

Board Characteristics and the Value of Quoted Manufacturing Firms in Nigeria

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ABSTRACT

This study examined the effect of board size on the value of quoted manufacturing firms in Nigeria. The purpose is to examine the relationship between board size and value. Panel data was sourced from financial statement of the quoted firms from 2011 to 2020. Market value and equity value were modeled as a function of board size, board composition, board independence and board gender diversity. Panel data Ordinary least square method was used as data analysis technique. The study found that 53 percent variation in market value of the quoted firms can be explained by variation in the board characteristics. The results indicated that board independence and board composition have positive but no significant effect on the market value of the quoted manufacturing firms while the results indicates that board size and board gender diversity have negative and no significant effect on market value of quoted manufacturing firms in Nigeria. 31 percent variation in equity value of the quoted firms can be explained by variation in the board characteristics. The results indicate that board independence and board composition have positive but no significant effect on the equity value of the quoted manufacturing firms while the results indicates that board size and board gender diversity have negative and no significant effect on equity value of quoted manufacturing firms in Nigeria. From the findings, the study concludes that board characteristics have greater impact on market value than equity value. It recommends that board diversity components of Nigeria food and beverage firms which include gender diversity, board size, board independence, and board-director duality need to be strengthened to positively affect value of the firms and the need for managers to ensure that the size of the board is also congruent to organizational needs, such that the board size, competencies, skills and ability advance organizational quest for increase value of the firms.

Keywords: Board Characteristics, Market Value, Manufacturing Firms, Nigeria

INTRODUCTION

The separation of ownership and control in modern corporations gives rise to agency costs. Board size plays an essential role in every organization. The board of directors helps in disciplining and controlling the activities of the chief executive officer and the management. It creates linkage between the external parties and the firm, gain access to resources in terms of materials, human power, networking and so on (Nguyen, 2016). A larger board comprise of a wide range of expertise who contribute to make better decisions for a firm as the chief executive officer cannot dominate

a bigger board. The collective strength of its members is higher and can resist the irrational decisions of chief executive officer (Pfeffer, 1972; Zahra & Pearce, 1989). The decisions of the board do not only determine the market base performance of the quoted firms but to a great extent it affects corporate values.

The overall value of firms has so far been viewed and measured in relation to the perceptions of stakeholders about associated movements in the stock/equity prices of firms. According to Hirdinis (2019), companies basically exist to maximize their respective values or wealth. Such values are presumed to be a reflection of the bargaining power of each company's stocks; hence, most likely, the prospects of listed companies have been linked by investors and analysts to movements in equity/stock prices. This accounts for why companies with higher stock prices are considered to be highly valued (Kusiyah & Arief, 2017). According to Gharaibeh & Qader (2017), the value of firms is mostly influenced by both exogenous and endogenous variables/factors such as corporate financial structure, dividend policy and macroeconomic variables.

Board characteristics refer to features that can be used to measure the effectiveness and efficiency of corporate boards that are tasked with overall management of the firm. It is important to ensure good management system which is essential for good financial performance and have been widely recognised as an important corporate governance mechanism for aligning the interests of managers and all stakeholders to a firm. Effective board characteristics enhance the likelihood that owners of capital would be able to monitor the activities of the managers either directly through voting on crucial matters or indirectly through the board of directors; which invariably would protect shareholders' investment (Levine, 2004).

The degree of independence of the board of directors is not significantly related to the cost of capital. Institutional investors play an important role in financial market since their preference and decisions will affect the firm's governance quality. Institutional investors can mitigate agency problem through outside monitoring and information asymmetry. Firms have greater institutional ownership usually have higher rating because institutional investors would be willing to pay more premiums to firms with good governance (Chen et al., 2019; McCahery et al., 2011).

Firm value is an economic measure which reflects the market value of a business. In the view of Nwokeji (2019) firm's market value is influenced by investors' perceptions of its managers' ability to anticipate and respond to future changes in the firm's economic environment. The forward-looking, capital market-based measure of the value of a firm used in this study is Tobin's q. Tobin's q, represents investors' perceptions of a firm's market value relative to its book value. Tobin's q, is the ratio of the market value of equity (fiscal year-end price times number of shares outstanding) plus book value of debt (total assets less book value of equity) to total assets (Albuquerque, Durnev, & Koskinen, 2013). It reflects the market's expectations of future earnings and thus a good proxy for firm value (Campbell & Mínguez-Vera, 2008). Tobin's q has gained wide acceptance as a measure of a firm value.

