labour inputs should have certain quantitative relationships with output, reflecting typical production function relationships.
- ❖ Labour productivity is a function of capital inputs, so firms with higher levels of capital will tend to have higher labour productivity. This should lead to a positive correlation between fixed assets per person and value-added per person, provided that the fixed assets variable is a reasonably good proxy for firms' capital stock.
- ❖ Profitability and labour productivity are likely to be positively correlated: firms that are more productive should be more profitable, all other things being equal

- ❖ . If there are economies of scale, labour productivity (and possibly profits per person) will be positively correlated with firm size
- ❖ Labour productivity and profitability are likely to be positively correlated with the skill level of the workforce. In terms of the current dataset, this means that the average worker fixed effect and the average age of the workforce should be positively correlated with value-added and profits. We interpret them as proxy measures of the human capital of each firm's workforce.
- ❖ The average wage per employee is expected to be positively correlated with labour productivity (because if the marginal product of labour is higher in more productive firms, wages should also be higher). The average wage per employee may also be correlated with firm profitability.

2.1.3 Independent variables

2.1.3.1 Board size

Board size

When the concept of boards is accepted, it can be intuitively assumed that a larger board is preferable, as this enables the inclusion of more diverse board members from different areas of expertise; however, increased board size causes increased problems of coordination and communication, undermining board effectiveness in monitoring agents (Eisenberg et al., 1998; Jensen, 1993; Lipton & Lorsch, 1992). Additionally, larger boards have been found to be characterised by decreased ability of directors to criticise top

managers and to analyse and discuss firm performance seriously (Lipton & Lorsch, 1992).

Jensen (1993) proposes that large boards are more likely to face high costs to monitor the firm and they are less likely to have effective function when the size of the board more than seven or eight people. The agency model suggests that as board size becomes large, the agency problem related to director freeriding increases and the board becomes more symbolic and less a part of the management process (Hermalin & Weisbach, 1998). In large boards, it is more likely to be controlled by the CEO rather than the board monitor and control the management. This will give the managers the spaces to pursue their own interests instead of aligning the interests of the shareholders and managers leading to increase in agency problems and thereby lower firm performance. Hermalin & Weisbach, 1998; Kholief, 2008) argue that board size becomes larger, it will be more difficult for board members to reach a consensus when making decisions due to the more diverse opinions and ideas. Therefore, large boards are slower and less efficient in making decision. All of these actions might increase the agency conflict, because with less coordination and communications this will lead to decrease in the board members' ability to control and monitor management, which might result in worse firm performance.

In the same vein, Ahmed et al. (2015) argue that formulating and adopting new ideas and agreeing on different opinions are less likely to take place in large boards, which will result in less improvement of the board function to provide the managers with

good ideas and contributions. Thus, the conflict in the board means that board members are less likely to work in the interests of the shareholders therefore agency problem increases. Ahmed et al. (2015) concluded that to-date, there is still a debate about the optimal size of the board. In other words, there is no specific formula that should be adopted or followed to define the number of directors inside the board: some studies support the smaller boards and other studies find larger boards are more beneficial. Yermack (1996) reported that large boards are characterised by less coherence and poorer communication which might decrease the board members' ability to monitor the management efficiently. This cause greater agency problem and costs resulting in lower firm performance. Thus, related to the agency problem, large boards lead to more directors free-riding problems, increasing the sharing costs and internal conflicts among directors. Therefore, these problems will result in increasing the agency problem and thereby lower returns and worse firm performance.

However, CEO domination is characteristic of smaller boards, as the more powerful position of CEOs in such boards enables them to override decisions made by the board in accordance with their own interests, increasing agency problems and correspondingly undermining the performance of the firm (Ahmed & Hamdan, 2015). This result also confirms resource dependency theory's proposition, implying that large boards, due in part to their effective linkage (Pfeffer, 1972) and diversity (Goodstein et al., 1994), increased the likelihood of firm's performance by improving firm's ability to co-opt the turbulent environment (Hambrick & D'Aveni, 1988). This is in accordance

with the aspect of resource dependency theory that affirms that the diversity and more effective cohesion of large boards boosts firm performance by transcending challenging market conditions (Goodstein et al., 1994; Hambrick & D'Aveni, 1988; Pfeffer, 1972); the shortfall in linkage among smaller boards can deny undermine their access to credit. Additionally, large boards mitigate the agency problem by performing their strategic function more effectively, which is essential during periods of financial turbulence or distress to reduce agency problems (Mintzberg, 1983). Under such circumstances, the lack of diversity in smaller boards increases uncertainty concerning strategic development (Goodsteing et al., 1994; Mintzberg, 1983; Pearce & Zahra, 1992). This ultimately increases the agency problem and undermines performance in firms with smaller boards.

Previous studies (Arosa et al., 2010; Dalton et al., 1999; Gales & Kesner, 1994; Haniffa &Hudaib, 2006; John & Senbet, 1998; Lehn et al., 2009; Yawson, 2006) found that large boards provide wider diversity of backgrounds, diversity in communications skills; experience and business contacts outside the company. Dalton et al., (1998) report that larger boards allow the directors to exchange more highly qualified counsels and presents extra scope for the possibility of correlation with different external linkages. Large board also plays an important role in improving and enhancing the outcomes of the decisions because of sharing of ideas and contributions, which leads to provide the management with new ideas and opinions which might result in reducing the agency problem leading to better performance (Lehn et al., 2009).

Empirically, the evidence regarding the relationship between board size and firm performance is mixed. Anderson et al., (2004) found a negative relationship between the board size and the firm value. They outlined that financial markets react positively to the announcement of a board downsizing. Conversely, the announcement of increasing the number of directors in the board leads to reducing the equity value. They stated that this is not the general outline that can be applied to all companies, as it is not a linear reaction. They concluded that the companies who were affected negatively were small- and medium-sized companies, while large companies did not suffer from the same problem. In Nigeria, the legislators identified that the size of the board should be between eight and fifteen. However, some companies may not follow these instructions and recommendations. This is because not all the companies have the same size and the same nature of business hence, the size might vary from one company to another company. Despite the introduction of 2003 code of corporate governance in Nigeria which is supposed to bring in good governance that course firms to perform better, It was observed that many companies both financial and non-financial are unable to break-even while some are relocating to the neighbouring countries like Republic of Benin, Ghana others are folding up due to poor performance. Against this backdrop, this research examined the influence of board size on performance of Nigerian listed firms.

2.1.3.2 Outside board directors/ Non-executive directors

The nature of board composition and its impact on performance is highly debatable. Directors can be classified either as executive (i.e. personnel simultaneously assuming the roles of managers and directors) or non-executive directors/outside board directors and independent directors (who offer checks and balances to protect the interests of shareholders), and each category is characterised by different incentives and behaviours (De Andres et al., 2005). A combination of both is advised by most national and international corporate governance codes (e.g. the Combined Code in the UK, the OECD Code and the Sarbanes-Oxley Act in the US).

Agency theory affirms that sufficient monitoring mechanisms are necessary to protect shareholders from the self-interest of management, and the optimum regulators for this are NEDs. It is therefore expected that a higher proportion of NEDs in a board indicate improved monitoring and consequently reduced agency problems (Fama & Jensen, 1983; Shleifer & Vishny, 1997). Some authors have cited other features of NEDs (Adams & Ferreira, 2007; Hermalin & Weisbach, 1998; Linck et al., 2008 and Raheja, 2005). Raheja, (2005) argued that executives are intrinsically beneficial to boards due to their experience and firm-specific information, but they can be motivated by self-interest at the expense of the firm and shareholders; conversely, NEDs provide independent monitoring and improve firm performance, but they have less detailed knowledge about the daily operations of firms compared to executives. The emergent consensus is that a diverse, vigilant and strong board of directors exerts a positive influence on firm value,

particularly due to improved strategic decision-making and innovation (Gabrielsson, 2007a). The more effective monitoring role of NEDs and their function as disciplinarians of managers was acknowledged by Hermalin & Weisbach, (1991), but they found no significant relationship between the proportion of NEDs in the board and firm performance. A greater proportion of NEDs improves boards' power over CEOs (Gabrielsson, 2007a) thus the monitoring function of boards under agency theory favours the presence of NEDs to safeguard shareholders' interest and to oversee executive activities (Fama & Jensen, 1983; Gabrielsson & Winlund, 2000).

Other theoretical perspectives (besides agency theory) have been invoked to explain the roles and composition of boards. The resource-based view focuses more on the service role, whereby boards are a strategic resource to secure critical firm requirements, and are responsible for the coordination of inter-organisational dependencies (Pfeffer, 1973; Pfeffer & Salancik, 1978). According to resource dependence perspective, the resources and capacities of firms' internal environment is essential for competitive advantage, and the board has a fundamental advisory role in this aspect (Daily & Dalton, 1993; Teece et al., 1997), particularly NEDs who can bring external knowledge and skills to the management team (Garcia et al., 2009). Fundamentally, NEDs under the resource dependency perspective function not to control managers but to enhance the resource and service needs of the CEO (Fiegener et al., 2000), including compensating for the deficiencies of the latter (Huse, 1990).

The advisory role of the board is therefore connected to the service role and strategic networks (Ahmed et al. 2015). NEDs can thus be perceived as nodes linking the external and internal environments of firms to enhance managerial functions (Johnson et al., 1996; Zahra & Pearce, 1989). This explains why NEDs are typically powerful and notable people who exploit their personal networks to increase the reputation, legitimacy and ultimately value of firms (Pfeffer, 1973; Pfeffer & Salancik, 1978). NEDs can also overcome the human resources shortfall common among complex firms (Daily & Dalton, 1993), improving decision making as well as increasing supervision (Huse, 1990). Thus it can be expected that NEDs should function to mediate conflict/misalignment between managers and owners, maximizing shareholder wealth and ultimately improving firm performance.

Conversely, it is the view of stewardship theory that NEDs are less able to monitor managers than insider directors due to their lack of specialist knowledge of firms' internal operations. Baysinger and Hookisson (1990); Agrawal and Knoeber, (1996); Weir and Laing (2000); Bozec (2005) argue that the NEDs are commonly part-time workers, this will undermine their ability to monitor and advise the board because of the lack of the information that they have, and the lack of information concerning daily activities will reduce the NEDs' ability to apply their function efficiently. As a result, board dominated by high levels of NEDs will result in decisions with lower quality, and this in turn will result in negative impact on firm performance. Hermalin and Weisbach (1991) argue that NEDs often lack information about the firm, do not bring the requisite

skills to the job and they are too busy in their companies to contribute effectively. This might result in reduce their monitoring function to monitor the management behaviour who might start to work for their own interests rather than the interests of the shareholders and the company. This will increase the agency problem leading to negative impact on firm performance. Weir and Laing (2000) and Higgs Report (2003) report that because NEDs are part-time workers, they are unfamiliar with all the operations and business in the company, which results in their inability to comprehend the complications and difficulties that face the company. Ahmed et al. (2015) argued that it is difficult for NEDs to improve the firm performance for different reasons. Firstly, in some companies it may be there some private connections between the chief executive director and the NEDs; therefore this reduces the contributions of the latter. Secondly, by appointing some NEDs in some boards for long periods, their incentive to perform their jobs in a positive way is reduced. Finally, in some boards the NEDs could be executive directors in other companies, which also undermine their incentive to execute their role efficiently.

Although agency theory suggests that NEDs' representation improves firm performance, empirical evidence shows mixed results (Baranchuk & Dybvig, 2009; Gordini, 2012; Haniffa & Hudaib, 2006). Gordini (2012) reported that presence the non-executive directors improved firm performance and added value to the firm through their contributions such as skills, experiences and their linkage to the external resources. Khan and Awan, (2012) found a positive significant relationship between the outside directors and the firm performance. They conclude that the greater the percentage of outsiders in

the board will result in better firm performance and add value to the firm. This is because of the close monitoring and their valuable advices and contribution to the company. These findings are consistent with the view of agency theory and resource dependence theory, namely that NEDs are effective monitors and a disciplining device for managerial behaviour. Conversely, Agrawal and Knoeber, (1996); Bozec, (2005) and Yermack, (1996) provided evidence of a negative relationship between the NEDs and some performance measures. The third stream of this relationship provides evidence for no relationship between NEDs and firm performance (e.g. Arosa et al., 2012; Baysinger & Hoskinsson, 1990; Hermalin & Weisbach, 1991; Kumar & Singh, 2012). Thus, from an agency perspective, the NEDs are essential for the monitoring function as a safeguard for the shareholders' interests to monitor the manager's behaviours to reduce the agency problems to improve firm performance. This notion was supported also from the resource dependence theory view; NEDs provide the board with external experience, skills, knowledge and linkages to external network relationship. This will compensate for the skills of the internal directors and contribute with more ideas and knowledge. This might help in reducing the agency problem and affect the performance positively. As a result, if the NEDs perform their monitoring tasks and duties effectively, the likelihood of preventing management from expropriating the firm assets will be increased. This underlines the appropriateness of NEDs as a trustworthy regulatory mechanism in boards to ensure that managers function to maximise shareholders' wealth.

On the other hand, according to the stewardship theory perspective, due to the lack of the information that the NEDs have and because they are part time workers the proponents for this view, it can be assumed that this will reduce their ability to apply their function efficiently, and thereby impact the firm performance negatively. The boards in Nigerian firms have a one-tier board structure; executive, non- executive directors and independent directors sit on the same board. According to the Code of corporate governance for public companies (COPC), SEC. (2003) as amended, the board size should range from 8 to 15 members and a non-executive director/ independent director is defined as an employee of neither the Company nor receiving a salary therefrom. In addition, according to the Code at least 1/3 of the board members must be non-executive, to comply with the board committees requirements.

2.1.3.3 Independence of Audit committee

The separation of corporate ownership and control resulted into agency conflict / problems that require the effective functioning of audit committees as governance mechanisms to solve. The audit committee is seen as an effective subcommittee of a board of directors, which is important in good corporate governance (Abbott, Park & Parker, 2000; Jensen & Meckling, 1976). Garcia-Meca and Sanchez-Ballesta (2009) argue that an independent audit committee could enhance the quality and credibility of financial reporting. Cohen and Hanno (2000) emphasise the significance of audit committee independence to appraise management actions regarding risk assessment. In addition, independent directors do not have personal or economic interests in the

company in their role of overseeing and monitoring the company's executive management as professional referees (Munro & Buckby, 2008). Thus, independent directors are viewed as being better prepared for maintaining the integrity of external financial statements (Bradbury, 1990).

According to the Australian Corporate Governance Principles and Recommendations (2007), companies are required to have at least three members and consist only of non-executive directors and a majority of independent directors in the audit committee. The UK Corporate Governance Combined Code (Financial Reporting Council, 2003,) emphasises the audit committee's independence from managers: While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control. In the Codes of Corporate Governance in the Nigeria SEC. (2016), audit committees should include at least three non-executive board members, of whom at least two should be independent members, and they should be chaired by independent members. An audit committee is considered as a monitoring mechanism that establishes a proper communication relationship between the board of directors, the internal monitoring system and the internal and external auditors to improve the audit attestation function of external financial reporting and external auditor independence (Blue Ribbon Committee, 1999 and Bradbury, 1990). Independent directors can support external auditors over executive management regarding external auditor–management conflict situations.

2.1.3.4 Blockholders

Ownership concentration is higher in developing countries, where investors have less protection (La Porta et al. 1999; Shleifer & Vishny, 1997). This can imply a stronger incentive and ability of principals to monitor agents, reducing managerial opportunism (La Porta et al., 1999 and Shleifer & Vishny, 1997). Alchian and Demsetz (1972) argued that the equity of ownership has been suggested as a control mechanism to control managers by shareholders to mitigate agency conflicts within the firm. They state that this internal control mechanism is significant in determining the shareholders wealth, firm objective and the level of discipline of managers. In such a context, a large shareholder appears as the shareholders best way to control and monitor the managers.

Shleifer and Vishny (1986) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. the mutual benefit of all shareholders, whether large or small). High concentration of ownership is not necessarily a disadvantage to firm performance. As mentioned previously, shareholders with greater stakes in a company have greater incentive to control and monitor managers or insiders (Holderness, 2003). This represents the positive outcome of the self-interest of large shareholders, known as the shared benefits of control hypothesis. For example, large shareholders may exert influence in the appointment of independent directors or have advisory voting on executive pay packages.

Grossman and Hart (1986) suggested that large shareholders bear monitoring costs, and their share of benefits will be proportionate to their cash flow rights (dividends or capital gains), and the pursuant benefits of monitoring by large shareholders is accrued by all shareholders proportional to cash flow rights. Other factors being constant, a rise in block holder stake endows large shareholders with a greater interest in increasing firm value (Holderness, 2003). Indeed, it has even been argued that in such situations small shareholders "free-ride" firm success achieved by larger shareholders while bearing no monitoring costs, thus obtaining benefits disproportionate with their input to the firm. Different studies in developed and developing countries (e.g. Hiraki et al., 2003 for Japanese firms, Gorton & Schmid, 2000 for German companies, Claesses & Djankov, 1999 for Czech companies and Xu & Wang, 1999 for Chinese listed firms) found a positive relationship between concentrated ownership and firm performance. The result of the positive relationship might support the idea of Shleifer and Vishny (1997) and La Porta et al. (1998), who stated that since the investor protections is weak in emerging markets, ownership concentration might play an alternative corporate governance mechanism in these markets. Therefore, concentrated ownership means more control in the hands of large shareholders, which translates into better monitoring of managers in the interest of all shareholders.

However, Jensen et al. (1976) with regard to agency theory observed that higher ownership concentration could induce the prioritisation of self-interest by large shareholders and the consequent expropriation of firm resources (i.e. wealth), resulting in

decreased firm performance. Clearly when there is a higher risk of expropriation there is more incentive for majority/dominant shareholders to avoid information disclosure and such firms are likely to have weak monitoring controls (which facilitate expropriation). The expropriation effect arises because majority shareholders are motivated not only the benefits they derived from pecuniary returns but also the utility generated by various non-pecuniary aspects of their entrepreneurial activities (Jensen et al., 1976). A clear example of this in family-controlled firms is the desire of majority shareholders to pass on control and majority ownership of the firm to subsequent generations (Bhaumik & Gregoriou, 2010).

In developing economies, majority ownership of large firms is often used by concentrations of power (e.g. families) to create what called "non-pecuniary income", such as the ability to deploy resources to suit one's personal preferences (Demsetz & Lehn 1985). In addition to having concentrated ownership of firms, majority shareholders are able to dominate the executive and management structure of firms by filling key positions; such owner-managers are in a position to execute activities that benefit them but which may be detrimental to the interests of minority shareholders and the firm performance. Thus, the fundamental problem of concentrated ownership is the opportunities for nepotism that arise from it. Grossman and Hart (1980) suggested that the private benefits of control that are not shared by small shareholders are more pertinent to large shareholders than general firm success. The private benefits of control are related to the expropriation hypothesis, which suggests that a secondary form of agency costs are

borne by firms with controlling large shareholders at the expense of smaller shareholders (La Porta et al., 2000; Shleifer & Vishny, 1997). In cases with multiple blocks of major shareholders the situation becomes more complex due to the diverse interests of different large shareholders, with the possibility of both positive and negative outcomes for firm performance (La Porta et al. 2000).

Expropriation can occur due to the entrenchment of owner-managers, who can continue to control firms despite poor performance (Daniels & Halpern, 1996); also, if managers are major shareholders, they are expected to block any hostile takeover attempts (Stulz, 1988), which represents an agency costs amounting to expropriation of minority shareholders by undermining firm performance. Large block holders also can have a tendency to project their personal preferences onto organisational actions, even if these are against the company ethos/goals as a whole (Holderness & Sheehan, 1998; Shleifer & Vishny, 1997).

Different studies in developing countries (Chen et al. (2009) for Hong Kong firms; Gunasekarage, Hess & Hu (2007) in China; Gursoy & Aydogan, (2002) for Turkish non-financial firms) found that firms with concentrated ownership are not associated with better operating performance or higher firm valuation. The negative relationship between the concentrated ownership and firm performance might be because highly concentrated ownership in the hand of large shareholders might potentially lead large shareholders to worry more about their own interests rather than those of other shareholders and firm performance as a whole.

As illustrated above, literature shows mixed results about the relationship between the large shareholders and firm performance. Shleifer and Vishny (1986) argued that from the efficient monitoring hypothesis and the convergence of the interest hypothesis, large shareholder who held large shares have the ability and the incentive to exert control and to compel the management to take actions to improve the company performance. Based on the expropriation hypothesis, due to the diverse interests of different large shareholders, there is a possibility of both positive and negative outcomes for firm performance (Ahmed et al. 2015) Business organisations in emerging countries (including Nigeria) are characterised by high concentration of ownership, often in the form of family or companies controlled businesses. In this context, this study investigated the effect of the large owners on the performance of Nigerian listed firms. This study used the 5% cut-off level, based on the Code of corporate governance (2003) as amended and the Companies and Allied Matters Act (CAMA) (1990) as amended classification of large shareholders as those who own 5% or more of a firm.

2.1.3.5 Directors shareholding

While shareholders are interested in maximising their returns, managers are concerned with enhancing their personal wealth and their future career opportunities. This will result in a conflict of interest between shareholders and managers, as the former are interested in ensuring that their financial capital is not expropriated or invested in unprofitable projects (Jensen et al., 1976; Fama, 1980; Jensen, 1993). The expropriation

may be manifest in three different ways: investment in projects that benefit the managers rather than the interests of the company, manipulation of transfer pricing and management entrenchment. Theoretically, the convergence of interest or the alignment of interest's hypothesis has been suggested as a mechanism to be used to align the interests between managers and shareholders. With regards to the alignment of interests from the agency theory perspective, Sappington, (1991) suggests that in order to align the interests of managers with shareholders it is important to create incentives for the managers to increase the value maximization. Jensen et al., (1976) state that the incentive of director/managerial ownership is expected to motivate agents to create total surplus, because as managerial ownership increases the interests of the shareholders and managers become more aligned, thus the incentive for opportunistic behaviour decreases. In other words, the greater the stake managers have in the firm (i.e. share ownership), the greater the costs they will incur for not maximising the wealth of shareholders. Hence, aligning the interests between principals and agents resolves for the agency problem and achieves the main goal of the shareholders, which is value maximization, consequently affecting firm performance positively. Shleifer & Vishny (1997) and Becht et al., (2003) stated that managers are not interested only in avoiding the agency problem, but are motivated by other reasons such as their career growth and their reputation. It is well known that managers should consider the importance of their reputation and their image to protect it in order for any further opportunities to work in the future.

Different studies (e.g. Owusu-Ansah, 1998; Palia & Lichtenberg 1999; Weir et al., 2002; Krivogorsky, 2006; Kapopoulos & Lazaretou, 2007; Mangena & Tauringana, 2007; Bhagat & Bolton, 2008) reported a positive impact of the managerial ownership on firm performance. Owusu-Ansah (1998) in his study of a sample of 49 listed Zimbabwean firms in 1994 found that director ownership affects the mandatory disclosure positively. In addition, Mangena and Tauringana (2007) investigated the relationship between managerial ownership and firm performance measured by ROA and Tobin's Q for a sample of 72 listed Zimbabwean firms from 2002 to 2004. They reported a positive relationship. Their findings support the notion that as managerial ownership increased the interests of the shareholders and managers become more aligned, therefore it is more likely that the agency problem will be resolved which might affect the firm performance positively. However, some studies (e.g. De Angelo & De Angelo 1985; Haniffa & Hudaib, 2006; Ho and Williams, 2003; Lin, 2002; Sanda et al., 2005) found that managerial ownership negatively affects the firm performance. Lins (2000) provided evidence of the relationship between firm performance and management ownership across firms from 18 emerging markets. His results suggested that the separation of management ownership and control had a significant negative relation to value in countries with low shareholder protection. The final stream introduced by Dalton et al., (2003) and Sheu and Yang, (2005) reported that there is no relationship between director ownership and firm performance. In other words, the director ownership does not affect the firm performance.

Consistent with agency theory view that managerial ownership is expected to align the interests of the shareholders with agents, thus reducing the agency problem and maximising shareholders' wealth, leading to better firm performance. In this context, this study investigated the influence the managerial ownership on performance of listed firms in Nigeria

2.1.4 Moderating variables and their measurements

In addition to the independent variables mentioned previously, a number of control variables are employed in this research to control for firms' characteristics that may affect firm performance. These variables are considered fundamental for ensuring that the tests concentrate more accurately on the differences created by variations in corporate governance. The current study aims to investigate whether there is a relationship between both corporate governance principles and corporate governance mechanisms and the enhancing of firm performance. Thus, it is important that factors affecting firm performance should also be controlled. The discussion in the previous chapter shows that firm size and leverage variables are frequently used as control variables.

2.1.4.1 Firm size

Different researchers report vague relationship between the firm size and firm performance (Agrawal & Knoeber, 1996; Himmelberg et al., 1999; Nenova, 2003; Durnev & Kim, 2005); Short & Keasey, (1999); Joh, (2003) argue that larger firms have

better opportunity than the smaller ones in creating and generating funds internally and accessing external resources. In addition, larger firms might benefit from economies of scale by creating entry barriers with a positive effect on firm performance. Furthermore, Jensen (1986) points out that firm size may be used as a proxy for the agency problem. He reports that managers have motivation to increase the firm size beyond the target which will indicate more power, when the amount of assets under their control is larger. Fama and Jensen, (1983) and Boone et al. (2007) argue that as the firm size increases the firm becomes more diversified. This means that larger can explain the natural complexity of the company. Also, it means that larger firms need more advice on the board. In addition, larger firms are correlated with complex operations in order to pursue the company strategies more efficiently. Serrasqueiro and Nunes, (2008) recommended larger firm sizes to benefit performance. This is because, large firms have better opportunity to raise funds and more diversified strategies. In addition it has wide variety of expertise management. Black et al. (2006b) show that the firm size positively affects firm performance.

On the other hand, other researchers (e.g., Nenova, 2003; Agrawal & Knoeber, 1996), report that large firms are subject to more inspections and scrutiny. Thus, it might be costly for the controlling families to extract private profits (Nenova, 2003). Agrawal et al., (1996) report a negative relationship between the firm size and firm performance. They argue that larger firms might not be as efficient as the smaller firms due to reduced control by management over strategic and operational activities as firm size increases.