From the role of the board, the company board plays a key role. The manufacturing companies' board evaluates the insurer's maximum acceptable risk, while monitoring minimum capital requirements according to the actual risk assumed, approves risk management policies, is responsible for audit activities and defines adequate requirements for board members and top management. As well, the board must clearly define the governance system, while monitoring internal organizational structure to ensure efficiency, effectiveness and transparency (OECD, 2017).

Studies related to the impact of board characteristics on firm performance are not conclusive in nature but are recognized as important for success of firms. Weir, Laing and McKnight (2002), Wang (2014) and Nordin (2011) find little evidence to suggest that board characteristics affect firm performance. However, other studies have found a positive relationship between certain characteristics of board and firm performance (Malgharni & Lotfi, 2013; Schøler, 2013; Nakano & Nguyen, 2011). Nevertheless, the role played by the board is critical to firm performance as the boards discharge their fiduciary responsibilities of leading and directing the firm (Abdullah, 2004). Malgharni and Lotfi (2013) analyzed the relationship between board of director composition and risk management in the firms listed in the Tehran Stock Exchange. Results showed a significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management. Schøler (2013) conducted a study on the effect of board independence in a two-tier setting on firm performance. The findings suggest that board independence could be seen as a positive mechanism in Danish companies since the firm performance seems (highly) related to board independence. Wang's (2014) study on the effect of independent directors on corporate performance in China gave conflicting results. From the integrated empirical evidence from 30 collected sample articles, study finds that board independence has no significant impact on firm performance.

Chepkosgei (2013) investigated the influence of board of directors' composition on financial performance of 43 commercial banks in Kenya. Findings of the study revealed that board size, average tenure, ratio of female directors, occupational experience of the directors and ratio of non-executive could significantly predict only CAR, ROE and ROA. Kiptum (2013) studied the effect of board composition on financial performance of listed companies in the Nairobi Securities Exchange. Muriuki (2012) examined the effect of board gender composition on the financial performance of listed companies based on evidence from Kenya during a five year period (2007 - 2011). Board gender composition was calculated as the proportion of board seats that women occupy in these listed firms, while financial performance was measured by the return on assets (ROA). Finding indicated that there is a negative relationship between gender diversity and firm financial performance. Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange. Specifically, this study examined board size, gender diversity, board independence and CEO duality and how they affect the financial performance of listed firms in Kenya. Firm performance was measured using Return on Assets (ROA). The effect of board characteristics has well being examined, however most of the studies focused on the effect of board characteristics on corporate performance, the present study examined the effect of board characteristics on value of quoted firms in Nigeria.

REVIEW OF RELATED LITERATURE

Board Characteristics

The term corporate governance has been identified to mean different things to different people. The commonest being the one given by Lord Cadbury as the system by which companies are directed and controlled (Public Sector Governance Code, 2016). The Organization for Economic Co-operation and Development (2005) also defined corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders; it provides the structure through which the objectives of the company are set, and the means of attaining those objectives as well as monitoring performance. Board characteristics refer to features of corporate

boards that are tasked with overall management of the firm. The success or collapse of firms is associated with the role acted by the management and firm governance as a process. In this paper, the characteristics of board of directors that were studied include board size, independence and gender diversity.

Board Size

Board size is defined as the number and mix of both Executive Directors and Non-Executive Directors on the Board of the Institution (Fama and Jensen, 2013). Board size has been a subject of significant research in terms of its relationship with firm performance. In most cases, this has been fueled by prominent business failures of large companies such as Enron, WorldCom and Parmalat (Opondo, 2012). There is a convergence of agreement on the argument that board size is associated with bank financial performance (Andre & Vallelado, 2008; Bonn et al., 2014; Gakeri, 2013). However, other scholars like Lam and Lee (2008) and Moscu (2013) argued that the size of the board in itself is not significant but rather the quality and effectiveness of the board. The size of the board should be large enough to incorporate key skills and perspectives, and yet small enough to allow for the active involvement of all the members and the smooth functioning of meetings (Wepukhulu, 2015). There is a belief that the number of directors can affect the performance of a company, especially its financial performance. It is argued that within a certain range, the larger the board, the more effective it is in its statutory duties of monitoring the management.