Nenova, 2003 argues that the cost of complying with corporate governance codes requirements will be comparatively low for the larger companies. However, this cost will increase if the companies are subject to public media scrutiny. This is because; they will be subject for high levels of media investigations than the smaller companies Nenova, 2003. Finally, Jensen and Meckling (1976) argue that as the firm size increases the agency costs are likely to increase. The increase of costs is due to the need for more control that resulted from managerial discretion and opportunism. Moreover, the growth of the firm will result in increasing the internal control tools for forecasting and designing. This will raise the need for aligning the interest of the managers and the shareholders (Jensen et al., 1976). In line with previous studies (e.g., Muth & Donaldson, 1998; Elsayed, 2007; Al-Matari et al., 2012; Lehn et al., 2009) who used total assets as a proxy for firm size this study will measure the firm size by using the natural logarithm of total assets (Log TA). Total assets were extracted directly from financial statement of selected firms for twenty six years

2.1.4.2 Leverage

Researchers have argued that leverage may affect the firm performance either positively or negatively. A positive effect might take place as a consequence for monitoring by lenders. Jensen et al., (1976) found that leverage play an important role in mitigating agency problem as an internal corporate governance mechanism especially free cash problems. Jensen (1986) argues that increasing the external debt may result in positive effect. Increasing the debt will constrain managerial discretion. Jensen (1986),

reports that high levels of debt will discipline the managers to use the company free cash flows for non-profitable investments (opportunistic managers). Since managers are obligated to pay periodic repayments of interest and principal. Stiglitz (1985), notes that an effective control for the managerial behaviour is the implemented by lenders rather than shareholders. Similarly, Ross, (1977), argues that increasing the leverage might be a good indicator for the company ability to serve large amounts of debt. Moreover, Modigliani and Miller (1963) expect positive association between leverage and the firm performance computed by tax shields. Agrawal et al. (1996), argue that firm performance can be improved by using the debt in financing the company due to pursuing the monitoring by lenders.

On the other hand, Myers (1977) argues that high amounts of leverage may affect the firm performance negatively according to the problem of underinvestment. This is because increasing the leverage will hinder the ability of the company to raise new debt. Therefore, this will result in losing any possibility to acquire any investment opportunity. Furthermore, Myers (1977) and Stulz (1988) report that high levels of leverage will affect the market value of stocks which will result in higher financial risk. Moreover, they argue that from the governance viewpoint, high amounts of leverage will impede the firm performance by creating excessive interest and closer monitoring by creditors. Andrade and Kaplan, (1998) argue that the lower the firm leverage the lower the probability of financial distress and firm with higher financial leverage tend to perform worse than firms with lower financial leverage. Leverage is defined as ratio of debt to share capital.

Leverage was computed directly from financial statements of selected listed firms in Nigeria (various issues) SEC factbooks (several issues).

2.2 Historical Review

The subject of corporate governance in Nigeria received greater attention after the global financial crisis in 2008 to 2009. Corporate failures, particularly in the banking industry during the period revealed huge lapses in corporate governance in the affected organisations. Since then, there have been assiduous attempts to enhance corporate governance structures and practices in the country. Historically, corporate governance in the country did not enjoy any special attention other than the basic company law provisions that touch on the subject.

The foremost corporate governance guideline was the corporate governance code for banks issued by the Bankers Committee in August, 2003 to guide banks and other financial institutions in the country. The need for the code was prompted by the financial crisis in the country in the nineties. However, the code was limited in scope being applicable to only a few corporate entities, that is those in the banking and financial industry. Moreover, the code was not issued by a regulatory authority but by a self-regulatory voluntary association for banks and other financial institutions in the country and this limited the impact of the code.

Following the growing need for a formal recognition of the subject of corporate governance and provisions for effective corporate governance structure and practices, the SEC in 2003 issued the first corporate governance code in the country in its regulatory

capacity which code applied to all public companies in the country. The code has been amended once, in 2011 to bring it in line with international best practices and present realities. Other regulatory bodies in the country that have issued corporate governance codes since 2003 to address peculiar industry issues not addressed by the SEC code of 2003 are the Central Bank of Nigeria (CBN), Pension Commission (PENCOM), Nigeria Deposit Insurance Corporation (NDIC) and Nigerian Communications Commission (NCC). The striking similarity of all the codes is the fact that they are all sets of principles that seek to guide the corporate entities within their various spheres of applicability and are merely persuasive in nature. The Nigerian corporate governance framework has been largely influenced by the United kingdom/Commonwealth principles based model.

2.2.1 Principles-based vs. Rules based Corporate Governance

The principles based model of corporate governance essentially is one where provisions relating to corporate governance are persuasive in nature such that corporate organisations are encouraged to adopt the provisions. Compliance is therefore essentially voluntary with the sanctions being the exposure of corporate governance failings to the market by the regulators and ultimately de-listing from the stock exchange. In the UK, this approach to corporate governance is referred to as the ‘comply or explain’ model such that companies are required to explain where they cannot comply with the corporate governance codes. The role of the regulators here is to see that investors are well informed before making their investment decisions to the end that entities with poor

corporate governance should naturally enjoy very low patronage in the market (Oso & Bello, 2012).

On the other hand the American rule based model is mandatory in nature and requires corporate entities to comply or face sanctions laid down by the laws relating to corporate governance. Corporate governance in the US received major attention after the colossal corporate failures of Enron, WorldCom as well as some other corporate failures and governance scandals that revealed huge lapses in the area of corporate governance. Consequently, the Sarbanes-Oxley Act of 2002 which was a product of recommendations for change by the New York Stock Exchange (NYSE) was enacted and has strengthened the emphasis on governance under penalty of law thereby making the regulators watchdogs to ensure and enforce compliance with the rules.

The Nigerian SEC corporate governance code is closely modelled after the UK code. The responsibility for compliance with the provisions of the code is first, that of the Board of directors and then the shareholders who could demand compliance with the code. The determination as to whether or not the code has been complied with is at first instance the prerogative of the board followed by the shareholders and then the SEC. The problem with this approach is that the code has left a wide allowance for the board of directors to be umpires over their own activities. It is very unlikely that the same people who are usually at the forefront of infractions related to the governance of corporate entities would own up to their own failures or shortcomings (Oso & Bello, 2012).

Moreover, where there is a breach of the code the only remedy provided is for the SEC to notify the affected company of the breach and actions needed to remedy same. This cannot be sufficient to deter breach of the code especially as there is no system of investor information by the SEC or publication of companies with lapses in corporate governance practices which would force companies to see that their corporate governance practices are up to standard. The code further requires companies to indicate their level of compliance with the code in their annual reports to the SEC. The question is who verifies what is written in such reports and how is this verification done? Corporate administration cannot be effective without checks and it is the shareholders of a company that can effectively check the excesses of the board of directors especially in the area of governance (Oso & Bello, 2012).

However, even where this is done and report is made to the SEC, there is no provision to enforce compliance with the code. This leaves the code with a limited impact on the sphere of corporate governance in the country. Moreover, the code provides that in event of a conflict with any other corporate governance code, i.e. industry specific code, the code with stricter provision would prevail. This provision further watered down the impact of the SEC code which is wider in scope than any other corporate governance code.

2.2.2 Evolution of Corporate Governance in Nigeria

The concept of corporate governance cannot in anyway be separated from company law in general. As noted above, the emergence of corporate governance principle in Nigeria which, concerns with issues relating to the regulation, control and governance of corporate entities can be traced, essentially to CAMA 1990, which replaced the Companies Act 1968. In this regard, like the legal system in Nigeria, corporate governance practices mirrored the UK pattern. Therefore, it is crucial to discuss the evolution of corporate governance in Nigeria in five phases (Oso & Bello, 2012).

2.2.2.1 Pre-1990 Phase

The UK legislations were reviewed when Nigeria attained independence from Britain in 1960. Soon after the independence, Companies Ordinances of 1922 was repealed and replaced by the Companies Act 1968, which was modelled along the English Companies Act of 1948. The Act became the principal legislation regulating companies in Nigeria. It contained detailed provisions regarding the running of affairs of companies particularly in relation to the roles of the board of directors and those of members in general meeting. A factor that led to this development was because, prior to the introduction of the indigenisation programme of the government in 1972, the British citizens controlled the major business enterprises in Nigeria and in a bid to protect their economic interests they had to extend their company legislation to Nigeria. The Companies Act 1968 failed to appreciate the economic realities and settings of the Nigeria state. In 1972, the Federal Government promulgated the Nigerian Enterprises

Promotion Decree commonly referred to as the indigenous Decree essentially to promote indigenous ownership of businesses. The Decree restricted foreign ownership by creating three different schedules of enterprises: first, enterprises exclusively reserved for Nigerians; secondly, enterprises in respect of which foreigners cannot hold more than 40% of shares; and those enterprises in respect of which foreigners cannot hold more than 60% (Oso, & Bello 2012).

However, the Nigerian Enterprise Promotion Decree has been repealed, which abolished any restriction in relation to the limits of shareholding by a foreigner subject to the regulation by CAMA. It is pertinent to note that the issue of ownership of corporation is the foundation of corporate governance under the agency theory. Another area covered by the Decree concerns the prohibition of nationalisation or expropriation of any foreign corporation operating in Nigeria.

The core legislation that alters the face of corporate governance regime in Nigeria was the Nigerian Privatisation and Commercialisation Decree. The focus of the legislation was to afford core foreign investors / strategic partners the opportunity to hold up to 40% of privatised companies. The major reason behind the policy is to give way for investors to provide a much needed injection of capital and more professional management.

Ahunwan (2002) expresses concern on the impact of the legislation in the long run, however opines that privatisation of government owned corporations may change the composition of ownership of Nigerian corporation, but it will not alter the pattern of concentrated ownership. He then concludes: “This raises the question, then, of whether

privatisation will benefit minority shareholders (or whether majority owners will continue to exploit minority owners)”. One possible hope is that a greater participation by institutional investors will help protect the interests of minority shareholders. At this stage, however, there is little data on which to make such an evaluation. Through these legislations, various forms of approaches have been employed to relinquish wholly or partially government equity holdings in the privatised companies, which have clear implications for corporate governance. The consequences are in form changes in the ownership structure that may facilitate effective monitoring thereby leading to better performance of firms.

2.2.2.2 1990 –2003 Phase

It is important to restate that CAMA repealed and replaced the Companies Act 1968 as the principal statute regulating companies in Nigeria. It is also worthy to mention that when it was promulgated in 1990, corporate governance was yet to emerge as a distinct concept.

However, it makes provisions which are fundamental to corporate governance practice in Nigeria which include; required accounting and auditing standards, equity ownership disclosure, minority shareholders rights and equality of members, oversight management where Corporate Affairs Commission (CAC) and other regulators are expected to regulate the activities of the companies. Besides CAMA, there are other general and industry-specific legislations which companies must comply with such as the provisions

of CBN Act, BOFIA, NAICOM Act PENCOM Act FRC Act, NDIC Act, NCC Act, and ISA among others (Oso & Bello, 2012).

In the same regard, one of the significant features of CAMA was the codification of directors' duties. Section 279 provides that a director of a company stands in a fiduciary relationship towards the company and shall observe the utmost good faith towards the company in any transaction with it or on its behalf. It further provides that the director of a company is to have regard in the performance of his duties to the interest of the company's employees in general as well as the interest of its members. Section 280 provides that the interest of a director shall not conflict with any of his duties and shall not in the course of management of affairs of the company or in the utilisation of the company's property, make any secret profit or achieve other unnecessary benefit without being accountable.

Section 282 is to the effect that a director of a company shall exercise and discharge the duties of his office honestly, in good faith and in the best interests of the company, and shall exercise that degree of care, diligence and skill which a reasonably prudent director would exercise in comparable circumstances. It further states that failure to take reasonable care shall ground an action for negligence and breach of duty (Oso & Bello, 2012).

The provision of section 283 of CAMA provides that directors of company are trustees of company's money, properties and their powers and they must account for them in the best interest of the company and all the shareholders, and not in their own or

sectional interests. These provisions of the CAMA confirm the shareholders primacy dominance in Nigeria's corporate governance.

Other duties of directors include preparation of annual account from the company's account record which shall include auditors' reports, directors' reports and statement of the accounting policies. Section 342 mandates the directors of a company to prepare a report while section 345 makes it mandatory for directors to lay and deliver before the company in the general meeting copies of financial statements and auditors' report. These duties underscore the importance of transparency, accountability and disclosure which are the principles of corporate governance.

However, soon after the promulgation of CAMA, the corporate challenges around the world brought the issue of corporate governance to the fore. A result different countries across the globe started reviewing their corporate governance practices. This made certain countries to issue corporate governance codes of practices to address new issues that were not adequately and specifically covered by the company legislation. Nigeria happened to be one of them.

2.2.2.3 2003-2011 Phase

The continuous collapse of corporate organization is of grave concern to the stakeholder and the economy at large. In order to resolve the impasse various nations came up with different codes that with a view to resolving the problem consequently, SEC came with SEC 2003 Code.

The impact of SEC 2003 Code issued by SEC was felt at the corporate scene in Nigeria being the first corporate governance code to be issued by any regulator in Nigeria. The code was also applicable to public companies in Nigeria.

(a) SEC Code of Corporate Governance for Public Companies

The 2003 SEC Code was a product of a 17-member committee headed by Atedo Peterside which was set up by SEC in collaboration with CAC in June 2000. All the sectors of the economy were represented in the committee and it was mandated to identify weaknesses in the corporate governance practices in Nigeria and come up with necessary changes that will address the challenges identified and improve the corporate governance practices in Nigeria.

Rapid changes in the corporate world couple with many corporate scandals across the globe made the provisions of SEC 2003 Code to become inadequate to cope with the numerous corporate challenges and the new developments in the sector. Despite these challenges in the corporate scene, SEC made no attempt to amend its existing code to address the challenges and the new development. Failure on the part of SEC to react and bring the provisions of its code in line with the current realities gave room for other regulators of specific sectors like CBN and others to issue specific codes of corporate governance in order to address the corporate challenges which were not taken into account by SEC 2003 Code. Those specific codes further contained provisions on certain matters relevant to their sectors.

(b) CBN Code of Corporate Governance for Banks (Post Consolidation 2006).

As part of its regulatory and supervisory role in the banking industry in Nigeria, CBN came up with a mandatory code of corporate governance applicable to all banks licensed in Nigeria in 2006 after the 2005 banks consolidation exercise. The need for the code was clearly stated in the introductory part where it stated thus: “Firstly, financial scandals around the world and the recent collapse of major corporate institutions in the USA and Europe have brought to the fore, once again, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders. Secondly, for the financial industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilisation of funds, the allocation of credits to the needy sectors of the economy, the payment and settlement system and the implementations of monetary policy. Lastly, a survey by the Securities and Exchange Commission (SEC) reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks had recognised codes of corporate governance (CBN Code of corporate governance).

Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institution’s distress in the country CBN identified key weakness in corporate governance in Nigeria banking industry and the likely challenges of corporate governance for Banks post

consolidation which among others include: relationship among directors, increased levels of risks, ineffective integration of entities, poor integration and development of information technology systems, accounting systems and records, inadequate management capacity, resurgence of high level malpractices, insider-related lending, rendition of false returns, audit committee, inadequate operational and financial controls, absence of a robust risk management system, disposal of surplus assets and transparency and adequate disclosure of information. In order to address the above mentioned weaknesses and many more, the CBN code came into effect on 3 April, 2006 and applicable to all banks and financial institutions registered in Nigeria.

The following are the major issues covered by it:

(i) CBN 2006 code discussed the organisational structure of the Banks with specific concern as to the executive duality. In this regard, it provides that the responsibility of the head of the Board, that is the Chairman should be clearly and distinctly separated from that of the Head of Management (Managing Director/Chief Executive Officer (CEO) such that no individual/ related party has unfettered powers of decision making by occupying the two positions at the same time. It provides that a committee of non-executive directors should determine the remuneration of executive directors and remuneration of non-executive directors should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses (Oso, & Bello 2012).

The CBN code further provides that there should be strict adherence to the existing code of conduct for bank directors, failing which the regulatory authorities

would impose appropriate sanctions including removal of the erring director from the board.

Another remarkable provisions relating to the company's board is the establishment of minimum boards committee which includes: Risk Management Committee, Audit Committee and Credit Committee The CBN 2006 code further provides for Board performance appraisal including annual Board of directors' review/appraisal covering all aspects of the Board's structure, composition, responsibilities, processes and relationships, individual member's competence and respective roles in the Board's performance. The review report is to be presented at the Annual General Meeting (AGM) and a copy sent to the CBN.

(ii) Disclosure Requirements

Transparency and disclosure requirements are core issues covered by CBN 2006 code. It requires full disclosure of interest to be made to CBN where Board of directors and companies/entities/persons related to them are engaged as service providers or supplied to the bank. It further requires CEOs and chief financial officers of banks to continue to certify in each statutory return submitted to the CBN indicating that they have reviewed the reports, and that based on their knowledge the report does not contain any untrue statement of material fault. And also, the financial statements and other financial information in the report fairly represent, in all material respect the financial condition and results of operations of the bank as of, and for the period presented in that report. It additionally provides that false rendition to CBN attracts very stiff sanction of fine and

suspension of the CEO for six months in the first instance and removal plus blacklisting in the second, with professional body disciplinary action.

As part of the disclosure requirement, the CBN 2006 code made provisions for internal auditors and urged that the auditors should be largely independent, highly competent and people of integrity. It further made provision for external auditors who should maintain arms-length relationship with the bank and they audit. The procedure for the appointment of external auditors, tenure, services provided and limitations were all provided for.

(c) Code of Corporate Governance for Licensed Pension Operators 2008

In the same vein, after successful reforms in the nation's pension sector which allow greater participation of private sector in fund management, PENCOM issued the Code of Corporate Governance for Licensed Operators in 2008 which set out rules to guide the pension administrators and pension fund custodians on structures and processes to be utilised towards achieving desired governance. The code outlines the bench mark for corporate governance in the sector, which meant to regulate the standard of governance policies in the companies. The major objective of the code was to establish overall economic performance and market integrity through creation of incentives for pension schemes with a view to impact positively on stakeholders which in the end would boost their confidence. Despite the effort of PENCOM in introducing the code in the pension sector, much is still desired as the code has no provisions on the new developments on corporate governance, hence the need for amendments. The key provisions of PENCOM Code 2008 are as follow:

(i) Board of Directors- Section 4 requires the number of non-executive directors (excluding the Chairman) of the board at all times, in the minimum, to equate the number of executive directors for the board to have balance at all time.

It further requires the board to have at least one independent director. The roles of Chairman and CEO separated to ensure an appropriate balance of power, increased accountability and greater capacity of the board for independent decision making. It further requires that the board based on what is in the best interest of the company, its shareholders and other stakeholders, set objectives for the company's business operations and make sure that the company has an appropriate strategy, organisation and management team on a regular basis. It mandates the board to meet at least once every quarter of the financial year. The board is also mandated to establish board committees to facilitate its work. The Committees shall include the Audit Committee, the Investment Strategy Committee, the Risk Management Committee, and the Nominating Committee. The board shall on annual basis undertake a formal and rigorous evaluation of its own performance and that of its committees and directors. It shall also disclose in its Corporate Governance Report to NAICOM how such performance evaluation was conducted and actions taken to address the issues brought to fore as a result of evaluation.

(ii) Industry Transparency

Section 5 prohibits any relationship between Pension Fund administrators and Pension Fund custodians with which it chooses to do business. It further states the circumstances that qualified to be considered between Pension Fund Administrators and Pension Fund

Custodians as stipulated by section 5.2.1 to 5.2.5. It requires the Board to report to the shareholders each year on remuneration, which shall be part of or be annexed to, the company's annual report and accounts. Finally, it mandates the Pension Fund Administrators and Pension Fund Custodians to include a statement in its annual report and on its website on the level of its compliance with the code of corporate governance.

(d) Code of Good Corporate Governance for the Insurance Industry 2009

In March 2009, The National Insurance Commission (NAICOM) made a giant step when it issued the Code of Corporate Governance for the Insurance Industry in Nigeria. The 2009 NAICOM Code is mandatory for all insurance and re-insurance companies under the regulatory supervision of NAICOM. It issued the 2009 NAICOM Code in a bid to rebuild and sustain declining confidence of stakeholders in insurance sector. In its preamble, the code stated that the hidden potential of the sector would be unleashed for maximum impact that would induce economic growth in Nigeria.

The National Insurance Commission (NAICOM) 2009 Code was issued during the major causal factor of the global meltdown which was attributed to unwholesome and sharp practices of corporate leaders in advanced jurisdictions and our local environment. There was high expectation that sound corporate governance practice in the insurance industry would promote corporate transparency, accountability and enhanced shareholders value. The National Insurance Commission (NAICOM) 2009 Code recognised certain basic principles of corporate governance which include: disclosure and transparency; responsible and accountable board; culture of compliance with rules and

regulations; good knowledge about business and insurance matters with requisite experience and effective exercise of shareholders' rights. NAICOM issued code of good corporate governance for the insurance industry effective from 1st March, 2009 which serves as a framework to promote transparent and efficient market and ensures the division of responsibilities among different stakeholders in the industry. It applies to all Insurance and Reinsurance Companies where the NAICOM was the primary regulator. NAICOM states that insurance sector is known to be major driver of the economy of any country through its activities. It is the expectation of NAICOM that with proper regulations and best practices put in place by it, the hidden potential of the sector would be unleashed for maximum impact that would in turn contribute to the economic growth of Nigeria. It further stated that good corporate governance in the industry required a set of comprehensive internal mechanisms and policies established by the board of directors and implemented by skilled personnel and championed by effective management.

The fundamental issues covered by NAICOM Code 2009 are provided as follow:

(i) Board of Directors

It requires the board of directors to account for the strategic guidance and effective management of the company. The board shall have a Chairman who is responsible for ensuring that the board directs the affairs of the company effectively and it retains the confidence of shareholders and management. Like other existing codes in Nigeria, NAICOM Code 2009 requires separation of Chairman from that of CEO in order to avoid concentration of powers on one person. It further requires the composition of not less

than 7 members and not more than 15 members on its board. The board shall consist of executive and non-executive directors and at least one independent director.

The Code stated the duties of the board, its responsibilities, required conduct of the board of directors, rights of shareholders, conflict of interest and meetings of the board. It equally requires the board to establish financial and general purpose committee; investment committee; enterprise risk management committee; audit and compliance committee (to be headed by an independent director).

(ii) External Auditor

By the provision of section 8, it requires that a company shall appoint external auditor who is answerable to the board and the appointment shall be approved by the NAICOM. The tenure of an appointed external auditor is for a maximum of five years and the auditors' performance shall be reviewed periodically. Section 9 requires an internal audit unit in order to control and monitor internal control procedures and ensure adequate protection of assets of the company. The report of the internal audit unit shall be forwarded to the Audit Committee. Also each Annual Report shall confirm an Internal Audit Report which will state the responsibility of management for establishing and maintaining an adequate Internal Control Structure and procedure of the issuer for financial reporting. The Internal Audit Report must be filed at NAICOM on quarterly basis and the External Auditor shall attest to and report on the assessment made by the management.

(iii) Accounting Principles, Disclosure and Reporting Requirements

In section 10 NAICOM, it is stated that accounting systems are central to the information required by investors, customers, supervisors and other stakeholders in order to make objective assessment in relation to effectiveness of the enterprise and its future prospects. It requires accounting methods to provide real economic gains and losses and the accounting method shall state and define each accounting item clearly and the precise method of evaluation shall clearly state in a bid to disclose the financial condition of the company without ambiguity. Disclosure and reporting requirements shall be in line with Insurance Industry Policy Guidelines that is published by NAICOM from time to time.

2.2.2.4 2011-2013 Phase

Despite the numerous shortcomings of SEC 2003 Code, it was in existence in Nigeria until when it was replaced with Code of Corporate Governance in Nigeria on the 1st April 2011 by SEC. The making of SEC 2011 Code was initiated in 2008 when SEC constituted a National Committee with M.B Mahmoud as the head. The committee was mandated to review the SEC 2003 Code with a view to addressing its weaknesses and to further improve corporate governance mechanisms for its enforceability.

The committee was further directed to identify causes and weaknesses in the corporate governance mechanisms in Nigeria and to examine and recommend various ways of achieving greater compliance and to further advice on the various issues that are quite significant in promoting sound corporate governance practices in

Nigeria. The committee submitted its report in 2009 to SEC accompanied with a draft Revised Code of Corporate Governance. SEC after due consultations with other regulatory bodies reviewed the draft of the committee and made certain amendments at its meeting. Later, SEC exposed a Draft Revised Code of Corporate Governance to the public via its website and other print media for comments and possible suggestions from the public.

Below are principal issues addressed by it:

(a) Code of Corporate Governance for Public Companies 2011.

SEC issued the SEC 2011 Code with commencement date of 1st April 2011 and applicable to all public companies in Nigeria. It is regarded as the minimum standards for public companies in Nigeria. The board of the SEC believes that the 2011 code will ensure the highest standards of transparency, accountability and good corporate governance, without unduly inhibiting enterprise and innovation. Some of its provisions are as follow:

(i) Application of the Code: The 2011 SEC code applies to all public entities whose securities are listed on a recognised securities exchange in Nigeria which shall comply with the principles and provisions of the code and which should serve as the basis of the minimum standard of their corporate behaviour. Other entities covered by the 2011 SEC code are all companies seeking to raise funds from the capital market through the issuance of securities. Those seeking listing by introduction will be expected to demonstrate sufficient compliance with the principles and provisions of the code

appropriate to their size, circumstances or operating environment. The 2011 SEC code is voluntary and where there is conflict between it and the provisions of any other code in relation to a company covered by the two codes, the code that makes a stricter provision shall apply.

(ii) The Board of Directors: The 2011 SEC code recognised the importance of the Board of Directors when it stated that the Board is accountable and responsible for the performance and the affairs of the company. Therefore, the principal objective of the Board is to ensure that the company is properly managed. It is also the primary responsibility of the Board to ensure sound corporate governance in the company. The duties of the Board are specifically provided for under section 3 of the 2011 SEC Code which include formulation of policies and overseeing the Management and conduct of business, formulation and management of risk framework and overseeing the effectiveness and adequacy of internal control system.

Part B of the code deals with the provisions relating to Board of Directors, its responsibilities, duties, composition and structure of the Board. The code requires Board to meet at least once every quarter and the Board should develop a written, clearly defined formal and transparent procedure for appointment to the Board of Directors. It further requires the Board to establish a system to undertake a formal and rigorous annual evaluation of its own performance, that of its committees, the chairman and individual directors. The code further prohibits two directors of public companies, their immediate families-spouse, son, daughter, mother or father from being directors in the same Board.

It also prohibits insider trading and other insiders as defined under section 315 of ISA and Rule 110 (3) of the SEC Rules and Regulations, in possession of pure sensitive information and other confidential information, shall not deal with securities of the company. It further requires that for all the public companies with listed securities, the position of the Chairman of the Board and CEO shall be separate and held by different individuals. Provisions were made for the establishments of committees by the Board. Section 9 requires the Board to determine the extent to which its duties and responsibilities should be undertaken through committees. It urged the Board to establish Governance/Remuneration Committee and Risk Management Committee in addition to Audit Committee established by CAMA. It further allows the Board to establish other committees which in the opinion of the Board will assist it in discharging its duties.

(iii) Relationship with Shareholders Part C of the code made provisions as to the relationship with shareholders which include meetings of shareholders, protection of shareholders rights, venue of meeting; resolution and the role of shareholder association. It further requires shareholders of public companies to play a key role in good corporate governance. In particular, institutional shareholders and other shareholders with large holdings should positively influence the standard of corporate governance in the companies in which they invest. It requires companies to pay attention to the interest of its stakeholders such as its employees, host community, the consumers and the general public

(iv) Risk Management and Audit Part E concerns with Risk Management and Audit committees which is the duty of the Board to form its own opinion on the effectiveness of the process and the Board to ensure that Audit committee is constituted in the manner stipulated and is able to effectively discharge its statutory duties and responsibility as required by Section 359 (3) and (4) of the CAMA.

Whenever necessary, the audit committee may obtain external professional advice. It further requires companies to have effective risk-based internal audit function. Companies are required to have a whistle-blowing policy which should be known to employees, stakeholders such as contractors, shareholders, job applicants, and the general public. In this regard, it requires companies to rotate external auditors in order to safeguard the integrity of the external audit process and guarantee its independence.

(v) Accountability and Reporting: The SEC code 2011 in a bid to ensure full disclosure and to foster good corporate governance requires that companies should engage in increased disclosure in Nigeria and beyond the statutory requirements in CAMA. It further requires that the board of every company should ensure that the company's annual report make sufficient disclosure on accounting and risk management issues. Finally, the code makes provisions regarding the communication policy and requires a company to have a code of ethics and statement of business practices which should be implemented as part of the corporate governance practices of the company. The provisions of SEC code 2011 complements the provisions of CAMA which are quite imprecise, scanty and inadequate.

2.2.2.5 2014-2015

In line with the dynamic nature of the capital market and many challenges in the corporate world, SEC further amended the 2011 code to reflect international best practices. The amended code came into force on May 12, 2014 as SEC Code of Corporate Governance for Public Companies.

The code of corporate governance for public companies in Nigeria to all companies registered with corporate Affairs Commission Abuja be it financial or non-financial

(a) Code of Corporate Governance for Public Companies in Nigeria 2014

Major issues covered by the amendment were upgraded status of the code from a moral-suasion based voluntary code to a mandatory code. The code, as amended is described as a framework that is expected to facilitate sound corporate governance practices and behavior, and should be seen as a dynamic document defining minimum standards of corporate governance expected particularly of public companies with listed securities. The new code also made provisions for the application of sanctions and penalties which would scale up the code to same level of statutory rules being made by SEC under the mandate of the ISA. Already under the 2011 code, publicly quoted companies are required to include in their annual report and accounts a compliance report on codes of corporate governance which is still retained in the new code. It sets the minimum acceptance standards for quoted companies, which is now mandatory. According to the code failure attracts sanction.

(b) Code of Corporate Governance for Banks and Discounts Houses in Nigeria and Guidelines for Whistle Blowing in the Nigerian Banking Industry (WBNBI, 2014)

The global economic crisis of 2008 exposed many weaknesses in running the affairs of companies globally. In Nigeria in particular, the regulations put in place were squarely found to be inadequate, hence the need for addressing the issue. In the banking industry, the banking examination conducted by the joint panel of CBN/NDIC revealed series of corporate abuses which the corporate governance mechanisms failed to address. In line with the above development, CBN Governor on 14 August, 2009 announced the dismissal of CEOs of five commercial banks and their board of directors and further dismissed three others and their board of directors on 2 October, 2009 and replaced them with CBN-appointed CEOs and directors. The MD/CEO (Umaru) of the NDIC recounted the position of Nigerian banks during the joint CBN/NDIC examination in 2009 in the following words: ‘The public outcry has been loud and understandable due to several failures of corporate governance practices in banks. Directors, regulators and shareholders, also policymakers and the general public need to pay more attention to corporate governance. A major lesson to draw from the global financial crisis of 2007-09 is failure of corporate governance. The 2009 CBN and NDIC special examination of all the 24 banks in Nigeria revealed that 10 banks were critically distressed as a result of many factors including weak macroeconomic and prudential management, poor corporate governance practices, inadequate disclosure and transparency regime, weak regulation as well as inadequate supervision and enforcement, amongst others (CBN 2009).

Manifest corporate governance failure in the banking sector prompted CBN to review the CBN 2006 code of corporate governance to align with international best practices, eliminate perceived ambiguities and further strengthen governance practices. It was further confirmed that CBN in collaboration with the NDIC conducted risk assessment of all Deposit Money Banks as at 31 December, 2014, with the aim of providing reliable information on the banks' risk assets quality, adequacy of loan loss provisioning and capital adequacy positions. Also, they further carried out monitoring exercise of 15 Deposit Money Banks and recorded Composite Risk Rating of 'High' and 'Above average'.

The monitoring exercise was conducted as at 30th June, 2014, while those other 8 Deposit Money Banks with Component Risk Rating of 'Low' and 'Moderate' were examined as at 30th, September, 2014 totalling the number of DMBs examined using the risk-based approach to 23. The essence of the examinations was to determine the financial health of the insured institutions, their level of compliance with banking rules and regulations and to determine their risk appetite and the adequacy of their risk management framework.

(i) Size and Composition of the Board of Directors

The effective date of the revised code is 1st October, 2014 and banks and discount houses were required to submit quarterly returns of their compliance with the extant provisions of the revised code. The returns were directed to reach the Director, Financial Policy and Regulation Department, CBN not later than 7 days after

the end of each quarter. It further requires additional report from the external auditors of the banks and discount houses on annual basis to the CBN as to compliance with the revised code. The revised code amends the size of the board to a minimum size of 5 and maximum of 20. It further requires every discount house to have at least one non-executive director as an independent director separate from the minimum number of 2 already stipulated for banks. The revised code recognised the problems arose following the creation of holding company in the banking sector when it provides that where a bank is a member of a holding company, no two members of the same extended family shall occupy the positions of Chairman and Managing Director (MD)/CEO or Executive Director of the bank and at the same time Chairman or MD/CEO of a bank's subsidiary. It placed the responsibility for preparing the bank's risk management on the board and requires the board to have an oversight responsibility over its effective implementation. The board shall also review the effectiveness of the implementation of the risk management and control system annually.

(ii) Mandatory Disclosures for Reporting

Unlike the previous code, the revised code defines the minimum disclosure to be contained in the annual report which must include the details of directors, corporate governance and contingency planning framework amongst others. On the appointment/removal of Chief Compliance Officer, it mandates the board to be responsible for the approval and removal of the Chief Compliance Officer/Head of Internal Audit subject to CBN's ratification with 14 days' notice' to CBN of any such change. This indicates a

clear improvement on the previous code. It requires the mandatory establishment of bank's securities trading policy which must contain appropriate compliance standards by the directors, senior executives and employees to ensure that it is appropriately implemented. It further stipulated that there shall be an internal review mechanism to access compliance and effectiveness. Further to that, all banks are required to establish a code of conduct which contains a summary of practices necessary to maintain confidence and integrity and investigating reports of unethical practices amongst others. The revisions and updates by CBN were expected to address weaknesses identified on the previous codes. This resulted to more robust corporate governance practices and disclosures in annual reports in line with international best practices.

(c) Code of Corporate Governance for telecommunication Industry (CCGTI, 2014)

The Nigerian Communications Commission (NCC) believes that corporate governance in an emerging economy is driven by the need to develop a system which is aimed at increasing shareholder value and surpassing the expectations of other stakeholders. The NCC code seeks to foster good corporate governance practices in the Nigerian Telecommunications Industry, which provisions are based the international best practices. The following are some of the provisions contained in NCC code:

(i) Compliance with the Law and Application of the Code

The code adopts the principles, standards and laws laid down in existing statutes in Nigeria particularly by the Companies and Allied Matter Act (CAMA), Nigeria

Communications Act, etc. Therefore, the code is subject to the provisions of CAMA in relation to the responsibilities of directors and officers of the company. The code is applicable to all telecommunication companies licensed by the NCC.

(ii) Board of Directors

The code states that every company should have a Board of Directors appointed by its shareholders to be collectively responsible for the management of the business of the company. Given the strategic importance of the telecommunication sector in Nigeria, the code deemed it necessary that the board be constituted in a manner it will efficiently discharge their governance role and responsibilities. The Board should provide exemplary leadership for the company based on ethical principle. The code further empowered the board of director to establish appropriate committees to assist it in governance function, duties, and responsibilities to help improve the efficiency of its work, as it deems appropriate. It further requires that in order to institute and maintain independence and proper checks and balances, the positions of Chairman of the Board and that of CEO should be separate and occupied by two separate individuals.

(iii) Shareholders and Stakeholders

The code stipulates that the business of the company should be run in such a way as to balance the interest of the shareholders and other stakeholders. The Board should demonstrate clear and balanced understanding of the company's external stakeholders as well as their importance to the business of the company.

(iv) Risk Management and Internal Control

The code provides that companies should establish effective systems and structures for the governance of risk and for a robust system of internal controls to safeguard the company's assets and shareholders' investment. It also requires companies to adopt a risk based approach to internal audit.

(v) Reporting, Transparency and Disclosure

The code in section 12 mandates the board of the companies to present a fair, balanced, understandable and transparent assessment of the company's position and prospects to external stakeholders. **(CCGTI, 2014)**

2.2.2.6 The National Code of Corporate Governance (NCCG) 2016

The Code:

- Supersedes any corporate governance codes before 17 October 2016.
- Is mandatory for all public companies (listed or not listed); all private companies that are holding companies or subsidiaries of the public companies; and all private companies (with more than 8 employees) that file returns to any regulatory authority other than the Federal Inland Revenue Service and the Corporate Affairs Commission.
- Sets the minimum number of members on a board of directors at 8; this is a revision from the SEC Corporate Governance Code and Code of Corporate Governance for Banks and Discount Houses in Nigeria which provided for a minimum of 5. Companies are required to comply with the provisions of the Code

in any annual reports covering periods beginning on or after 17 October 2016 and an earlier application would be permitted.

- The FRC includes open-ended sanctions for non-compliance with the code (which may be applied to individuals directly involved and the company itself), and makes the Code enforceable by the Financial Reporting Council and any sectoral regulator where applicable.

It further introduces; ((NCCG, 2016)

(a) Explicit provisions on the composition of the Board for Independent Non-Executive Directors (INEDs), Non-Executive Directors (NEDs), and Executive Directors (EDs).

(b) A 10-year cool-off period for considering an MD/CEO for the position of chair of the board.

(c) The position of the Lead Independent Non-Executive Director and the discretionary right for the INEDs to appoint such a person.

(d) A requirement to indicate the 'other' directorships of each director in the annual report, corporate publications, and investors' portals.

(e) An explicit prohibition of a reclassification of an existing NED into INED.

(f) A requirement to establish and disclose a policy (or summary), on gender diversity for the board to assess annually.

(g) An exclusion of the chairman from the membership of board committees.

- (h) Extended provisions on ED remuneration, reporting of ED remuneration, limitations to EDs being appointed as NEDs for other companies, and exclusion from certain board committee membership.
- (i) A responsibility on NEDs to evaluate the performance of the chairman.
- (j) A 5 year minimum period for considering an ex-employee or interested party of the company as an INED.
- (k) Sets the maximum term of appointment for an INED at nine years, NEDs at twelve years, and EDs at fifteen years.
- (l) A provision on annual declarations by INEDs, evaluation of independence of each INED, company reporting on INEDs, and returns to regulators for INED- related events.
- (m) A requirement to have at least one expert with current knowledge of accounting and financial management as member of the Board or Statutory Audit Committee.
- (n) A mandatory requirement for the chair of the Board or Statutory Audit Committee to be an INED (and in the case of the Statutory Audit Committee, an independent shareholder may chair).
- (o) An explicit provision reserving the termination of the appointment of head of the internal audit functions as a matter for the board.
- (p) A requirement for listed and significant public interest entities to engage joint external auditors for their statutory audit.
- (q) A requirement to separate the external audit service provision from other financial-related services provided by the same provider.

- (r) A requirement that the tenure of the Managing Director/Chief Executive Officer should not exceed two terms of five years each.
- (s) A right for shareholders holding an aggregate 1% or more of the shares of the company to submit items for the agenda of an annual general meeting.
- (t) A requirement for an annual corporate governance evaluation to be presented at annual general meetings submitted to the regulator, as well as published.
- (u) Reporting on ethical, safety, health and environmental policies and practices.
- (v) Mandatory requirement to have a Code of Business Conduct and Ethics.
- (w) The use of and definitions of the terms “Independent Governance Expert” and “Independent Shareholder” (National Code of Corporate Governance 2016).

2.2.3 Sub-sectors of Nigerian Economy

The Nigerian economy consists of eleven (11) subsectors of non-financial and two financial subsectors using NSE taxonomy as presented in appendix 3. The non-financial subsectors are: breweries, building materials, chemical and paints, conglomerates. Others are computer and office equipment, construction, food and tobacco, healthcare, industrial/domestic products, petroleum [marketing], printing and publishing, while the financial subsectors are Banking and Insurance.

2.3 Empirical Studies

This section reviews past works that have tried to validate empirically the relationship that exists between measures of corporate governance and firm performance. Several mechanisms of corporate governance identified in the literature have influencing firm performance. Given below are some of these mechanisms along with their direction of effect on firm performance.

2.3.1 Corporate Governance Mechanisms and Return on Assets

Rostami, Rostami, and Kohansal (2016) investigated the effect of corporate governance components on return on assets and stock return of companies listed in Tehran Stock Exchange. 469 firm year observations were collected using systematic sampling technique for a period of seven years. Six internal components of a corporate governance system such as ownership concentration, institutional ownership, Board independence, Board size, CEO duality and CEO tenure were used as independent variables while return on assets and stock return, as the firm financial performance evaluation criteria, were dependent variables. The control variables of this study were the market value of the equity and the ratio of book value to market value of the equity. The results, which were based on estimated generalised least square method, indicated that there is a significant positive relationship between ownership concentration; Board independence; CEO duality; CEO tenure and return on assets. On the other hand, there is a significant negative relationship between institutional ownership; Board size and return on assets. Besides there is a significant positive relationship between institutional

ownership Board independence; CEO duality; CEO tenure and stock return. However, there is a significant negative relationship between ownership concentration and Board size with stock return.

Nidhi and Anil, (2016) examined the role of audit committee characteristics (independence and frequency of meetings) in addition with other components of corporate governance (duality, promoter shareholding, board composition, and board size) in improving firm performance. Fixed effect panel data regression was applied on 235 non-financial public limited companies listed in NSE 500. The time period considered was ten years (2004 to 2013). Return on Assets and Market Capitalization were used as proxies of firm performance. Results reveal significant positive association of board size and CEO-Chairman dual role with firm performance measured by return on assets. However, findings did not reveal any additional effect of audit committee independence and its meeting frequency on the financial performance of Indian firms. Regulators and policy makers may re-examine the significance of greater independence of board and audit committee in context of firm performance.

Rao and Desta, (2016) studied the effect of corporate governance on financial performance of Ethiopian commercial banks. The annual reports of the sampled commercial banks were the sources of data. The proxy used for financial performance was return on asset. Content analysis was applied to determine the level of disclosure using un-weighted checklist. Accordingly, the level of disclosure practice was measured by the ratio of disclosure score of commercial banks to their total obtainable scores. In

addition, correlation and regression analyses were used to determine the relation between corporate governance and financial performance. The results indicated that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks. However, asset size and capital structure have positive significant effect on the return on assets.

Hussain, Ashfaq, and Muhammad, (2016) assessed corporate governance structure by using the data of 80 non-financial firms listed on Karachi Stock Exchange Pakistan during 2010 to 2014. Hypotheses of the study were tested by using both descriptive and inferential statistics. The findings indicate that board size and audit committee is positively related to the firm performance (ROA). In contrast, board composition and CEO duality are negatively related to the firm performance (ROA). As far as controlling variables is concerned, leverage is negative, whereas firm size is positively related to all measures of performance. Empirical findings concluded that corporate governance practices affect the firm performance. Therefore, it is suggested that managers should understand the governance mechanisms to work more efficiently in the firm.

Dabor, Isiavwe and Ajagbe, (2015) evaluated the impact of corporate governance on firm performance of selected companies quoted on the Nigerian stock exchange. A sample of 248 companies was selected employing simple random sampling technique. The researchers used the econometrics analysis software E-views 7.0 to analyse the data. Return on assets was used as the proxy for firm performance while board size, board

independence, board gender diversity and ownership structure were variables used for measuring corporate governance. The results reveal that there is significant negative relationship between board size and firm financial performance measured by ROA. Board independence, ownership structure and board gender diversity do not have significant impact on firm performance. The study suggests that statutory bodies should enact laws that will mandate all firms to maintain small board size.

Bebeji, Muhammed and Tanko, (2015) examined the effects of board size and board composition on the performance of Nigerian banks. The financial statements of five banks were used as a sample for the period of nine years and the data collected were analysed using the multivariate regression analysis. The paper found that board size has significant negative impact on the performance of banks in Nigeria. This signified that an increase in Board size would lead to a decrease in ROA. On the other hand, board composition has a significant positive effect on the performance of banks in Nigeria. This showed that an increase in board composition led to a increase in ROA. It is recommended that banks should have adequate board size to the scale and complexity of the organisation's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. The board size should not be too large and must be made up of qualified professionals who are conversant with oversight function. The Board should comprise of a mix of executive and non-executive directors, headed by a Chairman.

Mule and Mukras, (2015) assessed the relationship between financial leverage and the financial performance of listed firm in Kenya. They use annual data for the period 2007 to 2011. Various panel procedures were used. The study found reasonably strong evidence that financial leverage significantly and negatively affects the performance of listed firms in Kenya using ROA,

Assefa and Megbaru, (2014) examined the effect of corporate governance structure on financial performance of firms. They used return on asset and operating profit margin as dependent variables; board size, board independence, frequency of board meetings, audit committee and board ownership as independent indicators, and financial leverage and firm growth rate were used as control variables. The researchers used both correlation analysis and pooled panel data with cross-sectional nature. The econometric regression result showed that board size is negatively and significantly associated to the indicators of financial performance: gauged by return on asset and operating profit margin. Both board independence and board ownership have positive relationships and significant effects on the two indicators of commercial banks financial performance. The result shows that audit committee is negatively and significantly correlated to return on asset with negative and insignificant impact on operating profit margin. Frequency of board meeting remains positive in terms of its direction of connection and immaterial in its affiliation with the two financial performance indicators of commercial banks under investigation.

Almatari, (2014) investigated the relationship between the corporate governance mechanisms (board of director's characteristics, the audit committee characteristics, and the executive committee) and the performance of listed companies in Oman for the year 2008 to 2012. The study was based on agency and the resource dependence theories. Data were gathered from the annual reports of 78 non-financial listed firms while panel data methodology was adopted for the analysis. Independent variables used were firm size, leverage, industry and years of establishment as control variables. Random effect model was used to examine the effect of the predictors on the firm performance indicators measured by Return on Assets. The secretary role, leverage and time period (2011) were negative predictors of ROA. From the practical and the theoretical contribution points of view, this study indicate that the resource dependence theory is more significant compared to the agency theory when describing corporate governance practices in Oman.

Amer, (2014) examined the relationship between corporate governance and firm performance of companies listed in Abu Dhabi Stock Exchange. The dataset was drawn from the Abu Dhabi Exchange Shareholding Company's guide for years 2007 to 2011. The study used pooled regression analysis on 281 firm/year observations. Return on Assets (ROA), was used as measure of firm performance while independent variables included institutional ownership, governmental ownership, board size, and audit quality. The study controlled for the relationship between the dependent and independent variables by including firm size, debt ratio, dividend yield, and age of the firm. Results

showed significant positive impact of corporate governance measures on firm performance (except for Audit quality).

Wanyama and Olweny, (2013) examined the linkage between corporate governance mechanism measured by board size, board composition, CEO duality and leverage and how they affect the financial performance of listed insurance Companies in Kenya. Firm performance was measured by Return on Assets (ROA). This study adopted a descriptive research design. The study population was all those insurance Companies which were quoted on the Nairobi Securities Exchange as at December 2012. The primary data were collected through the administration of questionnaires to the staff in those listed insurance firms. Stratified random sampling technique was used to obtain the sample staff for the purpose of administering questionnaires. In addition secondary data were collected using documentary information from Company annual accounts for the period 2007 to 2011. Reliability test was carried out using Cronbach's alpha model. Both descriptive and inferential statistics were used. Data was analyzed using a multiple linear regression model. The study found that board size was found to negatively affect the financial performance of insurance companies listed at the NSE. There was a positive relationship between board composition and firm financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non-executive directors. Similarly, leverage was found to positively affect financial performance of insurance

firms listed at the NSE. On CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed insurance firms.

Cheema and Muhammad, (2013) assessed the relationship between the corporate governance variables and firm financial performance in Cement industry of Pakistan. This study gave attention to three variables which include board Size, Family controlled firms, and CEO duality. Firm's performance is measured through return on assets, and earnings per share, debt to equity and current ratio. It revealed that family own cement firms have high profitability and high earnings per share as compared to non-family cement industries. Similarly board size showed significant results. It showed that board size affect the performance of firms. Hence their hypothesis of negative relation of board size to firm performance was rejected. It revealed that board size has positive relation with cement industry performance in Pakistan.

Danoshana and Ravivathani, (2013) investigated the impact of corporate governance mechanisms on the performance of listed financial institutions in Sri Lanka as main objective and recommend a suitable corporate governance practices for improving performance of listed financial institutions. The researchers used Return on assets as the key variable that defined the performance of the firm. On the other hand, board size, meeting frequency and audit committee of the company were used as variables to measure the corporate governance. Twenty five listed financial institutions were selected as sample size for the sample period of 2008 to 2012. The data were collected through the secondary sources. According to the analysis, variables of corporate

governance (board size and audit committee size) have significant positive impact on firm's performance. However, meeting frequency has negative impact on firm's performance.

Manawaduge and Anura, (2013) examined the impact of ownership concentration and structure on the performance of public listed firms in Sri Lanka. For this purpose, they carried out an analysis based on a regression model using pooled data for a sample of 157 Sri Lankan public listed firms for nine years period between 2000 and 2008. This study provided useful information on the relationship between various ownership concentration and structure measures and their influence on both accounting and market performance. Empirical findings indicated that a significant relationship exists between ownership concentration, measured by three largest shareholders (SH3) and the accounting performance measure ROA. The Herfindahl (HERF) index also has positive and significant impact on ROA. This result suggested that a greater concentration of shares lead to either effective monitoring of management behaviour or larger internal ownership which results in better performance. However, ownership concentration did not show any significant effect on market-based performance measures, which points to the existence of market anomalies and inefficiencies which are common to most emerging markets such as Sri Lanka's.

Hassan and Halbouni, (2013) investigated the effect of corporate governance mechanisms on the financial performance of the United Arab Emirates (UAE) listed firms. 95 UAE listed firms affiliated to financial and non-financial sectors were selected.

Relationship corporate governance mechanisms used were voluntary disclosure, CEO duality, board size, board committee and audit type while control variables adopted were firm size, industry type, firm listing years and leverage. Secondary data were collected from published accounts of the selected firm for year 2008. Accounting-based measure of return on assets (ROA) and return on equity (ROE) were employed to measure the UAE firms' performance. Findings revealed that voluntary disclosure, CEO duality and board size are significantly influencing the UAE (ROA) and ROE.

Akhtar, Benish and Haleema, (2012) investigated the relationship between the financial leverage and the financial performance of the fuel and energy sector in Pakistan. The paper also examines the generalisation that firms with higher profitability may choose high leverage by using various statistical tools. The findings of the study show a positive relationship between the financial leverage and the financial performance of the companies by accepting the alternate hypothesis H1 and H0 is rejected. Data were collected from the relevant annual reports of public limited companies registered on the Karachi Stock Exchange (KSE) (2000 to 2005) and statistics provided by State bank of Pakistan. The financial performance measured key indicators commonly used such as return on assets; dividend cover ratio; dividend ratio to equity; net profit margin; earning per share before tax; earning per share after tax; sales as percentage of total assets and earning per share before tax growth as a percentage of sales growth. On the other hand the independent variables, financial leverage engaged the key leverage indicators commonly used including the gearing ratio, debt equity ratio and debt equity ratio. The

results of the study confirmed that the firms having higher profitability may improve their financial performance by having high levels of financial leverage. The study provided evidence by evaluating different facts. It revealed that the players of the fuel and energy in Pakistan can improve at their financial performance by employing the financial leverage and can arrive at a sustainable future growth by making vital decisions about the choice of their optimal capital structure.

Zied, (2012) investigated the impact of the presence of audit committees on the financial performance of Tunisian companies. 26 Tunisian firms listed on the Tunis Stock Exchange over a period which lasts 4 years (2007 to 2010) were selected. He found that the independence of the audit committee has a significant effect on financial performance of firms measured by ROA. He recommended for at least a member of the audit committee with a professional accounting certificate or a related field or with experience in accounting or finance in order to improve the financial performance of companies in Tunisia.

Rashid, De Zoysa, Lodh and Rudkin, (2010) examined the influence of corporate board composition in the form of representation of outside independent directors on firm economic performance in Bangladesh. A linear regression analysis was used to test the hypotheses. The result showed that the outside independent directors cannot influence firms' economic performance. The results also confirmed that board size has a significant negative explanatory power in influencing firms' performance under the ROA and ROE measures of performance, This is indicative of information asymmetries between inside

and outside directors. The results also showed that the firm size has a significant positive explanatory power in determining firm's performance in the ROA measure.

Olowookere (2008) investigated the impact of corporate governance on firm financial and productivity performance as well as comparing the effect of corporate governance on performance (financial and productivity) of the Nigerian listed firms before and after the release of the code of corporate governance in 2003. He utilised data for 64 non-financial firms listed on the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. Panel regression estimates show that block holding and Debt have significant positive association with ROA whereas audit membership independence and size have significant inverse relation

Zeitun and Tian (2007) studied the relationship between ownership structure and concentration and firm performance in Jordanian publicly traded firms for a sample of 59 firms' from 1989 to 2002. They found that there is a significant relation between ownership concentration C5 (the percentage of the first five largest shareholders) and the accounting performance measure ROA. Secondly, the HERF is not significant at any level of significance in any measure of performance. The insignificance of the Herfindahl (HERF) index showed that there could be a nonlinear relationship between ownership concentration and a firm's performance. Thirdly, they also found that there is a negative significant relation between government ownership and a firm's accounting performance ROA.

Sanda, Mikailu and Garba (2005) examined the relationship between internal governance mechanisms and firm financial performance. They used pooled OLS regression analysis on panel data for the period 1996 to 1999 for a sample of 93 firms listed on the Nigerian Stock Exchange. They found that directors' shareholding has significant negative relation with return on assets.

Kiel and Nicholson (2002) examined the relationships between board composition and corporate performance in 348 of Australia's largest publicly listed companies and described the attributes of these firms and their boards. They found that, after controlling for firm size, board size is positively correlated with firm value ROA.

Eisenberg, Sundgren and Wells (1998) investigated larger board size and decreasing firm value in small firms in Finland with a sample of 785 healthy firms and 94 bankrupt firms. The sample of healthy firms is a random sample drawn from the database of Asiakastieto Oy, a Finnish credit bureau. They found negative correlation between board size and ROA extended to small firms with small boards in Finland. A finding supports the hypothesis that problems in communication and coordination can extend to smaller boards and firms. It also suggests that agency problems at the levels faced by Fortune 500 companies are not a prerequisite to the existence of a board-size effect. The effect presence in small to medium size firms with small boards shows that board-size effects can exist even when there is less separation of ownership and control than in large firms this connotes that there is no optimal board size. And if there is an ideal board size, it is not effective in Finland. Firms performance in Finland suggests that the ideal board

size varies with firm size that is the higher the size of the firm the higher the likelihood of increases board size.