In theory, the board of directors is one of the most important governance mechanisms that ensure that the management of a company pursues interests that are in tandem with those of the shareholders. Its task is to monitor, discipline and remove ineffective management teams (Darmadi, 2013). Spencer Stuart Board Index (2015) reported that worldwide board size has been shrinking over the years and that there is a continued trend towards smaller boards. Darmai (2013) noted that if boards were just to satisfy regulatory requirements, they would represent very high costs to firms hence the need to observe a minimum board size. In practice, however, boards have been known to be generally larger than what the law requires bringing up a more reasonable theory that boards are determined by institutions as a tool to help in alleviating agency problems in large firm as part of the equilibrium solution to the contracting problem between dispersed shareholders and the management (Fama & Jensen, 2013).

Board Independence

Board independence is one of the highly debated issues in corporate governance studies due to its ability to influence board deliberations and ability to control top management decisions and company results (Black, 2001). Board independence is defined as the ability for a board to be free from internal or external interference or pressure in the course of doing their duties. There are many different measurements on the composition of the governing board, and these are varied as number of directors, number of external directors, number of independent directors in the board (Andre & Vallelado, 2008). The concept of board independence was grounded on agency theory (McColgan, 2011). Independent board members provide potentially greater oversight and accountability of operations, as they are less likely to be subject to the principal-agent problem themselves. This is because as independent members do not have inherent self-interests per se and are instead guided by the interests of the stakeholders who appointed them (La Porta & Schleifer, 2015). For this reason, a greater percentage of independent members in the boards should promote positive performance. It is argued that independent directors are more likely to act in shareholders' interest in a better way compared to executive directors for they do not have an incentive to collude with internal managers to expropriate shareholders' wealth (Wepukhulu, 2015).

Board Composition

According to the Committee on Corporate Governance (1999) the board composition allows for effective decision making and supervision of the management. Further to this the board size should give room to fruitful discussions and appropriate, swift and prudent decisions. There is no perfect number of board members due to the different factors that may influence the board size e.g. corporation's size, the business environment and special characteristics. The board should include outside directors in order to maintain practical independence and the appointment of board members should be through a transparent procedure that reflects broadly the diverse opinions of shareholders. Board members should also be competent and professional. Board size is one of the well-recognized dimensions of board composition examined in the literature.

Gompers, Ishii, and Metrick (2003) analyzed the composition of the board of directors and concluded that the size of the board does not enhance the returns of the company. As shown, most of the studies examining board size effect on financial performance have confirmed Gompers, Ishii and Metrick (2004) findings that board size and financial performance of a firm were negatively correlated. This idea suggests that as the size of the group increases, communication and coordination problems increases assert Gompers, Ishii, and Metrick (2003). Anderson, Mansi and Reeb (2004) reveal that although many of the studies suggest a positive relationship between outsider-dominated boards and the performance of the company, some studies found no significant relationship between the proportion of inside/outside directors and company performance.

Gender Diversity in Boards

There is an increasing awareness that the absence of women in the top position of management and boards of corporations is detrimental both to the social and the economic outcomes of those corporations (European Commission, 2010). This has, therefore, led the business agencies globally to come up with changes in corporate governance guidelines to incorporate women in the governance structure of their companies. While participation of women has in recent times increased in the middle-level management, little has changed at the level of corporate governance across the globe (Hede, 2000). It is said that corporate boards are dominated by the male gender mainly because most of the time, the appointing authorities are also male. This practice has, therefore, denied women the chance to be adequately represented. In addition, board diversity promotes creativity and innovation in the decision-making processes, which in turn enhances the firm's financial performance in the long run. Diversity improves information provided by the board to the management owing to special skill set, experiences and complimentary knowledge held by diverse directors. Diverse directors also provide access to important constituencies and resources in the external environment which increases the networks of the organisation, and promotes prosperity. Smith, Smith and Verner(2006) submitted that the presence of women in the board increases the board's ability to monitor the management more objectively, and that women in the board uplift the image of the organisation due to the positive signal they send to the labour, product and the financial markets. They further argue that problems are better handled within the board when both genders are appropriately represented.

Corporate Value

Value is the process of determining the intrinsic value of common stocks. In order to understand valuation, two main concepts of value must be understood. First, the commonly accepted theoretical principle to value any financial asset is the discounted cash flow methodology (Reilly and Brown, 2003). An asset is worth the amount of all future cash flows to the owner of this asset

discounted at an opportunity rate that reflects the risk of the investment (Pratt, 1998). This fundamental principle does not change and is valid through time and geography. A valuation model that best converts this theoretical principle into practice should be the most useful. Based on the first concept, the second concept states that valuation is inherently forward looking.

Valuation requires an estimate of the present value of all expected future cash flows to shareholders. In other words, it involves looking into an uncertain future and making an educated guess about the many factors determining future cash flows. Since the future is uncertain, intrinsic value estimates will always be subjective and imprecise. Better models and superior estimation techniques may reduce the degree of inaccuracy, but no valuation technique can be expected to deliver a single correct intrinsic value measure. These main concepts illustrate that there are few things more complex than the valuation of common stocks. Thousands of variables affect the future cash flows of a company and thus the value of a stock. Most variables are known, but very few are understood; they are independent and related, they are measurable, but not necessarily quantitative, and they affect stock values alone and in combination.

Measures of Firm Value

Corporate values are measured differently by different authors, however, this study examine the following measures of corporate value.

Capitalized Value Measure

The capitalization rate as used in the real estate literature refers to the ratio of net operating income to property value. The cap rate bears a close relation to the weighted average cost of capital (WACC) as defined in the corporate finance literature (Copeland and Weston, 1988). The WACC is the rate of discount that reflects the average costs of debt and equity capital employed by a firm. Discounting the cash flows from corporate assets at the WACC reveals the value of the firm. The relation between the WACC and firm valuation has extensive theoretical underpinnings extending from the firm valuation work of Modigliani and Miller (1958). Sharpe's (1964) development of the capital asset pricing model (CAPM) revolutionized stock portfolio theory and provided a widely accepted method to empirically estimate the cost of equity, which as this paper shows, is an embedded component in the cap rate. Ambrose and Nourse (1993) developed an investment approach based on the WACC; however, they do not incorporate the CAPM in their model. Instead, they rely on the intuitive argument that debt rates on mortgages should be related to government debt rates and that the cap rate should be related to the earnings-price ratio. However, the argument of Miller and Modigliani (1961), the basic idea behind the capitalized value measure is that the value of a firm to its owners at time 0 is equal to the discounted value of net cash inflow from the firm to its owners at time 1, plus the discounted value of the remaining value of the firm. Thus, if V_0 is the value of the firm at time 0, if F_1 is the net cash inflow from the firm to its owners at time 1, if V_1 is the value of the firm at time 1, and if r is the cost of capital between time 0, and time 1, then

$$V_0 = \frac{F_1 + V_1}{1 + r} \quad (1)$$

Likewise, expressing V_1 in terms of F_2 and V_2 , V_2 in terms of F_3 and V_3 , and so forth, and then successively substituting these latter expressions into Equation I, the value of a firm can be expressed as follows:

$$V_o = \frac{F_1}{1+r} + \frac{F_2}{(1+r)^2} + \frac{F_3}{(1+r)^3} + \dots + \frac{F_n}{(1+r)^n} + \frac{V_n}{(1+r)^n} \quad (2)$$

Inasmuch as the last term of Equation 2 approaches zero as the number of future periods, n , approaches infinity, Equation 3 can be written concisely as follows:

$$V_o = \sum_{t=1}^{\infty} \frac{F_t}{(1+r)^t} \quad (3)$$

Net cash inflow to owners, F_t , is the difference between the dividend paid to owners, D_t , and the additional capital supplied by owners, K_t , thus,

$$F_t = D_t - K_t \quad (4)$$

Furthermore, the additional capital supplied by owners is the difference between the firm's investment net of depreciation, L , and its undistributed earnings, which in turn is the difference between its profit, X , and its dividend. Thus,

$$F_t = D_t = [I_t - (X_t - D_t)] = X_t - I_t \quad (5)$$

Substituting Equation 6 into Equation 3, the value of a firm therefore is as follows:

$$V_o = \sum_{t=1}^{\infty} \frac{X_t - I_t}{(1+r)^t} \quad (6)$$

$$MVPS = \frac{NIPS + DINIPS}{ECC} = \frac{NIPS + \frac{NIPS(1+GR)^{FP} - NIPS}{(1+ECC)^{FP}}}{ECC} \quad (7)$$