2.3.2 Corporate Governance Mechanisms and Return on Equity

Rao and Desta (2016) studied the effect of corporate governance on financial performance of Ethiopian commercial banks. The annual reports of the sampled commercial banks were the sources of data. The proxy used for financial performance was return on equity. Content analysis was applied to determine the level of disclosure using un-weighted checklist. Accordingly, the level of disclosure practice is measured by the ratio of disclosure score of commercial banks to their total obtainable scores. In addition, correlation and regression analyses were used to determine the relation between corporate governance and return on equity. The results indicated that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks. However, asset size and capital structure have significant effect on the return on equity.

Hussain, Ashfaq and Muhammad (2016) examined corporate governance structure by using the data of 80 non-financial firms listed on Karachi Stock Exchange Pakistan during 2010 to 2014. Hypotheses of the study were tested by using both descriptive and inferential statistics. The findings indicated that board size and audit committee is positively related to the firm performance ROE. In contrast, board composition and CEO duality are negatively related to the firm performance ROE. As far as controlling variables is concerned, leverage is negative, whereas firm size is positively

related to ROE as measure of performance. Empirical findings concluded that corporate governance practices affect the firm performance. Therefore, it is suggested that managers should understand the governance mechanisms to work more efficiently in the firm.

Anca-Elena (2015) examined the impact of corporate governance variables on firms' financial performance. Influence of corporate governance variables size of the board, proportion of non-executive independent directors, directors' ownership, and directors' remuneration structure on firms' financial performance measured by return on equity (ROE) was researched using the firms traded in German index DAX30. Data were collected for five years 2009 to 2013 from the audited annual reports of each company while panel regression analysis was used. He found that some of corporate governance variables do influence firms' performance. The number of directors on board has a negative impact on financial performance, while variables like board independence or executive directors' remuneration are positively correlated with firms' financial performance measured by return on equity.

Mule and Mukras (2015) investigated the relationship between financial leverage and the financial performance of listed firm in Kenya. They used annual data for the period 2007 to 2011. Various panel procedures were used. The study found that financial leverage has negative but insignificant effect on ROE

Bebeji, Muhammed and Tanko (2015) examined the effects of board size and board composition on the performance of Nigerian banks. The financial statements

of five banks were used as a sample for the period of nine years and the data collected were analysed using the multivariate regression analysis. They find that board size has significant negative impact on the performance (ROE) of banks in Nigeria. This signified that an increase in Board size would lead to a decrease in ROE. On the other hand, board composition has a significant positive effect on the performance of banks in Nigeria. This shows that an increase in Board composition led to a increase in ROE. It is recommended that banks should have adequate board size to the scale and complexity of the organisation's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. The board size should not be too large and must be made up of qualified professionals who are conversant with oversight function. The Board should comprise of a mix of executive and non-executive directors and headed by a Chairman.

Gupta and Newalka (2015) investigated the impact of corporate governance in the determination of firm performance. The simple random sampling method was adopted while choosing the sample firms. 30 companies were selected from those that were listed in National stock exchange as the sample of the study. The relationship between four Corporate Governance mechanisms (board size, chief executive status, annual general meeting and audit committee) and two firm performance actions return on equity (ROE) and market book value (MBV) were examined. They used two sets of secondary data (governance ratings and corporate profitability variables) over a period of

five years from financial year 2010/11 to financial year 2014/15 in their analysis. The test applied was (Pearson Correlation and Multiple Regression analysis) to check the importance and dependency of the noted variables. They found that all corporate governance mechanisms selected have positive impact on return on equity.

Dabor, Isiavwe and Ajagbe (2015) investigated the impact of corporate governance on firm performance of selected companies quoted on the Nigerian Stock Exchange. A sample of 248 companies was selected employing simple random sampling technique. The researchers used the econometrics analysis software E-views 7.0 to analyse the data. Return on equity was used as gauge for firm performance, while board size, board independence, board gender diversity and ownership structure were variables used for measuring corporate governance. The results revealed that there is significant negative relationship between board size and firm financial performance. Board independence, ownership structure while board gender diversity do not have significant impact on firm performance. The study suggested that statutory bodies should enact laws that will mandate all firms to maintain small board size.

Assefa and Megbaru (2014) examined the effect of corporate governance structure on financial performance of firms. They used return on equity and operating profit margin as dependent variables whereas board size, board independence, frequency of board meetings, audit committee and board ownership were used as independent indicators, and financial leverage and firm growth rate were used as control variables. The researchers used both correlation analysis and pooled panel data with cross-sectional

nature. The econometric regression result showed that, board size is negatively and significantly associated to all the two indicators of financial performance: return on equity and operating profit margin. Both Board independence and Board ownership have positive relationships and significant effects on the two indicators of commercial banks financial performance. The result showed that audit committee negatively and significantly correlated to return on equity though with negative and insignificant impact on operating profit margin. Frequency of board meeting has positive impact on performance in terms of its direction of connection and immaterial in its affiliation with the two financial performance indicators of commercial banks under investigation.

Muhammad, Rashid and Malik (2014) examined the relationship between corporate governance mechanisms and performance of the firms. Audit committee and CEO duality were taken as corporate governance mechanisms and profit margin and return on equity represented measures of performance of the firm for a sample of 11 listed firms in Pakistan for year 2010 to 2011. Results revealed positive significant relationship of return on equity and profit margin with audit committee. However, this study could not provide a significant relationship between CEO duality and return on equity; profit of the firm. The findings of study helped policy makers in setting of proper policies. The finding also determines the importance of audit committee and CEO duality in terms of profitability.

Danoshana and Ravivathani (2013) investigated the impact of corporate governance indicators on the performance of listed financial institutions in Sri Lanka as

main objective and recommend a suitable corporate governance practices for improving performance of listed financial institutions. To achieve these objectives, the researchers used return on equity as the dependent variable that defined the performance of the firm. On the other hand, Board size, Meeting frequency and audit committee of the company were used as variables to measure the corporate governance. Twenty five listed financial institutions were selected as sample size for the period of 2008 to 2012. The data were collected through the secondary sources. According to the analysis, selected variables of corporate governance significantly impact on firm's performance as board size and audit committee size have positive effect on firm's performance. However, meeting frequency has negative impact on firm's performance measured by return on equity.

Manawaduge and Anura (2013) examined the impact of ownership concentration and structure on the performance of public listed firms in Sri Lanka. For this purpose they carried out an analysis based on a regression model using pooled data for a sample of 157 Sri Lankan public quoted firms for nine year period between 2000 and 2008. This study provided useful information on the relationship between various ownership concentration and structure measures and their influence on accounting performance. Empirical findings indicate that a significant relationship exists between ownership concentration, measured by three largest shareholders (SH3) and the accounting performance measure (ROE). The result also revealed that the Herfindahl (HERF) index has a positive and significant impact on ROE. The result suggested that a

greater concentration of shares leads to either effective monitoring of management behaviour or larger internal ownership which results in better performance.

Uwuigbe and Fakile (2012) investigated the linkage between corporate governance and financial performance of banks, this study contributed to the existing literature by assessing the effect of board size on the performance of banking sector in a developing economy like Nigeria. This study made use of a range of data drawn from the Nigerian Stock Exchange fact book (2008), which contained information on board size and the performance proxy (return on equity). Regressing performance on board size, it was observed that banks with board size below 13 are more viable than those with board size above 13. The study further observed that banks with larger boards recorded profits lower than those with smaller boards. The study concluded that there is a significant negative relationship between board size and bank financial performance with a t- value of -1.977 and a p- value of 0.053. This is because, increase in board size occurs with increase in agency problems (such as director free-riding) within the board and the board becomes less effective. However, the researchers recommended a smaller board size for better financial performance and to reduce the problem of free-rider of banks in Nigeria by board members.

Hassan and Halbouni (2013) investigated the effect of corporate governance mechanisms on the financial performance of the United Arab Emirates (UAE) listed firms. 95 UAE listed firms affiliated to financial and non-financial sectors were selected. Corporate governance mechanisms used were voluntary disclosure, CEO duality, board

size, board committee and audit type while control variables adopted were firm size, industry type, firm listing years and leverage. Accounting-based measure of return on equity (ROE) was employed to measure the UAE firms' performance. Secondary data were collected from published accounts of the selected firm for year 2008. Findings revealed that voluntary disclosure, CEO duality and board size are significantly influence the UAE accounting-based performance measure, ROE.

Zied (2012) investigated the Impact of the presence of audit committees on the financial performance of Tunisian companies. 26 Tunisian firms listed on Tunis Stock Exchange over a period of 4 years (2007 to 2010) were selected. He found that the independence of the audit committee have a significant effect on financial performance of firms measured by ROE. He recommended that at least one member of the audit committee must possess a professional accounting certificate or in a related field or with experience in accounting or finance in order to improve the financial performance of companies in Tunisia.

Uadiale (2010) examined the impact of board structure on corporate financial performance in Nigeria. Dependent variables used to proxy financial performance were return on equity (ROE) and return on capital employed (ROCE). Based on the extensive literature, four board characteristics (board composition, board size, board ownership and CEO duality) were identified as independent variables. The Ordinary Least Squares (OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Findings from the study showed that there is

strong positive association between board size and corporate financial performance (ROE). Evidence also exists that there is a positive association between outside directors sitting on the board and corporate financial performance (ROE). However, a negative association was observed between directors' stockholding and firm financial performance measured (ROE). In addition, the study revealed a negative association between ROE and CEO duality, while a strong positive association was observed between ROCE and CEO duality. The study suggested that large board size should be encouraged and the composition of outside directors as members of the board should be sustained and improved upon to enhance corporate financial performance.

Olowookere (2008) investigated the impact of corporate governance on firm financial (ROE) and productivity performance as well as comparing the effect of corporate governance on before and after the introduction of Code of Corporate Governance in Nigeria. He utilised data for 64 non-financial firms listed on the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. Panel regression estimates show that board size and Debt have significant positive association with return on equity (ROE) while outside board directors, director shareholding, size and square of board size have negative correlation.

Zeitun and Tian (2007) investigated the relationship between ownership structure/ concentration and firm performance in Jordanian publicly traded firms for a sample of 59 firms' from 1989 to 2002. They found that there is a significant relation between ownership concentration C5 (the percentage of the first five largest shareholders) and the

accounting performance measure ROE. Secondly, the HERF is not significant at any level of significance in any measure of performance. The insignificance of the Herfindahl (HERF) index showed that there could be a nonlinear relationship between ownership concentration and a firm's performance. Third it they also observed that there is a negative significant relation between government ownership and firm's accounting performance (ROE),

Sanda, Mikailu and Garba (2005) examined the relationship between internal governance mechanisms and firm financial performance. They used pooled OLS regression analysis on panel data for the period 1996 to 1999 for a sample of 93 firms listed on the Nigerian Stock Exchange. They found that board size has significant positive relationship with return on equity

Kiel and Nicholson (2002) examined the relationships between board composition and corporate performance in 348 of Australia's largest publicly listed companies and described the attributes of these firms and their boards. They observed that, after controlling for firm size, board size is positively correlated with firm value ROE.

2.4.3 Corporate Governance Mechanisms and Price Earnings ratio

Olowookere, (2008) investigated the impact of corporate governance on firm performance. He utilised data for 64 non-financial firms listed on the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. Panel regression estimates show that board size, audit committee independence and block holding have

significant positive correlation with price earnings ratio whereas firm size and square of board size have significant inverse relationship.

Sanda, Mikailu and Garba (2005) examined the relationship between internal governance mechanisms and firm financial performance. They used pooled OLS regression analysis on panel data for the period 1996 to 1999 for a sample of 93 firms listed on the Nigerian Stock Exchange. Results revealed that directors' shareholding has significant inverse relation with price earnings ratio while ownership concentration has significant positive correlation.

2.3.4 Corporate Governance Mechanisms and Tobin's q

Mule and Mukras (2015) examined the relationship between financial leverage and the financial performance of listed firm in Kenya. They used annual data for the period 2007 to 2011. Various panel procedures were used. The study found reasonably strong evidence that financial leverage significantly and negatively affects the performance of listed firms in Kenya using Tobin's Q). Similarly, ownership concentration is a pertinent negative predictor of financial performance measured in terms of Tobin's Q.

Al-Matar, Al-Swidi and Bt-Fadzil (2014) examined the association between the board of directors' characteristics, audit committee characteristics and the executive committee characteristics and the performance of the Oman companies. The data comprised of 162 non-financial firms because financial and non-financial companies employ different methods and they have different structures. The study

attempted to bridge the gap in the existing literature and reviewed the association between corporate governance mechanisms and firm performance in the emerging market of Oman. It focused on adding new important variables of corporate governance mechanisms like board change, the role of secretary on the board, the legal counsel and the executive committee characteristics that improve firm performance. The findings indicated a significantly positive relationship between board size, board meeting, audit committee independence and executive committee independence, and the Tobin's Q. On the other hand, board independence and legal counsel are significantly and negatively related to Tobin's Q. Moreover, positive but insignificant relationship was found between CEO tenure, CEO compensation, audit committee size, and the firm performance (Tobin's Q). Furthermore, board change, the role of the secretary on the board, audit committee meeting, executive committee size and executive committee meeting revealed a negative but insignificant association with firm performance (Tobin's Q)

Arouri, Hossain and Muttakin (2014) investigated the effect of ownership structure and board composition on bank performance as measured by Tobin's Q and market to book value in Gulf Co-Operation Council (GCC) countries. A dataset of 58 listed banks of GCC countries for the period 2010 was used with multivariate regression analysis. The result showed that the extent of family ownership, foreign ownership and institutional ownership has a significant positive association with bank performance measured by Tobin's q. However, government ownership does not have a significant

impact on performance. Other governance variables such as CEO duality and board size appear to have an insignificant impact on performance. It implies that better corporate governance mechanisms are imperative for every company and should be encouraged for the interest of the investors and other stakeholders. The study concluded that ownership as an indicator of corporate governance is more effective for GCC countries. The study also noted that unlike in western countries, corporate boards may not be an effective corporate governance mechanism in GCC countries.

Amer (2014) examined the relationship between corporate governance and firm performance of companies listed in Abu Dhabi Stock Exchange. The dataset was drawn from the Abu Dhabi Exchange Shareholding company's guide for years 2007 to 2011. The study used pooled regression analysis on 281 firm/year observations. Tobin's Q score was used as dependent variable while independent variables included institutional ownership, governmental ownership, board size, and audit quality. The study controlled for the relationship between the dependent and independent variables by including firm size, debt ratio, dividend yield, and age of the firm. Results showed significant positive impact of corporate governance measures on firm performance (except for Audit quality).

Al-matari (2014) examined the relationship between the corporate governance mechanisms (board of director's characteristics, the audit committee characteristics, and the executive committee) and the performance of listed companies in Oman for the year 2008 to 2012. The study was based on agency and the resource dependence theories. Data were gathered from the annual reports of 78 non-financial listed firms while panel

data methodology was adopted for the analysis. Independent variables used were firm size, leverage, industry and years as control variables. The result of the random effect model was used to examine the effect of the predictors on the firm performance indicators measured by Tobin's Q. The statistical results showed that board size, board meeting and time period (2010) were a positive determinant of Tobin's Q while audit committee meeting and executive committee existence were negative determinants of Tobin's Q. From the practical and the theoretical contribution points of view, this study indicated that the resource dependence theory is more significant compared to the agency theory when describing corporate governance practices in Oman.

El-Faitouri (2014) examined whether board of director characteristics have an impact on corporate performance. He used a generalised method of moment's regression model developed by (Wintoki, Linck, & Netter, 2011). Data for the analysis were extracted from BoardEx, FAME, and Datastream databases for the period 1999 to 2009. The final sample included a total of 634 UK firms listed in the London Stock Exchange. The results suggested that board structure is partly determined by past corporate performance. However this study found that there is no relation between characteristics of the board of directors and corporate performance measured by Tobin's Q. This is inconsistent with much prior empirical studies and policy recommendations on corporate governance that suggested that corporate governance mechanisms improve corporate performance. The findings concluded that the earlier corporate governance studies that do

not take into account the dynamic nature of corporate governance may be affected by bias.

Bruno (2013) studied the impact of board size, the proportion of independent directors on the board, the presence of both women and foreign directors on the board and meetings' frequency, on firm performance. A sample of 398 companies from eleven European countries was selected over the fiscal year of 2010. She carried out the statistical analysis through ordinary least squares regressions, where firm performance measure Tobin's Q was the dependent variable. In all models, she controlled for firm performance using firm size and the level of debt. In order to test for the sensitivity of his results, she alternatively controlled for the industry, country and system effect. She finds that the results are more robust when controlling for the system effect. Moreover, when testing for endogeneity, she found that our sample firms do not suffer from this problem for board size, but show suspicions regarding an endogenous relationship between board independence and firm performance. As for the results: the most outstanding outcome is that the presence of foreign directors on the board is significant and positively linked to Tobin's Q. When controlling for the system effect, the proportion of independent directors exerts a significant positive impact on firm performance. Board meetings exhibit a significant negative impact on Tobin's Q also when controlling for the system effect. Control variables: the natural logarithm of assets (negative) and debt-to-assets ratio (positive) were found to be significantly related to firm performance.

Hassan and Halbouni (2013) investigated the effect of corporate governance mechanisms on the financial performance of the United Arab Emirates (UAE) listed firms. 95 UAE listed firms affiliated to financial and non-financial sectors were selected. Relationship corporate governance mechanisms used were voluntary disclosure, CEO duality, board size, board committee and audit type while control variables adopted were firm size, industry type, firm listing years and leverage. Secondary data were collected from published accounts of the selected firm for year 2008. The market measure (Tobin's Q) was employed to measure the UAE firms' performance. Findings revealed that none of the governance variables significantly affects firms' market performance measured by Tobin's q.

Kumar and Singh (2013) examined the effect of corporate board size and promoter ownership on firm value for selected Indian companies. The study analyses the corporate governance structure of 176 Indian firms listed on the Bombay Stock Exchange using linear regression analysis. The empirical findings show a negative relationship of board size with firm value (TQ) and significant positive association of promoter ownership with corporate performance. The study suggests that only above a critical ownership level of 40 percent does promoter's interest become aligned with that of the company, resulting in positive effect on firm value. The study implies that for emerging economies like India, it is practical to have greater ownership control by promoters to enhance company value. Also, it is not advisable to have a board size above certain limit.

Awunyo-Vitor and Baah, (2012) examined the effect of share ownership and investors' involvement on performance of investee companies. The study was conducted using panel data regression analysis and performance was measured by using Tobin's Q. Significant statistical relationships were found in this research. The results of the research suggest that share ownership on the Ghana Stock Exchange is heavily concentrated in the hands of Ghanaians and that ownership concentration, institutional and insider ownership precipitated higher firm financial performance. There is the need to encourage concentrated ownership structure. Also, investments by insider and institutional ownerships should be promoted in order to ensure proper monitoring, reduced agency costs and improve performance.

Fauzi and Locke (2012) investigated the role of board structure and the effect of ownership structures on firm performance in New Zealand's listed firms. They used a balanced panel of 79 New Zealand listed firms and employed a Generalised Linear Model (GLM) for robustness. The result revealed that board of directors, board committees, and managerial ownership has a positive and significant impact on firm performance (Tobin's q). Meanwhile, non-executive directors, female directors on the board and block holder ownership lower New Zealand firm performance.

Humera, Maryam, Khalid, Sundas and Bilal (2011) investigated the relationship between corporate governance and firm's performance of twenty firms listed at Karachi Stock Exchange. The performance of corporate governance is measured by leverage and growth while performance of the firms is measured by Tobin's Q, The data set was

obtained from the annual reports for the year 2005 to 2009. The multiple regression models are applied to test the significance of corporate governance and firm performance. The result showed that leverage and growth have a positive relationship with Tobin's Q, which confirms a significant effect in measuring performance of the firm. It means that firms that have good corporate governance measures perform well as compared to the firms that have no or less corporate governance practices.

Rashid, De Zoysa, Lodh and Rudkin (2010) examined the influence of corporate board composition in the form of representation of outside independent directors on firm economic performance in Bangladesh. A linear regression analysis was used to test the hypotheses. The results showed that the outside independent directors cannot influence firms' economic performance. The results also confirmed that board size has a positive explanatory power in influencing firm performance under Tobin's Q measure. This is indicative of information asymmetries between inside and outside directors. The results further indicated that rather, CEO-duality, firm debt and firm size all have significant explanatory power in determining firm's performance under the market based performance measure by Tobin's q.

Guest (2009) examined the impact of board size on firm performance for a large sample of 2,746 UK listed firms over 1981 to 2002. The UK provides an interesting institutional setting, because UK boards play a weak monitoring role and therefore any negative effect of large board size is likely to reflect the malfunction of the board's advisory rather than monitoring role. He found that board size has a strong negative

impact on Tobin's Q and share returns. The result is robust across econometric models that control for different types of endogeneity. He also found no evidence that firm characteristics that determine board size in the UK lead to a more positive board size and firm performance relation. In contrast, he discovers that the negative relation is strongest for large firms, which tend to have larger boards. Overall, his evidence supports the argument that problems of poor communication and decision-making undermine the effectiveness of large boards.

Olowookere (2008) investigated the impact of corporate governance on firm performance. He utilised data for 64 non-financial firms listed on the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. Panel regression estimates show that outside board directors, block holding and square of board size have significant positive relation with Tobin's q while independence of board, directors' shareholding, audit committee independence and firm size have negative correlation.

Zeitun and Tian (2007).investigated the relationship between ownership structure/ concentration and firm performance in Jordanian publicly traded firms for a sample of 59 firms' from 1989 to 2002. They found that there was a significant relation between ownership structure mixes and Tobin's Q as performance measure.

Aljifri and Moustafa, (2007) investigated the effect of some internal and external corporate governance mechanisms on the UAE firm performance using Tobin's q as dependent variable. They utilised a sample of 51 listed firms in either the Dubai Financial Market or the Abu Dubai Securities Market. Accounting and market data available for

2004 were used. The cross-sectional regression analysis was employed to test the hypotheses of the study. The results showed that the governmental ownership, the debt ratio (total debt/total assets), and the payout dividends ratio have a significant impact on the firm performance; whereas the institutional investors, the board size, the firm size (sales), and the audit type showed a non-significant impact. They concluded that three of the corporate governance mechanisms in the UAE used in this study appeared strong enough to affect the firm performance. However, the other four mechanisms were found to have a weak effect on the firm performance which could be a result of the significant absence of some aspects of corporate governance practices and lack of enforcement of rules.

Sanda, Mikailu and Garba (2005) assessed the relationship between internal governance mechanisms and firm performance measured by tobin's q. They used pooled OLS regression analysis on panel data for the period 1996 to 1999 for a sample of 93 firms listed on the Nigerian Stock Exchange. Results revealed that directors' shareholding has significant inverse relation with Tobin's q whereas ownership concentration has significant positive association.

Kiel and Nicholson (2002) evaluated the relationships between board composition and corporate performance in 348 of Australia's largest publicly listed companies and described the attributes of these firms and their boards find a positive relationship between the proportion of inside directors and the market-based measure Tobin's q of firm performance.

2.3.5 Corporate Governance Mechanisms and Labour Productivity

Adeyemi and Olowookere (2009) examined the impact of corporate governance on firms' productivity in Nigerian. They utilised the data for 64 non-financial firms listed under the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. They employed panel regression techniques, the paper establishes governance measures like ownership concentration and debt-equity ratio as drivers of firms' productivity, while the impacts on productivity on other major governance mechanisms like board size, board independence and independent audit membership, are insignificant. However, it is suggested that caution be exercised in relying on findings that show financial performances as governance enhanced, as financial measures can be more easily distorted by prices, market imperfections and the choice of accounting techniques.

Olowookere (2008) investigated the impact of corporate governance on firm productivity performance of the Nigerian listed firms. He utilised data for 64 non-financial firms listed on the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. Panel regression estimates showed that board independence and leverage generally increase firm productivity performances, while board size, directors' shareholding and ownership concentration have non-linear effects on performance measured by labour productivity. Moreover, larger firms are characterised by lower performance, while contrary to the study expectation, independence of audit committee membership dampened performance.

Xu and Wang (1999) evaluated whether ownership structure significantly affect the performance of public companies in China within the framework of corporate governance. Independent variable used was ownership concentration while dependent indicator was labour productivity. They found that labour productivity tends to decline as the proportion of state share increases. These results suggested that the importance of large institutional shareholders on corporate governance, the inefficiency of state ownership and the potential problem in an overly dispersed ownership structure.

There have been some studies on the degree of compliance with some codes of corporate governance, and others testing whether compliance can be associated with improved firm value. High compliance has been documented for the British code (Mallin & Ow-Young, 1998; Dedman, 2000); the German code (von Werder, Talaulicar & Kolat, 2005); the Spanish code (Fernandez-Rodriguez, Gomez-Anson & Cuervo-Garcia, 2004); the Portuguese code (Alves & Mendes, 2004). Conversely, de Jong and Roosenboom (2002) document that compliance with the first code of corporate governance in the Netherlands, known as the Peters (1997) Code, was generally weak in the period 1997-2002. Contrary to the findings of the Peters code, Akkermans Ees, Hermes, Hooghiemstra, Laan, Postma and Witteloostuijn (2007) reported high compliance with the new Dutch corporate governance (Tabaksblat) code.

Among studies on the nature of relationship between compliance and firm performance are Jain and Rezaee (2006) who find that compliance with the Sarbanes-Oxley Act (SOX) of 2002 has positive impacts on the value of US firms; Chhaochharia &

Grinstein (2007) attempt to separate the effect of SOX on returns between large and small firms, and they find that large firms that are less compliant have greater value, but small firms that are less compliant have lower value. The findings of de Jong et al. (2005) for the Netherlands and Ponnu (2008) for Malaysia are similar. They both find that compliance notwithstanding, codes of corporate governance have no significant impact on firm performance. This can be explained along the argument of Carver (2007) who claimed that enactment of corporate codes only makes firms interested in legal compliance rather than corporate governance per se, and this may constrain the expected impact of corporate governance on performance.

The seven governance mechanisms outlined are contained in the Nigerian Code; therefore in what follows the degree of compliance with the provisions of the Code and its performance impact are measured.

Out of the literature reviewed in Nigeria only Olowookere, (2008) used labour productivity directly but his result showed no significant difference in the performance between these two sub-samples this may be due to the short period of time of the study that is six years. This motivated the researcher to go into further investigation.

Furthermore the study recommended that deliberate steps be taken to ensure mandatory compliance with SEC code of best practice for all sectors in Nigeria. In addition, deliberate efforts should be made in setting up a follow-up and compliance team to make sure that all listed firms Nigerian do not only comply but meet up with the

different expectations of the regulatory body as mandated in the code of corporate governance.

However, the study was limited to only three sectors of the economy which does not allow for a more robust result consequently; the researcher extends the body of knowledge by using thirteen sectors of the economy. In addition the previous study used individual sector for the basis of comparison but this study combines the financial and non-financial sectors of the selected sectors thereby making the study to be more robust.