Equation 7 reduces to

$$MVPS = \frac{NIPS \left(1 + \frac{(1+GR)^{FP} - 1}{(1+ECC)^{FP}} \right)}{ECC} \quad (8)$$

Considering that $MVPS$ corresponds with V_o , $NIPS$ with X_o , GR with g , ECC with r , and FP with m , it follows that the collection within the parentheses of Equation 11 is w .

Goosen, De Coning and Smith (2002) also suggested that the profit growth rate, g , should be based on the profits of the last three time periods, but they suggested no objective means of deriving m , the number of future periods that stockholders are willing to extend growth. Critiquing the method, Gold (2003) suggested exponentially smoothing recent profit figures so that a practical valuation formula cannot depend upon an infinite number of forecasts into the future, so Equation 6 must be simplified. If net investment is set to zero for all periods and if profit is likewise set to a constant, X^* , then Equation 6 reduces to the following:

$$V_o = \frac{X^*}{r} \quad (9)$$

Goosen, Foote, and Terry (1994) suggested computing the constant profit term, X , by multiplying the most recent profit figure, K_0 , by a growth factor, w , which is derived from a forecast of the profit growth rate, g , projected to an arbitrary future time, m , as follows:

$$w = 1 + \frac{(1+g)^m - 1}{(1+r)^m} \quad (10)$$

The computed value of a firm would then be as follows:

$$V_o = \frac{X_0 w}{r} \quad (11)$$

Goosen et al. (1994) did not present the growth factor, as given in Equation 9, but it can be derived from their work. The computed measure would be less sensitive to the possibly unrepresentative profit of the last period. Nevertheless, the model remains dependent upon m , an arbitrary parameter.

Market Value

Market value is based on supply and demand. It is used to refer to a company's market capitalization value. It is calculated by multiplying the number of shares issued by the price of the company's share. A company's share price is determined by daily trading between buyers and sellers on the relevant stock exchange. Market prices are easy to determine for assets as the constituent values, such as stock and futures prices, are readily available. A valuation would have to be prepared using different methods (Ngerebo-a, 2007). Market value is the value of an asset/security as determined by the forces of demand for and supply of the assets. It is the perceived or observed value of an asset on the market.

Theoretical Review

Agency Theory

The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, Dalton and Canella (2003) pointed to two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea.

In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system (Davis, Schoorman and Donaldson, 1997). In her assessment and review of agency theory, Eisenhardt (1989) outlines two streams of agency theory that have developed over time: Principal-agent and positivist. Principal-agent relationship: Principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to any agency relationship e.g. employer employee or lawyer-client.

Eisenhardt (1989) described such research as abstract and mathematical and therefore less accessible to organizational scholars. This stream has greater interest in general theoretical implications than the positivist stream. Agency theory and the firm: a positivist perspective:

Positivist researchers have tended to focus on identifying circumstances in which the principal and agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agents' self-serving behaviour (Eisenhardt, 1989). This stream has focused almost exclusively on the principal-agent relationship existing at the level of the firm between shareholders and managers. Jensen and Meckling (1976) who fall under the positivist stream, propose agency theory to explain, inter alia, how a public corporation can exist given the assumption that managers are self-seeking individuals and a setting where those managers do not bear the full wealth effects of their actions and decisions.

Stakeholder Theory

This theory states that managers react to pressures put forth by owner-stakeholders because of legitimacy, power, and urgency considerations. Freeman (1984) suggests that the firm stakeholders influence the top managers who are in charge of strategy development and implementation through resource usage and withholding mechanisms. Murtha and Lenway (1994) suggested that states are able to influence management because they control authority, markets, and property rights which are the main strategic resources by their involvement in the appointment of a firm's top management as well as board members and providing direct or indirect government subsidies and incentives. States involvement in the markets can negatively affect the degrees of openness (free market) or control (closed market). This influence can also manifest itself through property rights in countries where the government has undue powers in regard to property ownership.

The implication of this theory is that most of the policies and market approaches implemented by commercial banks owned by the government are highly subjective to government strategies being rolled out in that period. The assumption is that the state as the major stakeholder supplies resources to these banks but with a lot of 'strings attached'. Therefore, state owned banks will perform well if and only if the ruling government influences competitive strategies.

Empirical Review

Somathilake (2018) investigated the effect of board characteristics on firm financial performance listed on Colombo stock exchange for a period of two years spanning between 2016 and 2017. The study revealed that board size has a negative but significant influence on company performance. Gambo, Bello and Rimamshung (2018) examined the effect of board size, board composition and board meetings on financial performance of listed consumer goods in Nigeria and found that smaller board size are more effective than larger board size and are likely to enhance the return on asset of the firm. Therefore, hypothesize that board size has no significant effect on financial performance of Information Communication Technology companies.

Bhagat and Black (2002) conducted a study on 934 largest US firms covering a 10 year period. They questioned the empirical validity of the need for board independence and its effect on performance. The study found that firms with a higher percentage of outside directors had significantly lower financial (ROA) and stock market (Tobin's Q) performance in the following three years. They also found that lower performing firms were more likely to add independent directors. However, the results offered no evidence that firms with more independent boards perform better. Chan and Li (2008) found that independence of the audit committee (i.e. to have at least 50 per cent of expert-independent directors serve on audit committee) positively impacts the firm performance as measured by Tobin's Q. Similarly, Ilona (2008) showed that there is a positive relationship between audit committee independence and firm performance as measured by return on equity. Using data collected from top 100 companies listed in Colombo Stock

Exchange, Somathilake (2018) concluded that director's independence has positive but insignificant influence on firms' performance in Sri Lanka.

Gambo, Bello and Rimamshung (2018) reported a positive relationship between board independence and return on asset of consumer goods companies listed on the Nigeria Stock Exchange. Their outcome showed that a higher proportion of outside directors in a board tend to result in higher performance. They hypothesized that board independence has a significant impact on financial performance of Information Communication Technology companies.

Marimuthu (2009) empirically examined the effect of demographic diversity on boards of directors with regard to firm financial performance. Demographic diversity was represented by ethnic and gender diversity while performance was measured by Return on Asset and Return on Equity. A series of least square regressions was used for data analysis and ethnic diversity was found to have a significant impact on performance. Carter, D'souza, Simkins and Simpson (2010) used a sample that included firms in the S&P (standard and poor) 500 index for the five-year period 1998–2002. Using Tobin's Q & Return on Asset as financial performance measures, a positive and significant relationship was reported to exist between both the number of women on the board and the number of ethnic minorities on the board.

Letting (2011) averred that none of the board of directors' demographic characteristics had statistically significant moderating effect on the relationship between board attributes and firm financial performance. Priya and Nimalathan (2013) studied some selected hotels in Sri Lanka. Their finding revealed that a concluded that number of women in the board was significantly correlated with return on asset and return on equity. Somathilake (2018) submitted that female directors' proportion has a negative effect on financial performance, though at a non-significant level.

Rafinda, Rafinda, Witiastuti, Suroso and Trinugroho (2018) provided evidence on board diversity, risk and sustainability of bank performance in India for periods covering 2011 to 2015. Based on the regression results, the study showed that the presence of female directors has no significant impact on banks' performance. Therefore, hypothesise that gender diversity has no significant effect on financial performance of Information Communication Technology companies. Zvavahera and Ndoda (2014) in their study on corporate governance and ethical behaviour established that top management and the board were corrupt. There was lack of accountability and transparency in the way business was being done. It was reported that employees went for over seven months without salaries yet top management and the Board paid them handsomely. They further noted that bad corporate governance and unethical behaviour had serious negative implications on both organizational and employees' performance. Bauer, Frijns, Otten and Tourani-Rad (2016) conducting a study on the impact of corporate governance on corporate performance revealed that provisions towards financial disclosure, shareholder rights and remuneration do matter for stock price performance. The importance of board accountability, market for control and corporate behaviour is limited.

Ojok Boniface (2012) conducted a study to examine the effect of corporate governance on organizational performance in selected non-governmental organizations in Gulu district in Uganda and established that financial transparency, accountability and board composition were significant predictors of organizational performance. From the findings, NGO transparency in regard to provision of information that accurate, true and non-selective enhanced their performance.