Table: 2.1. Other preceding researches on Corporate Governance

Author(s)	Research objective	Methodology	Key findings
Parker, Peters & Turetsky (2002)	Investigated various corporate governance attributes and financial survival	176 financially stressed firms 1988-1996 Regression analysis	Companies that replaced their CEO with an outside director were more than twice as likely to experience bankruptcy. The result revealed a dynamic relationship between larger levels of insider ownership and firm survival.
Kiel & Nicholson (2003a)	Examine the relationship between board demographics and performance	348 public listed companies ASX 1996 SPSS analysis Tobin's Q	The positive correlation between the proportion of inside directors and the market-based measure of firm performance. There was positive correlation between Board size and firm value.
O'Sullivan & Diacon (2003)	(1) Examined whether mutual insurers employ	Data regression analysis 53 life	Mutual insurers had greater non-executive

	stronger board governance than their proprietary counterparts. (2) Considered the impact of board composition on the performance of proprietary(stock) and mutual companies	insurers operating in the UK over the period 1984-1991	representation on their boards. Lack of consistent evidence for non-executive monitoring and impact on performance
Dulewicz & Herbert (2004)	Investigated whether there is any relationship between board composition and behaviour, and company performance	Data based on an original study of 134 responses from a cross-section of businesses. Follow-up data based on 86 listed companies (1997-2000) SPSS analysis CAROTA (cash flow return on total assets) ratio used for performance analysis.	Board practices on identified tasks not explicitly linked to company performance Limited support that businesses with independent boards are more successful than others.
Uzun, Szewczyk & Varma (2004)	Examined the relationship between fraud and board composition, board size, board chair, committee structure and frequency of board meetings,	Constructed database for a sample of 266 companies (133 that accused of committing fraud and 133 no-fraud) during the period 1978-2001 Regression analysis	There is a definite relation between Board composition and structure of oversight committees and incidence of corporate fraud. A higher proportion of independent directors indicated a less likelihood of fraud.
Dalton, Daily, Ellstrand & Johnson (1998)	Reviewed research on the relationships between board composition, leadership structure and financial performance	Meta-analysis of 54 empirical studies of board composition, 31 empirical studies of board leadership Structure	No meaningful relationship between board composition leadership structure and financial performance.
Millstein & Macavoy (1998)	Investigated Directors behaviour and firms performance	Empirical study of 154 firms using 1991-1995 data	Substantial and statistically significant correlations between an active board and corporate performance

Muth & Donaldson (1998)	Examined board independence and performance based on agency stewardship theory.	145 listed companies 1992-1994 Statistical analysis	Empirical results inconclusive that board independence has a positive effect on performance
Lawrence & Stapledon (1999)	Examined the relationship between board composition and corporate performance. Also considered whether independent directors have a positive influence on executive remuneration	Empirical studies – data sample selected from ASX listed companies in 1995. Regression analysis 700 executives tested	No statistically significant relationship between the proportion of NEDs and adjusted shareholder returns Little evidence that board size affects share price performance. No evidence that the proportion of executive directors influences CEO remuneration
Li & Ang (2000)	Investigated the impact of the number of directorships on Directors' performance.	Empirical studies- sample consisted of 121 listed firms and 1195 directors 1989-1993 Regression analysis	Negligible effect on the company's share value based on number of directorships- considering just the number of appointments may not reflect how an executive performs in corporate monitoring
Rhoades, Rechner & Sundaramurthy (2000)	Examined the insider/outsider ratio of boards and company Performance. Also examined the potential moderating effects of different operational definitions of monitoring and performance.	Meta-analysis of 37 studies across 7644 organizations based on initial search of 59 reports with quantitative data on follow-up and performance 1966-1994	Overall conclusions are that there is a small positive relationship between board composition and financial performance. The managerial implications of board composition in monitoring.

Bhagat & Black, (2002)	Investigated the relationship between the corporate governance (board composition, board size, board independence) and firm performance	934 companies using data from 1985- 1995 Regression analysis	Low-profitability firms increase the independence of their boards. However, the performance of enterprises with more independent boards and those without an independent board are identical.
Raji (2012)	Examined the relationship between ownership structure and the performance of listed companies on the Ghana Stock Exchange	35 Financial Institutions in Ghana using Pearson's Product Moment Correlation and Logistic Regression as method of analysis	The significant negative relationship between ownership concentration and firm performance. Also an active linkage between insider ownership and firm performance.
Momoh & Ukpong, (2012)	Investigated the relationship between corporate governance and insurance industry financial Performance in Nigeria	Dividend Yields, Profit Margin and Return on Equity. Reliability analysis and statistical inference analysis were adopted	They discovered that there is significant relationship between corporate governance and insurance industry financial Performance in Nigeria. They also found that dividend yield of insurance industry is dependent on the return on equity and profit margin among other factors
Amba (2013)	Investigated relationship between firm's performance and Corporate Governance. He used 39 firms for the period 2010 to 2012	The independent variables employed: CEO duality, Chairman of Audit Committee, the proportion of Non-executive directors, concentrated ownership structure and institutional	There was a significant positive relationship between firm's performance and CEO, duality proportion of non-executive director. Also, leverage has a negative correlation with having Board members as the Chairman of Audit Committee while

		investors. The dependent variables are the gearing ratio of businesses and Returns on Assets. He adopted Multiple Regression Analysis.	percentage of institutional ownership has a positive influence on firms' financial performance
Akpan and Riman (2012)	Examined relationship between the corporate governance and bank profitability in Nigeria (2005-2008)	Board size number of shareholder return on assets, Non-performing loans Return on Equity Total Assets and Total Equity. Using Ordinary Least Square Regression Analysis	Their result revealed a significant positive association between the corporate governance (Board size) and Return on Assets and Return on Equity. Also, there is no statistical linkage between Non-performance loan and size Bank director. However, number of shareholders has a positive relationship with Non-performing Loans
Kwanbo & Abdul-Qadir (2013)	Investigated Performance of Banks in the Post-Consolidation Era in Nigeria and Corporate Governance	Board Composition, Executive duality using multiple regressions (ANOVA)	Findings reveal the absence of a significant connection between the variables and the mechanisms of corporate governance. They observed that adherence to these codes promoted the overall effectiveness in functions of the sampled banks that is their operational performance.
Magbagbeola (2005)	Examined the corporate governance mechanisms and bank performance in Nigeria between 1999	Board composition, board size, CEO tenure, ownership structure as independent variables	He discovered that increasing shareholders' funds would enhance the banks' financial performance and capital

	and 2004	while Return on Assets and Return on Equity were used to measure bank financial performance. The method adopted was Panel data analysis.	formation in the economy. He, therefore, recommends that a bank's board should comprise ten members, seven of whom should be non executive directors (including the chairperson). Also, CEO tenure of not more than five years is sufficient for firm improved performance
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Source: Author's compilation 2016

2.4 Theoretical Review

Corporate governance encompasses several issues and dimensions of firms, hence the need to appraise some theories and their variants. Therefore, this section presents series of theories undertaking the study of concepts and ideas that are relevant to corporate governance. The first set of ideas reviewed deals with the primary objectives/goals of a firm. The second group of methods deals with the conflict that ensues as a result of the arrangement called firm while the last set considers several mechanisms adopted in solving the earlier mentioned conflicts so as to improve on firm's performance.

2.4.1 Agency Theory

This theory also known as the Principal-Agent problem refers to the variety of ways in which agents, linked by contractual arrangements with a firm and how influences its behaviour. These may include organisational and capital structure, remuneration policies, accounting techniques and attitudes toward risk-taking. Agency costs are the total cost of administering and enforcing these arrangements (Jensen, & Meckling, 1976).

Agency theory explains how best to organise relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1989). The theory argues that under conditions of incomplete information and uncertainty, which characterise most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for payment he received. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989).

The problems of adverse selection and moral hazard mean that fixed wage contracts are not always the optimal way to organise relationships between principals and agents (Jensen & Meckling, 1976). A fixed wage might create an incentive for the agent to evade since his compensation will be the same regardless of the quality of his work or his effort level (Eisenhardt, 1989). When agents have the incentive to elude, it is often more efficient to replace fixed wages with compensation based on residual claimant on the profits of the firm (Alchian, & Demsetz, 1972). The provision of ownership rights reduces the incentive for agent & adverse selection and moral hazard since it makes their compensation dependent on their performance (Jensen, 1983).

In economics, the principal-agent problem treats the difficulties that arise under conditions of incomplete and asymmetric information when a principal hires an agent. Various mechanisms may be used to try to align the interests of the agent with those of

the principal, such as piece rates/commissions, profit sharing, efficiency wages, the agent posting a bond, or fear of firing (Eisenhardt, 1989).

On its application to financial economics, agency theory looks at conflicts of interest between people with different interests in the same assets. It is the most important means of the conflicts between: Shareholders and managers of companies and shareholders and bond holders.

One particularly important agency issue is the conflict between the interests of shareholders and debt holders. In particular, following a riskier but higher return strategy benefits the shareholders to the detriment of the debt holders since latter earns a static return

A variant of agency theory is the Multi-Task Principal-Agent Model by Holmstrom, & Milgrom, (1991) which built on the traditional agency theory. They claimed that “the problem of incentives provision to agents and employees is far more complex than represented in’ standard principal-agent model. The performance measures that determine rewards may aggregate uneven aspects of performance into a single number and omit another aspect of performance that is essential if the firm is to achieve its goals.”

The multi-task Principal Agent theory utilises a linear principal-agent model that ensures that an increase in an agent’s compensation in any one task will cause some re-allocation of attention away from other tasks.

The theory indicates that even when the agents have identical ex-ante characteristics, the principal should still design their jobs to have measurement distinctiveness that differ

as widely as possible. The principal should then provide an incentive that is more intensive and require more work effort from the job holder whose performance can be measured. Another principal-agency problem arises in the form of free cash flow. The cash flow was more than required to fund all projects that have positive net present values when discounted at the appropriate cost of capital. Conflicts of interest between shareholders and managers over payout policies are especially severe when the organisation generates substantial free cash flow. The problem is how to motivate managers to eject the cash rather than investing it at below the cost of capital or wasting it on organisational inefficiencies (Jensen, 1986).

This version premises on the assumption that managers have incentives to cause their firms to grow beyond the optimal size since this raise their power and compensation. It, therefore, tries to identify firms activities that are likely to reduce the agency costs associated with free cash flow.

First, debt is expected to reduce the agency costs of free cash flow by reducing the cash flow available for spending at the discretion of managers. Therefore, threat caused by failure to make debt service payments serves as an effective motivating force to make organisations more efficient (Jensen, 1986). The next relevance of this version is in the explanation it offers to the issue of takeovers. According to the theory, mergers and acquisitions are more likely to destroy, rather than to create value; it shows how takeovers are both evidence of the conflict of interest between shareholders and managers and a solution to the problem. Acquisitions are one-way managers spend cash instead of

paying it out to shareholders. Therefore, the theory implies managers of firms with unused borrowing power and large free cash flows are more likely to undertake low-benefit or even value-destroying mergers. The primary benefits of such transactions were that they involve less waste of resources when compared with investing such funds internally in unprofitable projects (Jensen, 1986).

The theory predicts value-increasing takeovers occur in response to breakdowns of internal control processes in firms with substantial free cash flow and organisational policies that are wasting resources. It predicts hostile and takeovers, enormous increases in leverage, dismantlement of empires with few economies of scale or scope. It gives them economic purpose, and much controversy as current managers' object to the loss of their jobs or the changes in organisational policies forced them by the threat of takeover.

On a final note, the theory predicts that takeovers financed with cash and debt will generate larger benefits than those accomplished through the exchange of stock.

Aghion, & Bolton, (1992) in their seminal paper extended the agency theory to the area of capital structure based on transactions costs and contractual incompleteness (incomplete contract). The central concerns of the theories are first, the arrangement of the initial contract in such a way as to bring about a perfect coincidence of objectives between the entrepreneur (manager) and the investor. Second, how is control right allocated when the original contract cannot achieve the coincidence of goals? This variant considers the issue of contract structuring under the situations of verifiable actions and non-verifiable

A. When Actions are not legal

Here, the theory shows that giving full control to the manager may not result in the best decision in the interest of the firm; however, ex-post renegotiation guarantees first best practice. Unfortunately, this solution is always infeasible; for when the entrepreneur (manager) has full control, the investor may not obtain a high enough expected returns from his investment (Aghion & Bolton, 1992). In this case, entrepreneur (manager) control is only efficient and feasible when the entrepreneur's objectives are perfectly in line with the social goals.

Under investor control, ex-post renegotiation typically does not guarantee that the first-best decision will be applied. If the initial contract induces the investor to choose an action other than the first-best action, there is room for Pareto-improving renegotiation. However, renegotiation may not take place if the entrepreneur's wealth constraint prevents him from compensating the investor for choosing an action that yields a lower expected monetary return (Aghion, et al 1992).

When entrepreneur control is not feasible and investor control does not achieve the first-best outcome, an intermediated control allocation where the contractor gets control contingent on some realisations of firm performance and the investor takes control of the other achievements of the performance may dominate both unilateral control allocations. The reliant control allocation considered here means a control distribution associated with debt financing. At this juncture, the value of debt arises from the control distribution

it induces. It allows the entrepreneur to reap some personal benefits and at the same time gives adequate protection to the investor (Aghion, et al 1992).

B. When actions are correct

The initial contract can specify transfers contingent on actions taken and can set restrictions on the action set for the future. From the investor, these are new instruments available to limit ex-post opportunistic behaviour by the entrepreneur. More generally, when actions are verifiable ex-post, one should expect to see contractual arrangements with both control allocations between the two parties and action restrictions. First, for a given control distribution, pre-specifying some action restrictions in the initial contract can reduce ex-post opportunism on the entrepreneur's side and thus make it easier to satisfy the investor's ex-ante individual rationality constraints. Second, when control is allowed, it can improve upon a contract with a pre-specified action plan. It permits more elastic, status-quo actions and thereby reduces the likelihood of future renegotiation (Aghion, et al 1992).

Agency theory is a theory that has been applied to many fields in the social and management sciences: politics, economics, sociology, management, marketing, accounting and administration. The agency theory is a neoclassical economic theory (Ping, & Wing, 2011) and is usually the starting point for any debate on corporate governance. The theory is based on the idea of separation of ownership (principal) and management (agent). It states that "in the presence of information asymmetry the agent is likely to pursue interest that may hurt the principal.

Hence, corporate governance advocates factors like enlarged directors' shareholding and stock options as aids to the first point above, while optimum board size, block holding, institutional shareholding, leveraging, independent directors and audit members and the separation of the position of chairperson and CEO are factors that make possible effective monitoring. Consequently, these identified corporate governance indicators except the position of chairperson and CEO were used in examining the influence of corporate governance structure on performance of listed firms in Nigeria.

2.4.2 Resource Dependency Theory

The resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah, & Valentine, 2009).

According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like. According to Abdullah & Valentine (2009), directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso, & Argandona, 2007).

The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organisational goals (Wang & Rafiq, 2009). The agency theory concentrated on the monitoring and controlling role of board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management. This theory is useful in considering the efficiency and effectiveness of the monitoring and control functions of corporate governance. But, many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory (Habbash, 2010).

In conclusion, resource dependence theory holds that the operational environment of the firm is reflected in its board structure (Hillman, Withers, & Collins, 2009; Pfeffer, 1972), which entails that directors are selected according to their ability to facilitate access to required resources. Thus, it should be possible to identify firm dependencies from the board composition; for example, the presence of financiers in the board of directors suggests that firms seek cheap access to capital, from which it can be inferred that they plan large investment or that they are in financial difficulty (Hillman, et al, 2009).

Generally, a board with diverse members with varied links to external resources can be expected to have greater access to such resources, which enhances firm performance and value.

2.4.3 Summary of Theories

This study is based mainly on agency theory which is usually applied in explaining the relationship between managers and equity holders with no explicit recognition of other parties interested in the well-being of the firm. There is often conflicting interest between the managers and shareholders, for example, while manager will want to continue to reinvest profit of the firm even when the return on investment is less the cost of funds, the shareholder will prefer to share the profit rather than reinvesting it. Therefore, there is need to coordinate the interest and activities of the manager so as to align with the interest of shareholders. Hence, corporate governance serves as coordinating mechanism which ensures that managers (agent) do not act as against the interest of the shareholders (principal). According to Habbash (2010) the influence of agency theory has been instrumental in the development of corporate governance standards, principles and codes. He argued that agency theory provide a better explanation for the roles of corporate governance. This study therefore investigates the extent the corporate governance indicators affect the performance of firms. In addition the study applied the resource dependence theory which allows the study to examine the effect of outside factors such as non-executive directors.

2.4.4 Theoretical Framework: Agency Theory

The theoretical framework of this study is from the Principal-Agent Problems of Jensen and Meckling (1976). They tried to investigate the incentives available to each of the parties and the elements considered in the determination of the equilibrium predetermined to the relationship between the manager (i.e. agent) of the firm and the external equity holders (i.e. principals) (Jensen & Meckling, 1976).

Modern corporations are quite larger and more dynamic than their classical treatments as their ownership separated from management. It usually arises because of the availability of profitable investments requiring capital investments more than the original owner's personal wealth. Debt and equity financing are therefore opened to the owner-manager, hence leading to an agency relationship. According to this theory, three types of costs ensue as a result of such relationship. They are: the monitoring expenditure by the principal, the bonding costs (costs incurred) to guarantee that the agent will not take individual actions that will harm the head and the eventual loss (costs of divergence between the agent's decision and those which would maximise the welfare of the principal).

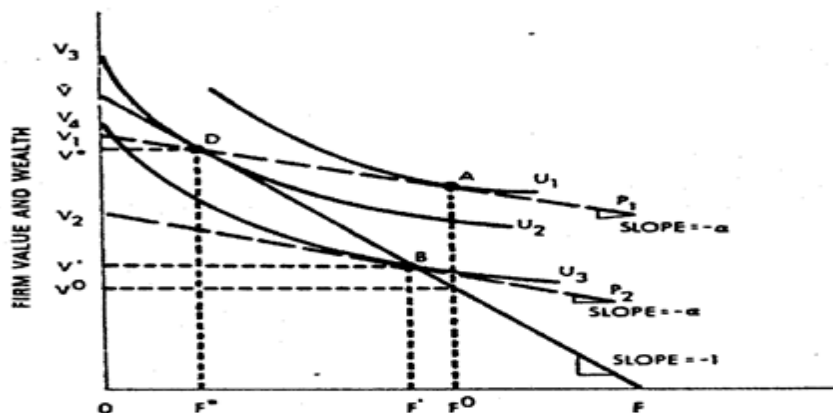
The primary input of this theory is the formal proof that the less the fractional ownership of a manager is in a corporation, the more he tends to appropriate larger amounts of the corporation resources in the form of perquisites and the more desirable for the minority shareholders to expend more resources in monitoring his behaviour.

More formally; defining F as the current market value of the stream of manager's expenditures on non-pecuniary benefits, this theory represents the constraint that a single owner-manager faces in deciding how much non-pecuniary income he will extract from the firm by the line VF in figure 2.1. Line VF is analogous to a budget constraint. The market value of the firm plotted on the vertical axis and the market value of the manager's stream of expenditures on non-pecuniary benefits, F , is plotted along the horizontal axis. OV is the value of the firm when the amount of non-pecuniary income consumed is zero. By definition, V is the maximum market value of the cash flows generated by the business for a given money wage for the manager when the manager's consumption of non-pecuniary benefits are zero.

The owner-managers' taste for wealth, and non-pecuniary benefits shown in the figure 2.1 by a system of indifference U_1 , U_2 , and so on. The indifference curves will be convex as drawn as long as the owner manager's marginal rate of substitution between non-pecuniary benefits and wealth diminishes with increasing levels of the benefits.

When the owner has 100 percent of the equity, the value of the firm will be V^* where indifference curve U_2 is tangent to VF , and the level of non-pecuniary benefits consumed is F^* . Furthermore, if the owner sells his/her total equity but remains as manager, and the equity buyer can, at zero cost, force the old owner (as manager) to take the same level of non-pecuniary benefits as he did as an owner. Consequently, V^* is the price the new owner will be willing to pay for the entire equity.

Figure 2.1: Market value of Stream of Manager Expenditure on Non-Pecuniary Benefit



Source: Jensen and Meckling (1976)

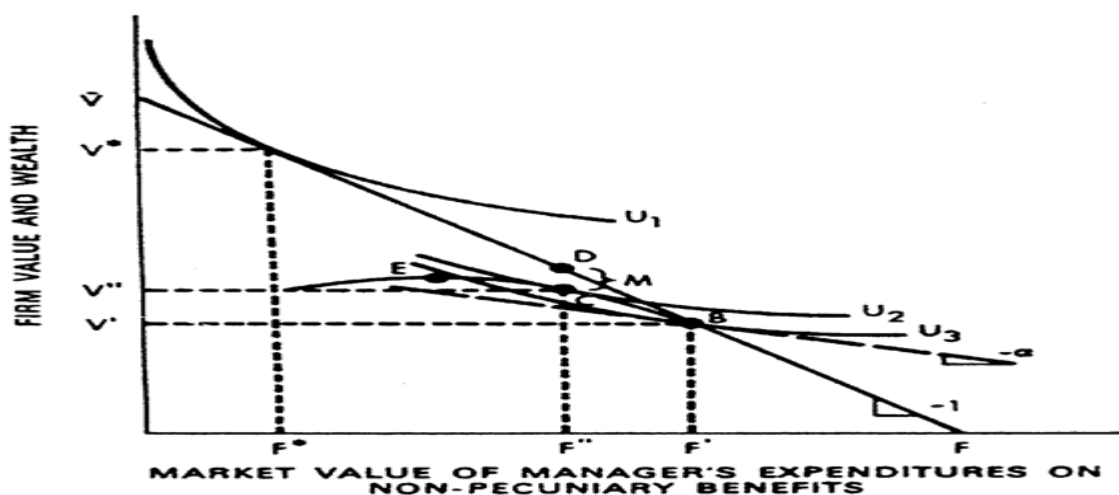
The value of the firm (V) and the level of non-pecuniary benefits consumed (F) when the fraction of outsider's equity is $(1-\alpha)$ V and U_j ($j = 1, 2, 3$) represents owner's indifference curves between wealth and non-pecuniary benefits

In general, however, we could not expect the new owner to be able to enforce the same behaviour on the old owner at zero costs. If the previous owner sells a fraction of the firm to an outsider, he, as the manager, will no longer bear the full cost of any non-pecuniary benefits he consumes. Suppose the owner sells a share of the firm, $1-\alpha$, ($0 < \alpha < 1$) and retains for himself a share, α . If the prospective buyer believes that the owner-manager will consume the same level of non-pecuniary benefits as he did as full owner, the buyer will be willing to pay $(1-\alpha)V^*$ for a fraction $(1-\alpha)$ of the equity. Given that an outsider now holds a claim to $(1-\alpha)$ of the equity, however, the cost to the owner-manager of consuming \$1 of non-pecuniary benefits in the firm will no longer be \$1. Instead, it

will be $\alpha(\$1)$. If the prospective buyer paid $(1-\alpha) V^*$ for his share of the equity, and if the manager could choose whatever level of non-pecuniary benefits he liked, his budget constraint would be $V1P1$ in fig.2 1 and has a slope equal to $-\alpha$ including the payment the owner receives from the buyer as part of the owner's post-sale wealth, his budget constraint, $V1P1$, must pass through D , since he can if he wishes have the same wealth and level of non-pecuniary consumption he enjoyed as full owner.

However, if the owner-manager is free to choose the level of perquisites, F , subject only to the loss of wealth he incurs as a part owner. It enhances his welfare by increasing his consumption of non-pecuniary benefits. He will move to point A where $V1P1$ is tangent to $U1$ representing a higher level of utility. The value of the firm falls from V^* to $V0$ that is, by the amount of the cost to the company of the increased non-pecuniary expenditures, and the owner manager's consumption of non-pecuniary benefits rises from F^* to $F0$. It serves to identify the manager's interests more closely with those of the external equity holders, and so forth, potentially changes the scenario. Figure 2.2 portrays the effects of monitoring and other control activities in the simple situation described in Figures 2.1 and 2.2 are identical except for the curve BCE in Figure 2.2 which depicts a "budget constraint" derived when monitoring possibilities.

Figure 2.2: Market value of Stream of Manager Expenditure on Non-Pecuniary Benefit Outside Equity



Source: as in 2.1

The value of the firm (V) and level of non-pecuniary benefits (F) when outside equity is $(1-\alpha)$, U_1 , U_2 , U_3 represents owner's indifference curves between wealth and non-pecuniary benefits and monitoring (or bonding) activities impose opportunity set BCE as the tradeoff constraint facing the owner.

Let us assume that outside equity holders have control expenditures that will help them to impose the reductions in the owner manager's consumption of F . This will enable owners Manager to enter into a contract voluntarily with the foreign equity holders who will give him the rights to restrict his use of non-pecuniary items at point F'' . He finds this desirable because it will cause the value of the firm to rise to V' from V'' . Given the contract, the optimal monitoring expenditure on the part of the outsiders, M , is the amount D minus C . The entire increase in the value of the firm that accrues will reflect in the owner's wealth, but his welfare will be increased by less than this because he forgoes some non-pecuniary benefits he previously enjoyed.

Consequently, this study employed Agency theory as the basic theory, since it proposes a framework for studying the adverse selection and moral hazard problems that typifies modern corporations. This theory shows and attempts to solve the primary conflicts that arise as a result of the arrangement called the “firm”. The way the agency theory treats debt and equity financing makes it suitable for studying quoted companies’ governance and financial performance. There are two main inputs of this theory. The first is the formal proof that the smaller the ownership of a manager is in a corporation, the more he/she tends to appropriate larger amounts of the corporation’s resources in the form of privileges to himself/herself. Secondly, it is desirable for minority shareholders to expend more resources in monitoring the manager’s behaviour (Jensen & Meckling, 1976). The first point emphasises the importance of governance mechanisms such as, high directors’ shareholding, ownership concentration/block holding while optimal board size, outside board directors/board independence, independence of audit committee, and leverage serve as effective monitoring mechanisms.

The first point in the foregoing emphasises the importance of governance mechanisms like high directors’ shareholding and high ownership concentration. Moreover, monitoring mechanisms include optimal board size, outside board directors, independence of audit committee and leverage while firm size is used as control variable. These seven corporate governance mechanisms are considered in this study.

2.5 Gap in Literature

Majority of the empirical studies reviewed from most developed countries such as: (Shahwan, 2015; Afrifa, & Tauringana, 2015; Duke II & Kankpang 2011; Mashayekhi & Bazaz, 2008; Fanta, Kemal & Waka 2013; Gupta et al. 2015; Rostani, et al, 2016; Hussain, et al., 2016) are with the varied conclusion. Furthermore the methods applied in their analyses are also diverse while time frame for most of them does not bear current date. Also, the period used did not include the financial reform era of such countries. Even the extant studies done in Nigeria like (Sanda et al. 2005; Olowookere 2008; Uadiale, 2010; Akpan & Riman, 2012; Kwanbo & Abdul-Qadir, 2013; Bebeji et al. 2015; Dabor et al., 2015) produced conflicting conclusion. The methodologies adopted were not robust enough to cross-examine research data, and most of the works lacked theoretical frameworks. Hence, this study fills these voids in the literature by examining the effects of some selected internal and external corporate governance mechanisms on some designated performance indicators of listed firms in Nigeria. This research work also gave attention to relevant theories and methodologies and extension of period to twenty six years instead of six years maximum earlier used in some studies in order to enhance a robust result.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter dealt with the methodology of the study. Theoretically, this work was premised on the Agency Theory as discussed in chapter two. This theory is more relevant than any other one that has been used in literature. The theory highlights and attempts to solve the major conflicts that ensue in the process of managing a business called agency problem. An agency problem occurs from the separation of ownership and control. Further, its treatment of debt and equity financing makes it most suitable for studying quoted companies' governance and performance structures.