Similarly, stakeholder participation, evaluation and fiscal compliance enhanced NGO performance. On the other hand, board independence, competence and composition led to better financial decision making and thereby better NGO performance. From the studies that have been conducted, there seems to be scanty literature on the effect of corporate governance on organizational performance on Uganda's banking sector therefore, necessitating a study to be carried out to bridge the gap in literature.

Matama (2018) did a study to find out if there exists a connection between the key elements of CG and financial performance of commercial banks that operate in Uganda. He established that transparency and disclosure played a huge role in the firm's financial performance as stakeholders tend to invest in entities that they trust based on their corporate governance practices. Chahine and Filatochev (2018) sought to establish the influence of disclosure of information and independence of the board on the Initial Public Offering discount. The study found that IPO discount has a negative correlation with both the board independence and information disclosure up to a particular level. Furthermore, as much information was disclosed, the investors perceived this disclosure as an effort by the managers to sway the shareholders and persuade them to buy the shares. Adjaoud, Zeghal and Andaleeb (2017) wanted to establish if there was any influence of quality of the board on the corporation's performance in regards to attributes such as disclosure issues, board compensation, and board composition. The study established that there was no significant association between characteristics of the board and performance when using old performance measures like Earnings per Share (EPS), ROI, and ROE. However on using market and economic value addition, a significant correlation existed between the attributes of the board and financial performance.

Garg (2017) conducted a study focusing on India to find out the connection between size of the board, board independence, composition of the board, and the business's performance. He used ROA, market adjusted stock price, sales turnover ratio, and Tobin's Q to measure performance and observed that the relationship between board size and firm's performance was inverse regardless of what the researcher used as the indicator. Furthermore, the relationship between independence of the board and firm performance was positive while using accounting-based performance measures, yet on using market based performance there was no significant relationship. Namazi and Juana (2018) studied the impact of ownership structure on the performance of companies listed in the Stock Exchange of Tehran. The main hypothesis of the study is that there is a significant relationship between companies' ownership structure and their performance. Research's findings indicate that there is a significant negative relationship between institutional ownership and firm performance and there is a positive and significant relationship between firm ownership and firm performance. Managerial ownership significantly and negatively affects the performance and about foreign ownership, information representing ownership of foreign investors in the statistical sample firms has not been observed. The major ownership is better to be in possession of company investors in private ownership. In general, there is a significant relationship between firm ownership structure and their performance.

Gap in Literature

The foundational argument of board characteristics, as seen by both academics as well as other independent researchers, poor corporate governance was identified as one of the major factors in virtually all known instances of corporate distress. board characteristics as corporate governance

mechanism, Weak corporate governance was seen manifesting in form of weak internal control systems, excessive risk taking, override of internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system (Soludo, 2004). This view was supported by the Nigeria Security and Exchange Commission (SEC) survey in April 2004, which shows that corporate governance was at a rudimentary stage, as only about 40% of quoted companies including banks had recognized codes of corporate governance in place. Despite the voluminous body of general corporate governance literature only a small part deals with corporate finance management. Other studies dealt with board characteristics and corporate performance with profitability as major variable.

METHODOLOGY

This study adopted the ex post facto research design which involves the examination of causal relationship between the dependent and independent variables. According to Asika (1991) the population is a census of all the elements or subject of interest and may be finite or infinite. The full set of cases from which the sample is taken is called the population. However, the population of this study covers the twenty-three (23) existing food and beverage manufacturing firms in Nigeria. The sample population of this study covers only twenty (20) existing food and manufacturing firms in Nigeria, because as at the time of this research there were only twenty (20) firms within this category that are quoted on the Nigerian Stock Exchange. The major types of data collection methods are questionnaire, interview, participant observation these are called primary data source and the source from published material such as Central Bank of Nigeria Statistical Bulletin and annual report which is known as secondary data. The data in this study comprises a cross sectional data which will be sourced from the financial statement of the 20 quoted food and beverage manufacturing firms.