3.1. Research Design

This study adopted ex-post-facto finametric design also known as hypothetico deductive design (Ezirim, 2010). It is undertaken after the events have happened and data are already in existence. It investigates the possible causes and effects of a subsisting relationship between variables (Adefila, 2008). With ex-post-facto attempts are made to: explain a consequence based on antecedent conditions; determine the effect of a variable on another variable and test a claim using statistical hypothesis testing technique. Kerlinger and Rint (1986) explained that in the context of social science research an ex-post-facto investigation seeks to reveal possible relationship by observing on existing condition or state of affairs and search back in time for plausible contributing factor.

Consequently, an ex-post facto final metric design was adopted to investigate the relationship between corporate governance variables and performance measured (accounting based, market-based and productivity based) of listed firms in Nigeria.

The independent variables included in the regression model were corporate governance mechanisms of (a) board size, (b) outside board directors (c) directors shareholding, (d) block holding, (e) independence of audit members (f) leverage and (g) firm size. The dependent (firm performance) variables adopted were accounting based, market-based and productivity based. Return on assets (ROA) and return on equity (ROE) represented accounting based while Tobin's Q, Price Earnings Ratio denoted market-based and Labour Productivity represented productivity based. To measure the corporate financial performance ROA and ROE are the most popular value based measures of performance (Habbash & Bajaher, 2014; Taiwo & Adeniran, 2014). ROA determines a firm's growth over the study period while ROE compares one firm's profitability against the other firms' profitability for the same period.

ROA and ROE are frequently used by analysts and investors who perceive that the higher return on assets and equity, the better the financial performance of the firm (Al-Matari, Swidi, & Fadzil, 2014; Habbash and Bajaher, 2014; Vo, & Nguyen, 2014; Afrifa & Tauringana, 2015). Tobin's Q was used as a measure of firm's market value, which is the most common measure in empirical corporate governance research because it considers the risk and is not as likely to distort the findings as other accounting measures (Al-Matari et al., 2014; Habbash et al., 2014).

3.2. Sources of Data

Secondary data were sourced from companies' annual financial statements and Nigeria Stock Exchange (NSE) Factbooks (1990 to 2015). These comprise measures of firm performance accounting based, market-based and productivity based and corporate governance indicators selected from the literature reviewed by the researcher. (Sanda, Mikailu & Garba, 2005; Gompers, Ishii, & Metrick (GIM), 2003; Brown, & Caylor, 2006; Core, Guay, & Rusticus, 2005; Olowookere, 2008; Uwuigbe & Olusanmi, 2013).

In addition, the choice of corporate measures derives mainly from past works allow the researcher to subject corporate governance mechanisms to further empirical validation. A review of The Code of Corporate Governance in Nigeria (2003), as given below, also highlight these factors as crucial to the attainment of a better corporate governance and consequently better performance.

- ❖ Inclusion and relevance of independent directors on the board of Nigerian companies [items 1(a) and 5(i)-(iv)]
- ❖ Optimal board size [item 1(a)]
- ❖ Separation of the position of chairman and CEO [item 2(b)] a Frequency of board meeting [item 3(a).
- ❖ Disclosure of stock options [item 6(a) and 7c(ii)]
- ❖ Importance and inclusion of independent directors on audit committees [item 8(e) and 11-15
- ❖ Shareholders' rights [item 9(a-j)]

- ❖ Relevance of institutional shareholders [items 101a-b]j

3.3. The Population and sample size

Though one hundred and sixty-nine (169) companies were listed on the Nigerian Stock Exchanges at December 31st, 2015 however, data were collected from only forty-three (43) companies who published and submitted their annual statement of account to SEC for the period under review. The sample size was 43 firms out of 169 companies this shows 25.4% of the population or 72 % in value measured by total assets. This is consistent with the propositions of Krejcie & Morgan, (1970) where a minimum of 5% of a defined population was considered as an appropriate sample size in making a generalisation. The choice of the selected firms' arises based on the nature and extent of corporate failures and scandals that have bedevilled industry over time.

3.4. Model Specifications

In line with all the specific objectives, our model specifications are in two parts. First, in examining the effect of corporate governance on firms' accounting based, market based and productivity based performances in Nigeria (objectives 1, 2, 3, 4 & 5), (Mousa, & Desok 2012) model that related firm performance with some indicators of corporate governance as well as firm characteristics variables given as:

$$FP_{it} = \alpha + \beta CGOV_{it} + \gamma X_{it} + \varepsilon_{it} (1)$$

Where FP is a measure of firm performance, CGOV is a vector of Corporate Governance; X is a set of enterprise characteristics variables. Mule, & Mukras, (2015) made use of

Tobin's Q, ROA and ROE as a measures of firm performance. However, this study used two measures of accounting based (Return on Assets and Return on equity), two measures of market based (Tobin's Q, and Price Earnings Ratio) and one firm productivity performance to be captured by Labour Productivity for firms performance. Corporate Governance indicators used in this study are (i) board size; (ii) outside board directors; (iii) director shareholding; (iv) block holders; (v) independence of audit Committee. The Firm Characteristics (X) in the model are (i) Leverage; and (ii) Firm Size, The error term is represented by, subscript stand for individual firm and is time period.

Preceding the explicit specifications, three important factors from the literatures are considered, these are;

(i). Cross-sectional effects: This arises the need to take heterogeneity explicitly into account by allowing for industry- specific variables since the degree of influence of corporate governance may vary across industries (Gujarati, 2003; Mousa & Desok, 2012).

(ii). Control variables: Usually in study of this nature the variable firm size is controlled for (Sanda, et al, 2005; Magbagbeola, 2005; Lee et al., 2005; Mousa & Desok, 2012).

iii. Non-linearities effect: Some corporate governance indicators have been shown to have non-linear impact on performance (Sanda, et al, 2005; Magbagbeola, 2005; Lee et al 2005).

Explicitly;

The particular model, therefore, is specified as:

$$FP_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \varepsilon_{it} \quad (2)$$

The variables are as defined in Table 3.1. Meanwhile, consists of two error components as:

$$\varepsilon_{it} = \lambda_i + v_{it} \quad (3)$$

Where captures individual firm effect (that is individual firm differences) and is the random error term which satisfies the Mousa, & Desok (2012) characteristics.

Substituting equation (3) into (2) yields:

$$FP_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \lambda_i + v_{it} \quad (4)$$

Disaggregating the dependent variable into different measures of performance yield the following equations:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \beta_6 BS^2_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \lambda_i + v_{it} \quad (5)$$

$$ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \beta_6 BS^2_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \lambda_i + v_{it} \quad (6)$$

$$PE\ Ratio_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \beta_6 BS^2_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \lambda_i + v_{it} \quad (7)$$

$$Tobin's\ Q_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \beta_6 BS^2_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \lambda_i + v_{it} \quad (8)$$

$$LP_{it} = \alpha + \beta_1 BS_{it} + \beta_2 OBD_{it} + \beta_3 DSH_{it} + \beta_4 BH_{it} + \beta_5 IAC_{it} + \beta_6 BS^2_{it} + \gamma_1 L_{it} + \gamma_2 FS_{it} + \lambda_i + v_{it} \quad (9)$$

Where: is square of board size,

3.5. Description of Variables

Table: 3.1 Variables, Definitions and Measurements

PANEL	VARIABLES	DEFINITION	MEASUREMENT
PANEL A: DEPENDENT VARIABLES	Q	Tobin's Q	Market value of common equity plus book value of liabilities divided by book value of equity plus book value of liabilities (Equity Market Value / Equity Book Value) as market value of liabilities is equivalent to its book value. TQ ratio between 0 and 1 the stock is under-valued while TQ ratio greater than 1 the stock is over-value
	ROA	Return on Assets	Net profit as a percentage of total assets
	P-E	Price Earnings Ratio	Ratio of share price to earnings per share
	ROE	Return on Equity	Net profit as a percentage of equity value
PANEL B: INDEPENDENT VARIABLES	LP	Labour Productivity	Value added per labour (Capital is measured by fixed assets, employment is measured by number of workers) Fixed assets divided by number of employee.
	BS	Board Size	Number of directors on the board
	OBD	No of outside Directors on Board	Percentage of non-executive directors
	DSH	Directors Shareholding	Percentage of total shares owned by the directors
	BH	Block holders	Substantial shareholders with 5% and above shareholding
	AIC	Independence of	Members of Audit committee that

		Audit Committee	are not on Board
	L	Leverage	Ratio of Debt to share capital
	FS	Firm size	Total asset owned

Source: Author compilation 2016

3.6 Method of Data Presentation and Analysis

Panel regression model was estimated for all the firms that is financial firms and non-financial firms in Nigeria.

In estimating equations 5 to 9 using the five different measures of firm performance, three different estimation methods were used: (i) the Pooled Regression method (OLS), (ii) Fixed Effect and (iii) Random Effect Techniques respectively. The OLS estimator is consistent only when the orthogonal assumption holds. However, some reasons have been adduced for the possible violation of orthogonality assumption in regression models. First, the regression disturbance term may include some unobserved firm effects that may correlate with the regressors employed. Second, some of the regressors that may associate with shocks that affect income per capita. Also, there is possibility of simultaneity biases resulting from the endogeneity of some company performance determinants. To overcome these econometric problems, the fixed effects (FE) and random effects (RE) allowed differing across industrial firms by estimating different constant for each industry. Fixed Effects assumes that is a fixed parameter to be estimated while Random Effect assumes that is a random parameter. In this study, the results of the three estimation techniques will be reported and compared. A diagnostic test such as Hausman test was conducted to complement the estimation techniques.

3.7 A priori Expectation

The a priori expectation under the objectives were analysed variables like the number of outsider directors on board, independence of audit members and firm size are expected to have a positive correlation with performance (Sanda et al., 2005; Chidambaran et. al. 2007; Olowookere 2008; Danoshana, & Ravivathani, 2013; Almatari, 2014; Dabor, Isiavwe, & Ajagbe, 2015; Rao, & Desta, 2016). However, other variables like board size, directors shareholding, and blockholding have been shown to increase performance to a remarkable extent; later they start impacting negatively (Sanda et al., 2005; Magbagbeola, 2005; Olowookere, 2008).

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter presents the analysis of data which include descriptive statistics and regression results. Though, three different techniques were used to estimate the regressions, only Fixed Effect regression results were presented because various test statistics show that this technique yield the most preferred results.

4.1 Presentation and interpretation of result

4.1.1 Descriptive Statistics

Table 4.1 presents panel descriptive statistics of the dependent variables. These dependent variables are various measures of firm performance which included Return on Assets, Return on Equity, Price Earnings Ratio, Tobin's q, and Labour Productivity. The statistics presented in the Table include the mean, the overall, between and within standard deviations, minimum as well as maximum values. The overall number of observation is 1118, while the between number of observation is 43 and 26 within observation.

Table 4.2 presents similar statistics as in Table 4.1 but in this case for the independent variables which include board size, outside board directors, directors' shareholding, independent audit committee, block holding, leverage and firm size.

Table 4.1: Summary Statistics of Measures of Firms' Performance (Dependant Variables)

Variables	Mean	Std. dev	Min	Max		Observations
Tobin's q overall	1.63076	3.378642	-.3	103.48	N =	1118
between		.9705532	.7276923	4.959231	n=	43
within		3.239496	-2.428471	100.1515	T =	26
Return ~t overall	.0947853	.6481994	-1.31	21.22	N =	1118
between		.1444825	-.126923	.8323077	n=	43
within		.6322614	-1.092522	20.48248	T =	26
Return ~t overall	.681771	19.77636	-22.38	638.16	N =	1118
between		3.892014	-.6596154	24.63885	n=	43
within		19.39834	-115.5825	614.2029	T =	26
Price ~ o overall	.1821556	1.651036	-22.38	31.34	N =	1118
between		.3095779	-.6596154	1.249231	n=	43
within		1.622414	-21.53823	30.27293	T =	26
Labour ~ overall	5425.026	11732.47	-12780.03	122891	N =	1118
Between		6672.471	659.9623	34008.28	n=	43
Within		9701.825	-28222.94	94307.73	T =	26
Log lab ~ y overall	6.896744	2.359961	0	11.72	N =	1118
Between		1.248963	3.642692	9.467308	n=	43
Within		2.011075	-1.37364	11.50059	T =	26

Source: computed by author with stata 14 software package

Where: N = the total observation (n*T), n = number of firms selected and T = period in years

The summary statistics show that on the average the return on asset and return on equity of firms in Nigeria is about 0.0948 and 0.6818 respectively. The average Tobin's q of firms is 1.6308, while averages of price earnings ratio and labour productivity are 0.1822 and 5425.026 respectively. The standard deviations of these measures of performance are 0.6482, 19.7764, 1.6510, 3.3784 and 11732.47 for return on assets, return on equity, price earnings ratio, Tobin's q, and labour productivity respectively. The values of the standard deviations indicate that there is wide spread in the performance of firms in Nigeria. This is more with labour productivity; follow by return on equity and Tobin's q. This is also evident in the wide gap between the maximum and minimum values. For example, the maximum value of labour productivity is 122891.00 while the minimum is - 12780.03, with difference of 135671. Similarly, the maximum of return on equity is 638.16 while the minimum is - 120.55, 21.22 and - 1.31 for return on assets. These performance variations are rather at the high side. Even in the case of Tobin's q the maximum is 103.48 and the minimum is - 0.3.

It is equally observed that within a firm performance varied widely over time. For instance, the within standard deviation of Tobin's q, return on asset, return on equity, price earnings ratio and labour productivity are 3.2395, 0.6323, 19.3983, 1.6224 and 9701.825 respectively. The maximum values within a given firm over time for these variables are 100.1515, 20.4825, 614.2029, 30.2729 and 94307.73, while the minimum values are - 2.4285, - 1.0925, - 115.5825, - 21.5383 and - 28222.94 respectively. The

wide variation over time indicates high level of fluctuation of the business environment which affects the performance of business

Table 4.2: Summary Statistics of Measures of Corporate Governance (Independent Variables)

Variables		Mean	Std. dev	Min	Max	Observations	
BS	overall	9.927102	3.929243	0	25	N =	1118
	between		2.876293	3.884615	20.38462	n=	43
	within		2.711282	-3.49975	17.65787	T =	26
OBD	overall	65.17175	14.94925	0	88.24	N =	1118
	between		7.214526	48.67885	78.99577	n=	43
	within		13.13756	-.1232474	89.04829	T =	26
DSH	overall	7.526404	15.37202	0	86.94	N =	1118
	between		10.8653	.0584615	50.55808	n=	43
	within		10.99484	-43.03167	69.8191	T =	26
IAC	overall	49.65017	5.447123	0	75	N =	1118
	between		1.860082	43.82808	54.55154	n=	43
	within		5.127249	.2905549	73.68863	T =	26
BH	overall	43.74602	26.02038	0	91.36	N =	1118
	Between		23.51197	3.744231	85.28115	n=	43
	Within		11.68846	-23.93706	112.2176	T =	26
L	overall	672522	.3391694	-.42	3.88	N =	1118
	Between		1949597	.3380769	1.126538	n=	43
	Within		.279065	-.337478	3.605868	T =	26
FS	overall	15.3978	2.306654	10.23	22.19	N =	1118
	Between		1.76648	12.80154	19.54538	n=	43
	Within		1.506665	11.12895	18.94126	T =	26

Source: as in table 4.1

Where: N = the total observation (n*T), n = number of firms selected and T = period in years

The independent variables are various indicators of corporate governance mechanisms which include board size, outside board directors, directors' shareholding,

independent audit committee, block holding, leverage and firm size. The summary statistics show that on the average the board size, outside board directors and directors shareholdings are 9.9217, 65.1718 and 7.5264 respectively while that of independent audit committee, block holding, leverage and firm size are 49.6502, 43.7460, 0.6713 and 15.3978 correspondingly. The standard deviation of gauges of corporate governance mechanisms are 3.9292, 14.9493, 15.3702 and 5.4471 for board size, outside board directors, directors shareholding and independent audit committee while block holding, leverage and firm size posted 26.0204, 0.3392 and 2.3067 correspondingly. It is also noted that the identified corporate governance mechanisms are diverse over time. For example the minimum for board size, outside board directors, directors' shareholding, independent audit committee and block holding is zero (0) while leverage and firm size have -0.42 and 10.33 respectively as their minimum. On the other hand, the maximum for board size, outside board directors, directors' shareholding and independent audit committee are: 25, 88.24%, 86.94% and 75% correspondingly while block holding, leverage and firm size recorded 91.36, 3.88 and 22.19 respectively

4.2 Presentation and Interpretation of Regression Results

The regression results on Return on Assets, Return on Equity, Price Earnings Ratio, Tobin's Q and Labour Productivity are reported in Tables 4.3 to 4.7. Both Fixed and Random Effects models were estimated and Hausman test was conducted. The

Hausman test is significant in almost all the regression which indicates that Fixed Effects results are preferred. Hence, Random Effect results are reported at the Appendix.

In addition, theoretically the superiority of the fixed-effect models to the random effect models in this kind of scenario is expected as N (the number of cross-section units, in this case 43 firms) is relatively larger than T (the number of time period, 26 years). Note that statistical inference under the fixed-effect is conditional on the observed cross-sectional units in the sample as against the random effect that assumes that the cross-sectional units are randomly drawn (Gujarati, 2003). Further, the fact that our samples are only for selected sectors listed on the Nigerian Stock Exchange on which data are available, makes the assumption of random drawing ineffective, thereby further bracing the superiority of the fixed effect. Therefore, Fixed Effect results of the five corporate performance measures are reported in Tables 4.3 to 4.7, while the results of Random Effects are reported in Tables 4.8 to 4.12 respectively.

Regressions are estimated on the total sample (All Firm). Specifically, Table 4.3 reports Fixed Effects results of the regression on Return on Assets, while Tables 4.4, 4. 5, 4.6 and 4.7 report results on Return on Equity, Price Earnings Ratio, Tobin's q and Labour Productivity respectively.

Table 4.3: Fixed Effect Regression Results of Effect of Corporate Governance Mechanisms on Return on Assets

VARIABLES	Selected Firms
BS	0.0325*
	(0.0171)
OBD	-0.000666
	(0.00147)
DSH	0.000259
	(0.00184)
IAC	0.00122
	(0.00375)
BH	-0.00311*
	(0.00176)
L	-0.327***
	(0.0693)
FS	-0.0398***
	(0.0135)
BS ²	-0.00191**
	(0.000915)
Constant	0.939***
	(0.312)
Observations	1,118
R-squared	0.084
F-statistic	5.21***
Number of company	43
Hausman test	42.2***

Source: as in table 4.1

From table 4.3 result for the entire sample (All Firms), five variables are significant which include board size (BS), block holding (BH), leverage (L), firm size (FS) and squared of board size (BS²). While leverage (L), firm size (FS) and squared of board size (BS²) are significant at 1%, board size (BS) and block holding (BH) are significant only at 10%. These five variables were also found to be significant in the studies of Rostami et al, 2016; Almatari 2014; Olowookere 2008; Sanda et al 2005). Other variables like board independence measured by number of outside board directors,

director shareholding and independence of audit committee have no significant impact on Return on Assets (ROA).

Out of the five variables, only BS has positive effect on return on asset, (Akpan & Riman, 2012; Nidhi et al, 2016) while the remaining four have negative effect. The negative relationship between leverage and firm performance conforms to the studies of (Mule & Mukras, 2015; Hussain, Ashfaq & Muhammad, 2016), whereas (Olowookere, 2008; Cheema & Muhammad 2013) observed positive relationship between Leverage and return on assets. Similarly, the negative effect of firm size on firm performance observed in this study contradicts the findings of Hussain, Ashfaq, & Muhammad (2016) which observed a positive link between firm size and firm performance.

The negative coefficient of squared of BS confirm the fact that board size does not have a linear relationship with firm performance as measured by return on asset, rather a quadratic relationship. At the initial stage increase in BS will lead to increase in performance (Olowookere, 2008) but after certain threshold level of board size increase in number of board members will reduce performance (Eisenberg 1998; Guest, 2009)

The prior expectation as concerns the influence of board size on performance is met as board size positively affects return on asset to a level after which the increase in the latter achieve a corresponding decline in the former. This shows that at lower board size, a marginal increase in the number of members will initially raise ROA as the board's capacity for monitoring is enhanced (Donaldson et al, 2013). However, at some higher board size, increasing the board further may distort its operations.

Table 4.4: Fixed Effect Regression Results of Effect of Corporate Governance Mechanisms on Return on Equity

	All Firms
VARIABLES	
BS	-1.257**
	(0.528)
OBD	-0.0542
	(0.0454)
DSH	-0.0775
	(0.0567)
IAC	0.175
	(0.116)
BH	-0.101*
	(0.0543)
L	3.932*
	(2.138)
FS	-0.408
	(0.415)
BS ²	0.0645**
	(0.0282)
Constant	9.322
	(9.630)
Observations	1,118
R-squared	0.063
F-statistic	3.55***
Number of company	43
Hausman test	15.19*

Source: as in table 4.1

Only Board size (BS) and square of Board size (BS²) are statistically significant at 5% level in the result for All Firms. However, both came out with wrong signs, while BS has negative sign, BS² has positive sign. This is contrary to expectation as BS which is expected to be positive turned to be negative while BS² which is expected to be negative but recorded positive. The result is consistent with the conclusions drawn by (Uadiale, 2010; Bebeji, et al 2015; Anca- Elena, 2015) who reported a significant negative

relationship between board size and the performance of a firm measured by ROE. L is positive and statistically significant at 10%, contrary to the findings of (Hussain et al 2016; Mule, et al 2015) who detected an inverse relation between leverage and return on equity. In the same vein BH is significant but negative at 10% level of significant. This also negates the findings of (Manawadugbe, et al 2013) who observed a positive relation.

Table 4.5: Fixed Effect Regression Results of Effect of Corporate Governance Mechanisms on Price Earnings Ratio

VARIABLES	All Firms
BS	-0.00142 (0.0443)
OBD	-0.00788** (0.00380)
DSH	0.00569 (0.00475)
IAC	0.0124 (0.00972)
BH	-0.00735 (0.00456)
L	0.0277 (0.179)
FS	0.122*** (0.0348)
BS ²	0.000509 (0.00237)
Constant	-1.580* (0.808)
Observations	1,118
R-squared	0.054
F-statistic	2.77***
Number of company	43
Hausman test	15.3*

Source: as in table 4.1

The sample of all firms from table 4.5 shows that only OBD and FS have significant impact on firm performance measured by Price earnings ratio. Outside board

size is negatively statistically significant at 5% level which contradicts the findings of (Sanda, et. al (2005) and Olowookere, 2008) who found no significant relationship between OBD and firm performance measured by PE ratio. Firm size is statistically significant at 1% level with positive signs. This is inconsistent with the study of Olowookere, (2008) who observed a negative linkage between firm size and price earnings ratio. Other independent variables such as BS, BH, DSH, IAC and L do not have significant relationship with firm's performance gauged by PE ratio. This is contrary Olowookere, (2008) who found positive correlation between BS; IAC; BH and price earnings ratio. He also observed relations between FS; square of board size and price earnings ratio inverse relationship between BH and firm performance measured by PE ratio

Table 4.6: Fixed Effect Regression Results of Effect of Corporate Governance Mechanisms on Tobin's Q

	All Firms
VARIABLES	
BS	0.200** (0.0889)
OBD	-0.0166** (0.00764)
DSH	-0.00393 (0.00954)
IAC	0.0175 (0.0195)
BH	-0.00716 (0.00915)
L	-0.129 (0.360)
FS	-0.0152 (0.0699)
BS ²	-0.0111**

	(0.00475)
Constant	1.790
	(1.621)
Observations	1,118
R-squared	0.090
F-statistic	1.36
Number of company	43
Hausman test	21.48***

Source: as in table 4.1

From the regression result on table 4.6 board size (BS), square of BS and OBD as a measure of corporate governance are statistically significant at 5% level respectively; all other independent variables are insignificant. Board size is positively and square of board size is inversely related with Tobin's q as a measure of firm performance. This indicates that the performance measured by Tobin's q of a firm continues to appreciate with additional board member up to a remarkable extent before it starts impacting negatively. This confirms the quadratic relationship between Board size (BS) and firm performance which is measured as Tobin Q. This is in conformity with the findings of (Olowookere, 2008; Rashid, De Zoysa, Lodh, & Rudkins, 2010; Al-Matar et al 2014). On the other hand, OBD is inversely correlated with firm performance measured by Tobin's Q. This implies that as more member of OBD is added, Tobin's Q as a measure of firm performance declines. This is supported by the findings of (Rashid, De Zoysa, Lodh, & Rudkins, 2010; Fauzi et al 2012). However, Olowookere (2008) and Bruno, (2013) observed a positive relationship between OBD and Tobin's Q

Table 4.7: Fixed Effect Regression Results of Effect of Corporate Governance Mechanisms on Labour Productivity

	All Firms
VARIABLES	
BS	0.152***
	(0.0402)
OBD	0.00485
	(0.00345)
DSH	0.00429
	(0.00431)
IAC	0.0102
	(0.00882)
BH	0.0151***
	(0.00414)
L	-0.317*
	(0.163)
FS	0.846***
	(0.0316)
BS ²	-0.00591***
	(0.00215)
Constant	-8.261***
	(0.733)
Observations	1,118
R-squared	0.619
F-statistic	120.65***
Number of company	43
Hausman test	47.1***

Source: as in table 4.1

From the sampled firms, the board size (BS) is positively statistically significant at 1% while square of board size (BS²) is negatively statistically significant at the level of 1% with labour productivity. This shows that an increase in board membership will continue to enhance performance measure by labour productivity up to a certain extent thereafter, it will start declining. This equally confirms that BS does not have linear

relationship with firm performance measured by labour productivity rather a quadratic relationship. The result of this study is supported by (Olowookere, 2008). Also, Block Holding (BH) is positively statistically significant at 1% level of significance with labour productivity. It reveals that an increase in Block Holding will lead to an improvement in performance measured by labour productivity. The result this study is affirmed by (Olowookere, (2008) while Xu et al observed an inverse relation between BH and labour productivity. However, leverage (L) is negatively statistically significant at 10% level of significance. It shows that an increase in the level of leverage will result into decrease in the firm performance gauged by labour productivity. The finding of this study negates the study of Olowookere, (2008) who found a positive significant relationship between leverage and labour productivity. Lastly Firm size (FS) as a measure of corporate governance indicator is positively significant at 1% with labour productivity. This reflects that as the firm size increases the performance level measured by labour productivity will continue to rise. This is contrary to Olowookere, (2008) who found an inverse relationship between firm size and labour productivity.

4.3 Hypotheses Testing

Test of Hypothesis-1:

H_0 : Corporate governance mechanisms have no effect on Return on Assets of listed Nigerian firms.

H_1 : Corporate governance mechanisms have effect on Return on Assets of listed Nigerian firms.

Table 4.3 presents the effects of corporate governance indicators on return on assets using all firms. For the overall corporate governance indicators explain only 8.4% of changes in Return on Assets, as shown by the coefficient of determinant R^2 of 0.084 which means that corporate governance variables (BS, OBD, DSH, BH, IAC, L and FS) jointly explained 8.4% of the variability of return on assets of Nigerian listed firms while the remaining 91.6% variance is not explained by the independent variables. This might be explained by other factors outside the model, like extraneous variables that is captured by the error term (ϵ).

F-statistics of 5.21 shows that generally the selected independent variables are statistically significant at 1% level in generating return on assets of Nigerian listed firms. In addition, our prior expectation as concerns the effect of board size on performance is met as board size positively affect return on asset to certain level after which the increase in the latter achieve a corresponding decline in the former. This shows that at lower board size, a marginal increase in the number of members will initially raise ROA as the board's capacity for monitoring is enhanced (Amer, 2014; Nidhi et al 2016)). However, at some higher board size, increasing the board further may distort its operations (Olowookere, 2008). On the other hand L and FS are negatively correlated with ROA. That is, the more any of these two independent variables are increased the less ROA will accrue to the listed Nigerian firms. With p value of 0.01 for leverage, 0.01 for firm size and 0.05 for square of board size which is within 5% level of significance the null hypothesis (H_0) should be rejected, hence leverage, firm size and square of board size as

measure of corporate governance mechanisms are statistically significant to the performance of listed Nigerian firms measured by return on assets.

Test of Hypothesis-2:

H₀: Corporate governance mechanisms have no effect on Return on Equity of Nigerian listed firms

H₁: Corporate governance mechanisms have effect on Return on Equity of Nigerian listed firms

Table 4.4 presents the effects of corporate governance measures on Return on Equity of listed Nigerian firms. The coefficient of determinant R^2 for all firm samples is 0.063 or 6.3% which shows that the selected corporate governance indicators jointly explained only 6.3% of the variability of return on equity of the Nigerian listed firms' performance while the remaining 93.7% variance is not explained by the independent variables but by exogenous variables. This might be explained by other factors outside the model, like extraneous variables that is captured by the error term (). It implies that it is not a good fit. It is observed that raising the board size initially reduces return on equity, but raising it further beyond a level has the tendency of raising the return on equity. This is contrary to expectation as observed in return on assets. Also enlargement of Block holding dampens Return on Equity. Furthermore, as firms become more geared, they record higher returns on equity this is because higher level of debt makes the creditor interested in the affairs of the firms, which enhances performance. It implies that it is not a good fit. For all firms only board size and square of board size with p- value of

0.05 depicts that the two variables are statistically significant at 5% the null hypothesis (H_0) should be rejected for two variables while the alternative (H_1) be accepted for outside board directors, directors shareholding, independent of audit committee, block holding, leverage and firm size for return on equity as a measure of performance.

Test of Hypothesis-3:

H_0 : Corporate governance mechanisms have no effect on Price Earnings Ratio of Nigerian listed firms

H_1 : Corporate governance mechanisms have effect on Price Earnings Ratio of Nigerian listed firms

The effect of Corporate Governance on Price-Earnings Ratio is presented in table 4.5. The coefficient of determinant R^2 is 0.054 or 5.4% for the overall sample implying that the selected corporate governance mechanisms jointly and severally explained 5.4% of the variability of price earnings ratio of Nigerian listed firms while the remaining 94.6% variance is not explained by the independent variables. This might be explained by other factors outside the model, like extraneous variables that is captured by the error term (). This is not of a good fit.

Contrary to expectation, board size does not have significant relationship with performance gauged by price earnings ratio. Outside board directors' still shows a negative relationship with PE ratio while larger firm earns more value per share. The implications of these effects are as discussed earlier. With p value of 0.05 for outside board directors and 0.01 for firm size, the null (H_0) should be rejected for the two

variables in case of all firms while alternative (H_1) should be accepted for board size, directors shareholding, independent audit committee, block holding, leverage as they do not have significant correlation with price earnings ratio.

Test of Hypothesis-4:

H_0 : Corporate governance mechanisms have no effect on Tobin's Q of Nigerian listed firms

H_1 : Corporate governance mechanisms have effect on Tobin's Q of Nigerian listed firms

The effect of Corporate Governance on Tobin's q is presented in Table 4.6. The coefficient of determinant R^2 of 0.090 or 9% for the entire sample shows that the selected corporate governance mechanisms jointly explained 9% of the variability of Tobin's q of Nigerian listed firms while the remaining 91% variance is not explained by the independent variables. This might be explained by other factors outside the model like extraneous variables that is captured by the error term (ϵ).

Board size positively influence TQ (firm value) to a level after which the increase in the latter achieve a corresponding decline in the former. It reveals that the relationship is not linear but quadratic. However, number of outsiders board directors negatively influence TQ. Board size exerts positive effect on TQ over a range of values after which the reverse occurs. Therefore, higher board size may distort the flow of quality communication and thereby reducing firm performance. Increasing the proportion of outside board directors is theoretically expected to aid firm performance, as independent

directors are expected to support value-maximising goals of the firm. However, contrary to expectation in this model, an increase in outside board directors reduces performance proxied by Tobin's q . With the p value, board size, outside board directors, and square of board size are statistically significant at 0.05 for the three variables; hence, the null hypothesis (H_0) should be rejected for board size, outside board directors, and square of board size using Tobin's q as a measure of firm performance. On the other hand, the alternative hypothesis (H_1) should be accepted for directors' shareholding, independent of audit committee block holding, leverage, and firm size.

Test of Hypothesis-5:

H_0 : Corporate governance mechanisms have no effect on Labour Productivity of Nigerian listed firms

H_1 : Corporate governance mechanisms have effect on Labour Productivity of Nigerian listed firms

The effect of Corporate Governance on labour productivity of Nigerian listed firms is presented in Table 4.7. The coefficient of determinant R^2 for the all firms sample is 0.619 or 62% which shows that the selected corporate governance mechanisms jointly and severally explained about 62% of the changes in labour productivity of the Nigerian listed firms. While only about 38% variance is not explained by the independent variables. R^2 for financial firms is 61.9% or 62% while 38% might be explained by other factors outside the models like extraneous variables that is captured by the error term (ϵ). The models for selected firms indicate that it is of a good fit.

Board size still exerts an inverted U shape effect on firms' labour productivity. Similarly, block holding and firm size enhances higher labour productivity. However, leverage reduces the level of productivity. This may be due to financial friction by firms that is, the difference between the return businesses earn from capital plant and equipment and the market cost of capital. Board size, block holding, firm size and square of board size with p value of 0.01 the four variable are statistically significant thus; null hypothesis (H_0) for each of these variables should be rejected. Meanwhile alternative hypotheses (H_1) should be accepted for outside board directors, directors' shareholding, independent audit committee and leverage measured by using labour productivity.as measure of performance for the listed Nigerian firms.

4.4 Discussion of Findings

This study employed a model with five measures of performance indicators to assess the effect of corporate governance mechanisms on firm's performance. The performance variables include: return on assets, return on equity, price earnings ratio, tobin's q and labour productivity of listed firms in Nigeria. So far, the five different methods yield different results as given as tables 4.3 to 4.4, (return on assets, return on equity) table 4.5 to 4.6 (price earnings ratio, tobin's q) and 4.7 examined the result of labour productivity. Subsections 4.4.1 through 4.4.7 discuss the results of the regressions.

Table 4.8: Summary of findings vis-à-vis related studies in Nigeria

Author(s)	Samples and Period	Variables	Statistical methods	Theoretical Framework	Main Results
Adenikinju & Ayorinde (2001)	Non-financial Nigerian Listed Firms	Dependent Variables: ROA and TQ, Independent variables: Measures of ownership and insider concentrations	OLS		Ownership structure is not a major determinant of firm performance
Adenikinju (2005)	60 non-financial firms (1993-2002)	Dependent variables: ROA, TQ and Equity Price Independent variables: board size, board composition, number of meetings, concern index, ownership mix, company size, leverage	Correlation fixed effect and random effect		CEO compensation and institutional shares have effect on firm performance while concentration ratio is negatively related
Magbagbeola (2005)	66 banks (1999-2004)	Dependent variables:ROA and ROE, Independent variables: Board size, outside directors, Exco tenure and succession	Panel Regression	Agency theory	An inverse relationship between board size and bank financial performance, 10 man board and 5 years term for CEO were recommended
Sanda, Mikailu & Garba (2005)	A sample of 93 firm quoted on NSE (1996-1999)	Dependent variables: PE ratio ROA ROE and TQ Independent variables: Board size Directors Shareholding outsiders on board, ownership concentration, leverage, firm size CEO status & type of board change	OLS	Agency theory	Separating the posts of CEOs and Chair, Leverage, 10 man board and foreign CEO aid performance but outside director is insignificant
Olowookere (2008)	64 non-financial Nigerian listed firms for period (2002- 2006)	Dependent variables: tobin's q, return on assets , price earnings ratio, return on equity and Labour Productivity, independent variables: board size, outsiders on board, directors shareholding,	Panel regression correlation and test of means		Board size and ownership concentration initially raise performance but reduce at some high level. Independent directors, directors shareholding and debt enhance

		blockholding, CEO/ chairman duality, independence of audit membership and debt			performance. Further the governance corporate structure of Nigerian listed firms has not significantly changed after the release of SEC- CAC code in 2003 thus its impact on performance is insignificant as at the study period. Lastly, the result of estimate on labour productivity is comparable with other measures of performance (usually financial) performance used by previous studies on Nigeria
Babatunde, & Olaniran (2009)	62 firms (2002- 2006)	Dependent variables: Independent variables: Board size, outside directors	Panel data regression analysis		The findings show no significant evidence to support the idea that outside directors help promote firm performance. The study finds that the measure of performance matter for analysis of corporate governance studies.
Uadiale, (2010)	30 quoted companies for the period 2007	Dependent variable: return on equity and return on capital employed, independent variables: board composition, board size, board ownership and CEO duality	OLS		Findings from the study show that there is strong positive association between board size and ROE and ROCE. Also there is a positive association between outside directors sitting on the board and corporate

					financial performance. A negative association between ROE and CEO duality, while a strong positive association was observed between ROCE and CEO duality.
Akpan & Riman (2012)	(2005-2008)	Dependent variables: ROA, ROE, NPL, TA TE, independent variables: Board size, number of shareholders	OLS Regression analysis		Results reveal positive association between board size and ROA, ROE. No statistical linkage between non-performing loans and size of bank directors. However non-performing loans have a positive relationship with number of shareholders
Amba (2013)	30 firms between (2010 and 2012)	Dependent variables: Gearing ratio and return on assets, independent variables: CEO duality, Chairman of audit committee, proportion of non-executive directors, concentrated ownership, institutional investors	Multiple regression analysis		He finds significant positive relationship between firm's performance and CEO duality, proportion of non-executive directors. Also leverage has a negative correlation with having board members as the chairman of audit committee while percentage of institution ownership has a positive influence on firms' financial performance
Gbadebo, (2017)	43 Financial and non-financial firms. (1990-2015)	Dependent variables: ROA, ROE, PE ratio, TQ, Labour Productivity, independent variables: Board size, Outside	Multiple regression Analysis		The outcome reveals mix result as there are three categories of relationships. Firstly, board size is

		Board Directors, Directors Shareholding, Block Holding, Leverage & Firm size			positively related with firm performance measured by labour productivity and Tobin's Q, similarly firm size is positively linked with P/E ratio and LP. Secondly, block holding is inversely related with ROA and ROE. Thirdly, Directors' Shareholding and Independent Audit Committee have insignificant relationships with ROA, ROE, PER, TQ and LP. The study recommends that regulators should not only review the code of best practices from time to time but set forth harsh penalties for firms and business leaders for non-compliance with code of corporate governance to enhance firms performance in Nigeria. A maximum of ten professionally qualified board members is advocated.
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Source: Author's investigation and computation

4.4.1. Corporate Governance indicators and Return on Assets

The regression results only board size has significant positive relationship with return on assets. This implies that an increase in board size the firm performance measured by return on assets improves. The study is corroborated by (Sanda, Mikailu, & Garba, 2005; Olowookere, 2008; Sheikh, Wang, & Khan, 2013; Nidhi, & Anil, 2016)) who also find significant positive relationship between board size and return on assets. Block holding, leverage, firm size and square of board size have negative significant correlation. It indicates that as each of the listed variables increase in value or number firm performance measured by return on asset decline. These results were supported by (Sanda et al 2005; Olowookere, 2008).

4.4.2. Corporate Governance Mechanisms and Return on Equity

Regression result indicated that leverage and square of board size have positive significant linkage with return on equity whereas board size and block holding have negative correlation with performance (return on equity).(Kiel 2006; Olowookere, 2008; Riman, et al 2012). In case of financial firms only independent audit committee has positive association with performance.

4.4.3 Corporate Governance Mechanisms and Price Earnings Ratio

The regression result showed that firm size has significant positive relation with price earnings ratio. This indicates that as firm's size increases the firm performance measured by price earnings ratio improves. This agrees with the study of (Olowookere, 2008). However, outside board directors has significant negative association with price

earnings ratio. This connotes that as the outside board directors number increases performance decline. This negates the study of Olowookere, (2008) who finds no significant relationship between outside board directors and firm performance

4.4.4 Corporate Governance Mechanisms and Tobin's q

The regression result for all firms shows that only board size has significant positive relationship with tobin's q. This indicates that as the board size increases, firm performance measured by Tobin's q, though up to certain threshold after which the performance begins to decline because the relationship between board size is non-linear but quadratic. The works of (Sanda, Mikailu, & Garba, 2005; Olowookere, 2008; Almatari, 2014; Al-Matar, Al-Swidi, & Btfadzil, 2014) corroborates this finding while the study of Guest, 2009; Kumar, & Singh, 2013) observe a negative correlation between board size and tobin's q. Outside board directors and square of board size have significant negative correlation. This shows that as number of outside board directors member increases after certain threshold the firm performance measured Tobin's q declines. This study is supported by Bruno (2013) who establishes a negative association between outside board directors and Tobin's q.

4.4.5. Corporate Governance Mechanisms and Labour Productivity

From the regression result in table 4.7 board size has significant positive relationship with labour productivity. This indicates that as the number of board members increases firms performance measured by labour productivity improves. This study is consistent with the work of Olowookere, (2008) who also observes a positive correlation

between dependent and independent variables. Similarly, the regression result of block holding shows a significant positive association with firm performance gauged by labour productivity. This indicates that as the number or quantum of institutional shareholders enlarges the better is the firms' performance measured by labour productivity. This finding is inconsistent with the study of Xu and Wang, (1999) and Olowookere (2008) that find significant negative and insignificant association between the dependent and independent indicators respectively. In addition, firm size has a positive significant influence on labour productivity. This indicates that as firms size improves labour productivity of the firms' increases. On the other hand, leverage has significant negative association with labour productivity as a measure of performance. This shows that as the ratio of leverage raises the firm performance declines. This is contrary with the study of Olowookere (2008) that claim that no relationship exists between the variables. Lastly square of board size has inverse correlation with labour productivity. This indicates a non-linear relationship between board size and square of board size. Olowookere (2008) corroborates this finding.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study examined the effect of corporate governance mechanisms on performance of listed firms in Nigeria between 1990 and 2015.

This study examined Corporate Governance structure and the performance of publicly quoted non-financial companies in Nigeria using fixed effects method already adopted in earlier studies in developed economies and some emerging markets. 1118 firm-year data was used. Secondary data were collected from financial statement of 43 firms listed on the Nigerian Stock Exchange. Panel regression model was adopted using STATA 14 software to analyse results. The outcome showed mix results as there are three categories of associations.

- Firstly, board size has positive significant relationship with performance measured by return on assets, tobin's q and labour productivity. In the same vein firm size has significant correlation with price earnings ratio and labour productivity. Similarly, block holding and leverage have positive significant influence on labour productivity and return on equity respectively..
- Secondly, block holding, leverage and firm size have inverse relationship with return on assets. Similarly, outside board directors has significant negative influence on market based measure of performance (price earnings ratio and

tobin's q). In the same vein board size and block holding have inverse significant association with return on equity.

- Thirdly, outside board directors, independent audit committee, director shareholding, firm size, block holding and leverage have insignificant influence on firm performance measured by (return on assets and return on equity) while independent audit committee, director shareholding, block holding and leverage had insignificant relationships with the market value (price earnings ratio and tobin's q). The insignificance of audit committee independence raises question of how independent the audit committee is. Lastly outside board directors, directors shareholding and independence of audit committee have negative but insignificant correlation with labour productivity.

5.2 Conclusion

It is concluded that multidimensional changes in governance mechanism by firms may suggest substitutability among mechanisms; it is therefore necessary for regulatory bodies, firms and researchers to incorporate this into their regulations and analysis, respectively. For regulatory bodies, the same policy prescription on corporate governance may not be optimal, as optimum regulations may depend on firm characteristics and the degree of substitutability among mechanisms. Firms need to incorporate value-enhancing governance mechanisms as well as harmonising mechanisms to forestall the simultaneous experience of good and bad changes in governance mechanisms. Researchers should note

the above, and in addition more evidence is required on the nature and degree of substitution among governance mechanisms, especially in emerging economies including Nigeria.

The level of corporate governance affects the level of performances of listed firms in Nigeria; however, as firms are in equilibrium with respect to their governance structure, it would be difficult to ex-ante predict the performance effect of changes in governance measures.

Another major conclusion from the dissertation is that measuring firm performance using labour productivity yield better result than other measures in this study.

5.3 Recommendations

The empirical study established the relevance of corporate governance variables on firm performance, the study recommended the following:

5.3.1 The board size

Board size should be increased by Nigerian listed firms but not beyond ten that is the average number of directors revealed by this study. This is to prevent communication gap and reduce cost in terms of remuneration to the directors.

5.3.2 Block holding

Blockholder or/and institutional shareholder should be encouraged by Nigerian listed firms as it serves as external monitoring mechanisms by checkmating the management from taking risky projects at the expense of resources providers.

5.3.3 Leverage

The mechanism of debt should be exploited by firms desirous of expansion as this aids monitoring process. Though debt also has its own costs, Nigerian listed firms need to determine their optimal debt-equity ratio in order to maximise returns from such activities.

5.3.4 Firm size

Larger firm size reflected mixed results in this study hence scaling down of large firms cannot be categorically suggested, especially given the high level of unemployment in Nigeria. However, Managers of Nigerian listed firms should be motivated to eject the excess cash flow generated into the business rather than investing it at below the cost of capital or wasting it on organisational inefficiencies.

5.4 Contributions to Knowledge

This study contributes to the scarce literature on corporate governance and firm performance in developing countries. Specifically, it can be regarded as the first study that will use the longest time period of twenty six years (1990 to 2015).

To the researcher's knowledge, it can be regarded as one of the few studies to effectively use labour productivity as a measure of performance for the listed Nigerian firms.

Also most of the previous studies in Nigeria have either examined the effect of corporate governance on either performance of financial firms or non-financial firms however this study combined the two together that is financial and non-financial firms.

Moreover it is one of the few studies conducted in a developing country with a unique business environment. This research provides shareholders and other stakeholders with insight into how corporate governance indicators influence firm performance.

In general, this study provides practitioners with a clear view about the relationship between corporate governance principles, corporate governance mechanisms and firm performance in Nigeria.

Finally the findings of this study will be beneficial to other West African countries and their policymakers with similar social, political and economic environment.

5.5 Suggestions for Further Study

Variables that do not have significant relationship with firm performance measured by accounting based, market based and productivity based should be substituted. Specifically future studies can investigate the effect of more indicators of corporate governance such as: board meeting, board committee; board composition, CEO performance; CEO skills; tenure of the CEO; executive remuneration and incentives for management; staff tenure and staff qualifications.

Finally, this study focused on listed companies in Nigeria, but it is also important to understand the current corporate governance practice of non-listed companies in Nigeria. Therefore, another focus for future researchers could be a comparison of the corporate governance practices of listed and non-listed companies in Nigeria.

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APPENDIX 1

Random Effect and Fixed Effect Linear Regression Results

Linear regression, absorbing indicators	Number of obs	=	1,118
	F(8, 1067)	=	5.21
	Prob > F	=	0.0000
	R-squared	=	0.0844
	Adj R-squared	=	0.0415
	Root MSE	=	0.6346

returnonas~t	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
BS	.032457	.0171105	1.90	0.058	-.001117	.066031
OBD	-.0006664	.0014695	-0.45	0.650	-.0035498	.0022171
DSH	.000259	.0018365	0.14	0.888	-.0033445	.0038625
IAC	.0012204	.0037531	0.33	0.745	-.0061438	.0085847
BH	-.0031073	.0017606	-1.76	0.078	-.006562	.0003473
L	-.3273183	.0692585	-4.73	0.000	-.4632167	-.1914199
FS	-.0397658	.0134609	-2.95	0.003	-.0661786	-.0133529
squaredbs	-.0019097	.0009148	-2.09	0.037	-.0037048	-.0001146
_cons	.9390716	.3120029	3.01	0.003	.3268627	1.55128
companyid	F(42, 1067) =		1.529	0.018	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	1,118
F(8, 1067)	=	3.55
Prob > F	=	0.0005
R-squared	=	0.0628
Adj R-squared	=	0.0189
Root MSE	=	19.5886

returnoneq-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
BS	-1.257347	.5281412	-2.38	0.017	-2.29366	-.2210338
OBD	-.0542114	.045359	-1.20	0.232	-.1432144	.0347915
DSH	-.0774869	.0566857	-1.37	0.172	-.1887151	.0337413
IAC	.1749668	.1158442	1.51	0.131	-.0523414	.4022751
BH	-.1013805	.0543444	-1.87	0.062	-.2080144	.0052535
L	3.9316	2.137773	1.84	0.066	-.2631158	8.126315
FS	-.4080475	.4154914	-0.98	0.326	-1.22332	.4072254
squaredbs	.0644904	.028238	2.28	0.023	.0090821	.1198987
_cons	9.321503	9.630454	0.97	0.333	-9.575275	28.21828
companyid	F(42, 1067) =		1.152	0.236	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	1,118
F(8, 1067)	=	2.77
Prob > F	=	0.0049
R-squared	=	0.0540
Adj R-squared	=	0.0097
Root MSE	=	1.6430

priceearnio	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
BS	-.0014243	.0442985	-0.03	0.974	-.0883464	.0854978
OBD	-.0078831	.0038045	-2.07	0.039	-.0153483	-.0004178
DSH	.0056943	.0047546	1.20	0.231	-.0036351	.0150237
IAC	.0123983	.0097166	1.28	0.202	-.0066675	.0314641
BH	-.0073521	.0045582	-1.61	0.107	-.0162962	.001592
L	.0276821	.1793085	0.15	0.877	-.3241552	.3795193
FS	.1218513	.0348499	3.50	0.000	.0534692	.1902334
squaredbs	.0005092	.0023685	0.21	0.830	-.0041383	.0051566
_cons	-1.579615	.8077669	-1.96	0.051	-3.164607	.0053771
companyid	F(42, 1067) =		1.032	0.417	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	1,118
F(8, 1067)	=	1.36
Prob > F	=	0.2116
R-squared	=	0.0899
Adj R-squared	=	0.0473
Root MSE	=	3.2978

tobinsq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
BS	.1996105	.0889141	2.24	0.025	.0251443	.3740768
OBD	-.0166281	.0076363	-2.18	0.030	-.031612	-.0016442
DSH	-.0039333	.0095432	-0.41	0.680	-.0226589	.0147923
IAC	.0175116	.0195027	0.90	0.369	-.0207564	.0557796
BH	-.0071604	.009149	-0.78	0.434	-.0251125	.0107918
L	-.1285199	.3599	-0.36	0.721	-.834712	.5776723
FS	-.0152011	.0699491	-0.22	0.828	-.1524546	.1220524
squaredbs	-.0110832	.0047539	-2.33	0.020	-.0204114	-.0017551
_cons	1.789797	1.621314	1.10	0.270	-1.391529	4.971123
companyid	F(42, 1067) =		2.082	0.000	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	1,118
F(8, 1067)	=	45.94
Prob > F	=	0.0000
R-squared	=	0.4914
Adj R-squared	=	0.4675
Root MSE	=	8561.0946

labourprod-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
BS	-780.2712	230.8211	-3.38	0.001	-1233.186	-327.3563
OBD	-20.48	19.82389	-1.03	0.302	-59.37823	18.41823
DSH	-44.02455	24.77419	-1.78	0.076	-92.6362	4.587111
IAC	-10.49901	50.62904	-0.21	0.836	-109.8428	88.84478
BH	53.34858	23.75089	2.25	0.025	6.744821	99.95234
L	-1713.437	934.3014	-1.83	0.067	-3546.714	119.8396
FS	3082.655	181.5882	16.98	0.000	2726.345	3438.965
squaredbs	38.99127	12.34125	3.16	0.002	14.77539	63.20715
_cons	-37735.48	4208.935	-8.97	0.000	-45994.21	-29476.75
companyid	F(42, 1067) =		13.327	0.000	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	234
F(8, 217)	=	3.81
Prob > F	=	0.0003
R-squared	=	0.1528
Adj R-squared	=	0.0903
Root MSE	=	1.3241

returnonas-t	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.0686094	.0683955	1.00	0.317	-.0661951	.2034139
obd	.000208	.0065192	0.03	0.975	-.012641	.0130569
dsh	.0057514	.0076676	0.75	0.454	-.0093611	.0208639
iac	.0058485	.0258313	0.23	0.821	-.0450638	.0567608
bh	-.0097979	.0069434	-1.41	0.160	-.023483	.0038872
l	-1.220045	.3008295	-4.06	0.000	-1.812967	-.6271232
fs	-2.049473	.0557933	-3.67	0.000	-.3149135	-.0949811
squaredbs	-.0038277	.0030614	-1.25	0.213	-.0098616	.0022062
_cons	4.17046	1.683328	2.48	0.014	.8526937	7.488226
companyid	F(8, 217) =		2.794	0.006	(9 categories)	

Linear regression, absorbing indicators

Number of obs	=	234
F(8, 217)	=	2.22
Prob > F	=	0.0273
R-squared	=	0.1035
Adj R-squared	=	0.0374
Root MSE	=	1.4958

returnoneq-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.0241856	.0772645	0.31	0.755	-.1280992	.1764705
obd	.0041098	.0073645	0.56	0.577	-.0104053	.018625
dsh	-.0028605	.0086619	-0.33	0.742	-.0199327	.0142117
iac	.1104557	.0291809	3.79	0.000	.0529415	.1679699
bh	.0005321	.0078437	0.07	0.946	-.0149275	.0159918
l	-.5327629	.3398387	-1.57	0.118	-1.20257	.1370444
fs	-.0768894	.0630282	-1.22	0.224	-.2011152	.0473364
squaredbs	-.0012144	.0034584	-0.35	0.726	-.0080307	.005602
_cons	-3.922658	1.901609	-2.06	0.040	-7.670647	-.1746704
companyid	F(8, 217) =		1.819	0.075	(9 categories)	

Linear regression, absorbing indicators

Number of obs	=	234
F(8, 217)	=	1.06
Prob > F	=	0.3960
R-squared	=	0.0708
Adj R-squared	=	0.0023
Root MSE	=	0.7470

priceearnio	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.0166869	.0385861	0.43	0.666	-.0593647	.0927384
obd	.0026871	.0036779	0.73	0.466	-.0045618	.009936
dsh	.0004861	.0043258	0.11	0.911	-.0080398	.009012
iac	.0089647	.014573	0.62	0.539	-.019758	.0376875
bh	-.0010407	.0039172	-0.27	0.791	-.0087613	.0066799
l	.0575324	.1697165	0.34	0.735	-.2769715	.3920363
fs	.0679869	.0314765	2.16	0.032	.0059482	.1300257
squaredbs	-.001953	.0017271	-1.13	0.259	-.0053571	.0014511
_cons	-1.516962	.9496695	-1.60	0.112	-3.388719	.3547953
companyid	F(8, 217) =		0.347	0.947	(9 categories)	

Linear regression, absorbing indicators

Number of obs	=	234
F(8, 217)	=	2.70
Prob > F	=	0.0075
R-squared	=	0.1209
Adj R-squared	=	0.0561
Root MSE	=	6.5193

tobinsq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.3476606	.3367401	1.03	0.303	-.3160395 1.011361
obd	-.0012624	.0320966	-0.04	0.969	-.0645235 .0619986
dsh	.0227622	.0377509	0.60	0.547	-.0516433 .0971676
iac	.0176483	.1271783	0.14	0.890	-.2330146 .2683113
bh	-.0477267	.0341852	-1.40	0.164	-.1151043 .0196508
l	-4.470235	1.481112	-3.02	0.003	-7.389442 -1.551028
fs	-.8776505	.2746943	-3.20	0.002	-1.419061 -.3362399
squaredbs	-.0192598	.0150726	-1.28	0.203	-.0489674 .0104477
_cons	18.83315	8.287743	2.27	0.024	2.498371 35.16793
companyid	F(8, 217) =		2.335	0.020	(9 categories)

Linear regression, absorbing indicators

Number of obs	=	234
F(8, 217)	=	14.16
Prob > F	=	0.0000
R-squared	=	0.4711
Adj R-squared	=	0.4322
Root MSE	=	2.0553

loglabourp-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.2557378	.10616	2.41	0.017	.046501 .4649745
obd	.0241024	.0101187	2.38	0.018	.0041589 .044046
dsh	.0108173	.0119013	0.91	0.364	-.0126396 .0342742
iac	.0598066	.040094	1.49	0.137	-.0192169 .1388301
bh	.0178946	.0107772	1.66	0.098	-.0033467 .0391359
l	-.3830623	.4669324	-0.82	0.413	-1.303366 .5372411
fs	.6719052	.0865996	7.76	0.000	.5012213 .8425892
squaredbs	-.0072022	.0047518	-1.52	0.131	-.0165677 .0021633
_cons	-11.20927	2.612777	-4.29	0.000	-16.35894 -6.059601
companyid	F(8, 217) =		4.922	0.000	(9 categories)

Linear regression, absorbing indicators

Number of obs	=	884
F(8, 842)	=	8.72
Prob > F	=	0.0000
R-squared	=	0.4211
Adj R-squared	=	0.3929
Root MSE	=	0.1176

returnonas-t	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	-.0031841	.0039852	-0.80	0.425	-.0110062 .004638
obd	.0001503	.0003107	0.48	0.629	-.0004595 .00076
dsh	-.0008361	.0004067	-2.06	0.040	-.0016343 -.0000379
iac	.0005768	.0007316	0.79	0.431	-.0008592 .0020127
bh	-.0010964	.0004038	-2.71	0.007	-.0018891 -.0003038
l	-.1015614	.014783	-6.87	0.000	-.1305772 -.0725456
fs	-.0007735	.0029702	-0.26	0.795	-.0066034 .0050564
squaredbs	.0002951	.0002284	1.29	0.197	-.0001532 .0007434
_cons	.1855874	.0647709	2.87	0.004	.058456 .3127188
companyid	F(33, 842) =		11.990	0.000	(34 categories)

Linear regression, absorbing indicators

Number of obs	=	884
F(8, 842)	=	4.08
Prob > F	=	0.0001
R-squared	=	0.0736
Adj R-squared	=	0.0285
Root MSE	=	21.9083

returnoneq-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	-1.808771	.7427356	-2.44	0.015	-3.266602 - .3509409
obd	-.0771997	.0578996	-1.33	0.183	-.1908442 .0364448
dsh	-.1333084	.0757939	-1.76	0.079	-.2820755 .0154588
iac	.171222	.1363506	1.26	0.210	-.096405 .4388489
bh	-.1597738	.0752649	-2.12	0.034	-.3075026 -.0120449
l	5.95499	2.755152	2.16	0.031	.5472186 11.36276
fs	-.4876483	.5535692	-0.88	0.379	-1.574186 .5988893
squaredbs	.1053179	.0425654	2.47	0.014	.0217712 .1888647
_cons	15.74749	12.07158	1.30	0.192	-7.946427 39.4414
companyid	F(33, 842) =		1.247	0.162	(34 categories)

Linear regression, absorbing indicators

Number of obs	=	884
F(8, 842)	=	2.74
Prob > F	=	0.0054
R-squared	=	0.0583
Adj R-squared	=	0.0125
Root MSE	=	1.8049

priceearnio	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	-.0349727	.0611897	-0.57	0.568	-.1550749 .0851296
obd	-.0103538	.00477	-2.17	0.030	-.0197164 -.0009913
dsh	.0064048	.0062442	1.03	0.305	-.0058512 .0186609
iac	.0130071	.0112331	1.16	0.247	-.0090411 .0350554
bh	-.00984	.0062006	-1.59	0.113	-.0220105 .0023305
l	-.0027465	.226981	-0.01	0.990	-.4482616 .4427685
fs	.1408535	.0456054	3.09	0.002	.0513399 .230367
squaredbs	.0031925	.0035067	0.91	0.363	-.0036905 .0100754
_cons	-1.472564	.9945073	-1.48	0.139	-3.424568 .4794405
companyid	F(33, 842) =		1.051	0.392	(34 categories)

Linear regression, absorbing indicators

Number of obs	=	884
F(8, 842)	=	14.05
Prob > F	=	0.0000
R-squared	=	0.3811
Adj R-squared	=	0.3509
Root MSE	=	1.2874

tobinsq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.0188278	.0436441	0.43	0.666	-.0668363 .1044918
obd	-.01542	.0034023	-4.53	0.000	-.0220979 -.0087421
dsh	-.007546	.0044537	-1.69	0.091	-.0162878 .0011957
iac	.016624	.0080121	2.07	0.038	.0008979 .0323501
bh	.0068229	.0044227	1.54	0.123	-.0018579 .0155036
l	.9340741	.1618963	5.77	0.000	.6163065 1.251842
fs	.180549	.0325284	5.55	0.000	.1167026 .2443953
squaredbs	-.0000617	.0025012	-0.02	0.980	-.004971 .0048477
_cons	-1.915627	.7093415	-2.70	0.007	-3.307912 -.5233416
companyid	F(33, 842) =		9.670	0.000	(34 categories)

Linear regression, absorbing indicators

Number of obs	=	884
F(8, 842)	=	133.52
Prob > F	=	0.0000
R-squared	=	0.6884
Adj R-squared	=	0.6732
Root MSE	=	1.2786

loglabourp-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.1482502	.0433456	3.42	0.001	.0631721 .2333283
obd	-.0003022	.003379	-0.09	0.929	-.0069344 .0063301
dsh	.001058	.0044233	0.24	0.811	-.0076239 .00974
iac	.0056901	.0079573	0.72	0.475	-.0099284 .0213087
bh	.0108314	.0043924	2.47	0.014	.00221 .0194528
l	-.3842043	.160789	-2.39	0.017	-.6997986 -.0686101
fs	.910559	.032306	28.19	0.000	.8471493 .9739687
squaredbs	-.0073588	.0024841	-2.96	0.003	-.0122345 -.002483
_cons	-7.94404	.7044897	-11.28	0.000	-9.326802 -6.561278
companyid	F(33, 842) =	14.031	0.000		(34 categories)

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	11.19
Prob > F	=	0.0000
R-squared	=	0.4568
Adj R-squared	=	0.4034
Root MSE	=	0.1091

returnonas-t	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	-.007876	.0047873	-1.65	0.101	-.0172813 .0015294
obd	.0014908	.000386	3.86	0.000	.0007325 .0022491
dsh	-.0007704	.000746	-1.03	0.302	-.0022359 .0006952
iac	-.0021368	.0011638	-1.84	0.067	-.0044233 .0001498
bh	-.0013521	.0007694	-1.76	0.079	-.0028636 .0001594
l	-.1329778	.0193988	-6.85	0.000	-.1710895 -.0948661
fs	-.0119905	.0048114	-2.49	0.013	-.0214433 -.0025377
squaredbs	.0005207	.0002922	1.78	0.075	-.0000533 .0010947
_cons	.4284396	.0966118	4.43	0.000	.2386317 .6182476
companyid	F(42, 508) =	7.672	0.000		(43 categories)

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	4.11
Prob > F	=	0.0001
R-squared	=	0.1319
Adj R-squared	=	0.0464
Root MSE	=	26.8121

returnoneq-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	-1.894558	1.176892	-1.61	0.108	-4.206734	.4176175
obd	-.0615894	.0948874	-0.65	0.517	-.2480095	.1248307
dsh	-.2903944	.1833831	-1.58	0.114	-.6506771	.0698882
iac	.4486075	.2861119	1.57	0.118	-.1135008	1.010716
bh	-.4222575	.1891341	-2.23	0.026	-.7938388	-.0506762
l	8.22936	4.768919	1.73	0.085	-1.139872	17.59859
fs	-.7873925	1.182827	-0.67	0.506	-3.111228	1.536443
squaredbs	.1210107	.0718243	1.68	0.093	-.0200986	.26212
_cons	12.21221	23.75068	0.51	0.607	-34.44944	58.87386
companyid	F(42, 508) =		1.303	0.102	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	3.68
Prob > F	=	0.0003
R-squared	=	0.1342
Adj R-squared	=	0.0490
Root MSE	=	0.5363

priceearn~o	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.0068945	.0235413	0.29	0.770	-.0393557	.0531448
obd	-.0085847	.001898	-4.52	0.000	-.0123137	-.0048558
dsh	.0020746	.0036682	0.57	0.572	-.0051321	.0092813
iac	.0105075	.0057231	1.84	0.067	-.0007363	.0217513
bh	.0007336	.0037832	0.19	0.846	-.0066991	.0081664
l	.0670534	.0953923	0.70	0.482	-.1203586	.2544654
fs	.0452955	.02366	1.91	0.056	-.001188	.091779
squaredbs	-.0008087	.0014367	-0.56	0.574	-.0036313	.0020139
_cons	-.5782334	.4750829	-1.22	0.224	-1.511603	.3551358
companyid	F(42, 508) =		1.378	0.062	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	19.18
Prob > F	=	0.0000
R-squared	=	0.5875
Adj R-squared	=	0.5469
Root MSE	=	0.4690

tobinsq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	-.0129366	.0205874	-0.63	0.530	-.0533835	.0275103
obd	-.0017915	.0016599	-1.08	0.281	-.0050525	.0014695
dsh	-.0027007	.0032079	-0.84	0.400	-.0090031	.0036017
iac	-.0017298	.005005	-0.35	0.730	-.0115628	.0081032
bh	.0070916	.0033085	2.14	0.033	.0005915	.0135917
l	.9707799	.0834227	11.64	0.000	.8068839	1.134676
fs	.0504085	.0206912	2.44	0.015	.0097576	.0910593
squaredbs	.0014923	.0012564	1.19	0.235	-.0009761	.0039607
_cons	-.226192	.4154707	-0.54	0.586	-1.042444	.5900604
companyid	F(42, 508) =		12.496	0.000	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	35.76
Prob > F	=	0.0000
R-squared	=	0.6192
Adj R-squared	=	0.5817
Root MSE	=	1.1956

loglabourp-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.0977063	.0524777	1.86	0.063	-.0053937 .2008063
obd	.005443	.004231	1.29	0.199	-.0028695 .0137555
dsh	-.0127107	.0081771	-1.55	0.121	-.0287757 .0033543
iac	-.0024856	.0127577	-0.19	0.846	-.02755 .0225789
bh	.0029495	.0084335	0.35	0.727	-.0136193 .0195183
l	-1.056716	.2126463	-4.97	0.000	-1.47449 -.6389417
fs	.781042	.0527423	14.81	0.000	.6774221 .8846619
squaredbs	-.0043951	.0032026	-1.37	0.171	-.0106871 .001897
_cons	-5.456804	1.059044	-5.15	0.000	-7.537449 -3.37616
companyid	F(42, 508) =		8.954	0.000	(43 categories)

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	15.41
Prob > F	=	0.0000
R-squared	=	0.2615
Adj R-squared	=	0.1888
Root MSE	=	0.8160

returnonas-t	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.0238455	.0334966	0.71	0.477	-.0419635 .0896545
obd	-.0006639	.0030621	-0.22	0.828	-.0066798 .005352
dsh	.0012137	.0032154	0.38	0.706	-.0051035 .0075308
iac	-.0041418	.0065124	-0.64	0.525	-.0169363 .0086526
bh	-.0087571	.0032364	-2.71	0.007	-.0151155 -.0023987
l	-.9581892	.1442635	-6.64	0.000	-1.241616 -.6747627
fs	-.4891378	.0509645	-9.60	0.000	-.589265 -.3890106
squaredbs	-.0011188	.0016736	-0.67	0.504	-.0044067 .0021692
_cons	9.391399	1.001525	9.38	0.000	7.423757 11.35904
companyid	F(42, 508) =		3.300	0.000	(43 categories)

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	0.72
Prob > F	=	0.6783
R-squared	=	0.0926
Adj R-squared	=	0.0033
Root MSE	=	5.3216

returnoneq-y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.0880032	.2184499	0.40	0.687	-.3411731 .5171796
obd	-.0105023	.0199695	-0.53	0.599	-.0497352 .0287306
dsh	-.0082134	.0209694	-0.39	0.695	-.0494109 .0329841
iac	.0079041	.0424706	0.19	0.852	-.0755356 .0913438
bh	.0204216	.0211063	0.97	0.334	-.0210448 .061888
l	-1.614998	.9408216	-1.72	0.087	-3.463378 .2333822
fs	-.3232333	.3323677	-0.97	0.331	-.9762178 .3297512
squaredbs	-.0003096	.0109142	-0.03	0.977	-.0217522 .0211329
_cons	5.117794	6.531498	0.78	0.434	-7.714279 17.94987
companyid	F(42, 508) =		1.178	0.212	(43 categories)

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	1.97
Prob > F	=	0.0481
R-squared	=	0.1020
Adj R-squared	=	0.0136
Root MSE	=	2.2506

priceearn-o	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.0412559	.092387	0.45	0.655	-.1402518	.2227636
obd	-.0127204	.0084455	-1.51	0.133	-.0293128	.0038721
dsh	.0174518	.0088684	1.97	0.050	.0000285	.0348751
iac	.0017675	.0179617	0.10	0.922	-.0335209	.0370558
bh	-.0103914	.0089263	-1.16	0.245	-.0279284	.0071456
l	-.2207329	.3978932	-0.55	0.579	-1.002452	.5609858
fs	.3611566	.1405653	2.57	0.010	.0849958	.6373174
squaredbs	-.0005999	.0046159	-0.13	0.897	-.0096684	.0084686
_cons	-4.868165	2.762307	-1.76	0.079	-10.29512	.5587877
companyid	F(42, 508) =		1.135	0.264	(43 categories)	

Linear regression, absorbing indicators

Number of obs	=	559
F(8, 508)	=	12.47
Prob > F	=	0.0000
R-squared	=	0.2705
Adj R-squared	=	0.1986
Root MSE	=	4.2072

tobinsq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.2023644	.1727053	1.17	0.242	-.1369402	.541669
obd	-.0141609	.0157878	-0.90	0.370	-.0451782	.0168564
dsh	-.0012666	.0165783	-0.08	0.939	-.0338371	.0313039
iac	-.0034058	.0335771	-0.10	0.919	-.0693727	.0625612
bh	-.0438527	.0166865	-2.63	0.009	-.0766358	-.0110696
l	-3.290548	.7438087	-4.42	0.000	-4.751867	-1.829228
fs	-2.387584	.2627682	-9.09	0.000	-2.90383	-1.871338
squaredbs	-.0093848	.0086287	-1.09	0.277	-.0263371	.0075676
_cons	45.98188	5.163769	8.90	0.000	35.83691	56.12686
companyid	F(42, 508) =		3.741	0.000	(43 categories)	

12.	International Breweries Plc.
13.	Nigerian Breweries Plc.
14.	Asaka Cement Plc.
15.	Cement Company of Northern Nigeria Plc.
16.	Leverage (WAOCO) Plc.
17.	Berger Paint Plc.
18.	Chemical and Allied Product
19.	International Paints (WA) Plc.
20.	NRC Nig.Plc.
21.	Thomas Wyatt Nig. Plc.
22.	Tripple Gee and Company Plc.
23.	A.G. Leventis Nig. Plc.
24.	PZ Cusson Nigeria plc.
25.	UACN Plc.
26.	Unilever Nig. Plc.
27.	Julius Berger Nig. Plc.
28.	Road Nigeria Plc.
29.	7 UP Bottling Company Plc.
30.	Mobil Oil Nig. Plc.
31.	Conoil (National Oil) Plc
32.	Oando (Unipetrol Nig. Plc.) Plc.
33.	Total Nig. Plc.
34.	University Press Plc.

APPENDIX 3

Table 2.1: Sectorial Analysis of Quoted Companies in Nigeria

INDUSTRY	SUB-SECTORS	DESCRIPTION
Agriculture	<ul style="list-style-type: none"> - Crop Production - Fishing/Hunting/Trapping - Livestock/ Animal Specialties 	<p>This sector comprises all units engaged in agriculture, fishing and hunting. Agricultural production covers, primarily, the production of crops, plants, vines, or trees (excluding forestry operations); and the keeping, grazing or feeding of livestock for the sale of livestock or livestock products (including serums) for livestock increase, or for value increase. Fishing, hunting and trapping covers units mainly engaged in commercial fishing (including shellfish and marine products); in operating fish hatcheries, and fish and game preserves; and in commercial hunting and trapping.</p>
Construction/ Real Estate	<ul style="list-style-type: none"> - Building Construction - Non-Building/Heavy Construction - Property Management - Real Estate Development - Real Estate Investment Trusts(REITs) - Building Structure/Completion - Site Preparation Services - Other Construction Services 	<p>This sector includes companies mainly engaged in the construction of buildings which include the construction of a house, farm, industrial, commercial or other building structures, and carrying out alterations, additions, and renovation or general repairs to these buildings. Establishments primarily engaged in the construction of buildings for sale, such as developers, are included, as are companies that are mainly involved in renting or leasing real estate to others; managing real estate for others; selling, buying or renting real estate for others; and providing other real estate related services, including appraisal services. The construction of non-building or heavy construction structures includes the</p>

		construction or general repair of roads, highways, streets, public sidewalks, bridges, guardrail construction, airport runways or parking lots, and organizing or managing their construction, including on-site assembly.
Consumer Goods	<ul style="list-style-type: none"> - Automobiles/Auto Parts - Beverages-- Brewers/Distillers - Beverages--Non-Alcoholic - Consumer Electronics - Food Products - Food Products--Diversified - Household Durables - Personal/Household Products - Textiles/Apparel - Tobacco Products - Toys and Games 	<p>This sector comprises companies that are engaged in the production and manufacturing of final goods. In general, these are products and services classified for personal use, specifically intended for the mass market. This major sector encompasses goods that are consumed rather than used in the production of other goods, and include both durable and non-durable consumables. Included in this sector are manufacturers of automobiles/auto parts, household durable good, textiles and apparel, as well as manufacturers' food, beverages and tobacco products.</p>
Financial Services	<ul style="list-style-type: none"> - Banking - Insurance Carriers, Brokers and Services - Mortgage Carriers, Brokers and Services - Non-Depository Credit Institutions - Other Financial Institutions 	<p>This sector includes companies that are engaged in the provision of financial services, in investing money in predominantly financial assets, in providing services to lenders, borrowers and investors, and in providing insurance coverage of all types. They are primarily engaged in financial transactions and/or in facilitating financial transactions. Companies represented in this sector are involved in activities such as banking, mortgage finance, consumer finance, specialised finance, investment banking and brokerage, asset management and custody, and corporate lending and financial investment. Pension funds are also</p>

		represented, as are companies that provide services to insurance underwriters. Other financial institutions are primarily engaged in long-term financing. What, in most cases, sets them apart from banks is that their claims and debts predominantly have long maturities.
Healthcare	<ul style="list-style-type: none"> - Healthcare Providers - Medical Equipment - Medical Supplies - Pharmaceuticals 	The healthcare sector comprises establishments providing healthcare services. This includes companies that manufacture healthcare equipment and supplies, and provide healthcare-related services, including distributors of products and providers (owners and operators) of healthcare facilities and organisations. Also included in this sector are the companies involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.
Industrial Goods	<ul style="list-style-type: none"> - Building Materials - Electronic and Electrical Products - Packaging/Containers - Tools and Machinery 	This sector comprises companies primarily involved in the manufacture and distribution of capital goods, including aerospace and defense, engineering and building products, electrical equipment, industrial machinery, and packaging products for industrial and consumer products. Their businesses are dominated by the production of goods for commercial use.
Information & Communications Technology	<ul style="list-style-type: none"> - Computers and Peripherals - Computer Based Systems - Computer Software - Diversified Communication Services - Electronic Office Equipment - Internet Service Providers - IT Services 	ICT consists of all technical means used to handle information and aid communication. This major sector consists of IT as well as telephony, and stresses the role of unified communications and the integration of telecommunications, intelligent management systems, and audio-visual systems in modern information

	<ul style="list-style-type: none"> - Processing Systems - Scientific and Technical Instruments - Semiconductors - Telecommunications Carriers - Telecommunications Equipment - Telecommunications Services - Other ICT Products and Services 	<p>technology. ICT covers four main areas, including (1) technology software and services--including developers of software in various fields such as the Internet, applications, systems, databases, home entertainment, as well as companies that provide IT consulting and services, and data processing and outsourced services; (2) technology hardware and equipment--including manufacturers and distributors of communications equipment, computers and peripherals, and electronic equipment and related instruments; (3) semiconductors and semiconductor equipment manufacturers; and (4) telecommunications carriers, equipment manufacturers and service providers. ICT comprises any communications device for radio, television, cellular phones, satellite systems, etc., as well as various services and applications associated with them. Electronic office equipment includes copiers, data storage devices and other products such as mailing/letter-handling machines, and peripheral computer devices such as networking and point-of-sale (POS) equipment.</p>
Natural Resources	<ul style="list-style-type: none"> - Chemicals - Metals - Precious Metals - Precious Stones - Paper/Forest Products - Non-Metallic Mineral Mining - Mining Services 	<p>This sector comprises companies that are involved in a wide range of commodity-related manufacturing industries. This denotes materials that came from nature in an unprocessed state, including chemicals, construction materials, glass, paper and forest products (such as timber tracts, forest nurseries and related</p>

		activities such as reforestation and the gathering of gums, barks, balsam needles, tree seeds, and other forest products), and metals, minerals and mining companies, as well as producers of steel. This includes companies engaged in the exploration, extraction and processing of minerals and ores.
Oil & Gas	<ul style="list-style-type: none"> - Coal Extraction - Coal and Coal Products Distributors - Crude Oil and Natural Gas Extraction - Petroleum Refining - Petroleum and Petroleum Products Distributors - Petroleum Bulk Stations and Terminals - Gasoline Stations - Energy Equipment and Services - Field Services - Integrated Oil and Gas Service 	This sector includes all companies engaged in operating and/or developing oil and gas field properties, and companies primarily engaged in recovering and producing liquid hydrocarbons from oil and gas field gases. Their business are dominated by (1) the exploration, production, marketing, refining and/or transportation of oil and gas products, coal and other consumable fuels; and (2) construction or provision of oil rigs, drilling equipment and other energy related services and equipment. This includes establishments primarily engaged in performing geophysical, geological, and other exploration services for oil and gas. Companies that are engaged in drilling (spudding, drilling in, re-drilling, and directional drilling), completing and equipping wells; in the operation of separators, emulsion breakers, distilling equipment, and field gathering lines for crude oil and natural gas; and in all other activities in the preparation of oil and gas, up to the point of shipment from the producing property, are also included in this sector.
Services	<ul style="list-style-type: none"> - Advertising Agencies - Employment Solutions - Printing/Publishing 	This sector includes companies that are primarily engaged in providing a wide variety of services for

	<ul style="list-style-type: none"> - Waste Management - Airlines - Courier/Freight/Delivery - Rail Transportation - Road Transportation - Water Transportation - Storage/Warehousing - Transport-Related Services - Hospitality - Hotels/Lodging - Education/Training - Media/Entertainment - Repair/Maintenance - Travel and Tourism - Miscellaneous Services - Apparel Retailers - Automobile/Auto Part Retailers - Electronics/Appliances Retailers - Food/Drug Retailers and Wholesalers - Specialty Retailers 	<p>individuals, business and government establishments, and other organisations. These services encompass commercial services and supplies, as well as transportation services. Commercial services include printing, employment, environmental, advertising services, etc., while transportation includes airlines, couriers, marine, road and rail, and other transportation infrastructure and services, such as parking, stevedoring, harbor services, navigation services, airport operation, and cargo warehousing and storage for goods and postal services. Waste management includes sewage collection, treatment, and disposal through sewage treatment facilities. Also included in this major sector are hotels and lodging establishments, as well as restaurants and other leisure facilities. Other services that appear under this sector are media and entertainment, and other establishments providing miscellaneous services, (e.g., repair, travel and education, etc.). Wholesale trade includes the resale of new or used goods to businesses or institutional users (including government), while retailers sell merchandise to final consumers for personal or household consumption. Retailers include department stores and shops, motor vehicle retailers and service outlets, and specialty outfits such as mail order houses, vending machine operators and consumer cooperatives.</p>
Utilities	<ul style="list-style-type: none"> - Electric Power Generation - Electric Power 	<p>This sector comprises establishments engaged in the provision of the</p>

	<p>Transmission</p> <ul style="list-style-type: none"> - Electric Power Distribution - Water Treatment and Distribution 	<p>following utility services: electric power, steam supply and water supply. Within this sector, the specific activities associated with the utility services provided vary by utility: electric power includes generation, transmission and distribution; steam supply includes provision and/or distribution; and water supply includes treatment and distribution.</p>
Conglomerates		<p>This sector comprises companies that incorporate engineering and production to manufacture a varied group of products. This group encompasses a wide range of industries, many of which have progressed from traditional practices and technologies, to diversify and develop niche products for key markets around the globe.</p>