Model Specification

From theories, principles and empirical findings, the models below are specified in this study.

$$MV = f(BS, BC, BI, BGD) \quad (12)$$

$$EV = f(BS, BC, BI, BGD) \quad (13)$$

It is empirically stated as

$$MV = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_3 BI + \beta_4 BGD + \mu \quad (14)$$

$$EV = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_3 BI + \beta_4 BGD + \mu \quad (15)$$

Where:

MV = Market value of the quoted manufacturing firms

EV = Equity value the quoted manufacturing firms

BS	=	Board size
BC	=	Board composition
BI	=	Board independence
BGD	=	Board gender diversity
β_0	=	Intercept Term
$\beta_1 - \beta_5$	=	Coefficients
μ	=	Error term

Pooled Effect

The study adopts the panel data method of data analyses which involve the pooled effect, fixed effect, and the random effect and the Hausman Test.

Pooled Effect Model

$$MV = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_3 BI + \beta_4 BGD + \mu \quad (16)$$

$$EV = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_3 BI + \beta_4 BGD + \mu \quad (17)$$

Fixed Effects

The fixed effects focus on the allowance between ownership structure and profitability of quoted food and beverage manufacturing firms' differences by using a fixed intercept for each of the different cross-sectional structures. If we assume that the dummy variable for a bank is 1 or 0, then D_i , which is the dummy variable for bank i , can be expressed as:

$$D_i = \begin{cases} 1, & j = i \\ 0, & \text{otherwise} \end{cases} \quad D_2 = \begin{cases} 1, & j = 2 \\ 0, & \text{otherwise} \end{cases} \quad \dots \quad D_N = \begin{cases} 1, & j = N \\ 0, & \text{otherwise} \end{cases} \dots \quad (18)$$

The regression of total samples can be expressed as

$$Y_{it} = \sum_{t=1}^N \beta_{ot} D_t + \beta_i D_s + \beta_2 D_{ma} + \beta_3 s_1 + \beta_{it} D_4 s_2 + \varepsilon_{it} \quad (19)$$

The dummy variables are expressed as follows: if $j = i$, then $D_j = 1$; otherwise $D_j = 0$.²

To further investigate the fraud effect, Adebayo (2012) analyzed whether ownership structure affects profitability of quoted food and beverage manufacturing firms. The regression of the effect ownership structure affects profitability of quoted food and beverage manufacturing firms is specified.

$$MV_{it} = \sum_{t=1}^N \beta_0 + \beta_1 BS + \beta_2 BC + \beta_3 BI + \beta_4 BGD + \mu \quad (20)$$

$$EV_{it} = \sum_{t=1}^N \beta_0 + \beta_1 BS + \beta_2 BC + \beta_3 BI + \beta_4 BGD + \mu \quad (21)$$

Because the fixed effects account for both cross-sectional and time-series data, the increased covariance caused by individual-firms' differences is eliminated, thereby increasing estimation result efficiency.

Random Effects

Random effects focus on the relationship with the study sample as a whole; thus, the samples are randomly selected, as opposed to using the entire population. The total sample regression (is a function of the random effect).

Hausman Test

The Hausman test (YairMundlak 1978) is the most commonly used method for evaluating fixed and random effects. If variables are statistically correlated, then the fixed-effects estimation is consistent and efficient, whereas the random-effects estimation is inconsistent, and the fixed-effects model should be adopted. Conversely, if the variables are statistically uncorrelated, then the random-effects estimation is consistent and efficient, whereas the fixed-effects estimation is consistent but inefficient, and the random-effects model should be adopted.

A-priori Expectation of the Result

The elasticity parameter also known as the a-priori expectation of the variables proposes that an increase in the independent variable's ownership structure will increase firms' value. Therefore, it can be mathematical stated as follows: - $\alpha_1, \alpha_2 > \alpha_3, \alpha_4 > 0$

Data Analysis Method

The study adopts the panel data method of data analysis which involves the fixed effect, the random effect and the Hausman Test. The technique used in this study is the Ordinary Least Square (OLS) estimation technique. The test instruments in the OLS are the T-statistics and F-test which were used to test the significance of variables and the overall significance of the regression respectively. Other test instruments also employed were the Durbin Watson test which was used to test the presence or absence of auto correlation between and among the explanatory variables and the adjusted R square used to test the percentage variation of the dependent and the independent variables.

ANALYSIS AND DISCUSSION OF FINDINGS

The regression results for the panel data observations for the period 2011 to 2020 are displayed and discussed so that meaningful conclusions are drawn. The analyses are used to test the earlier formulated hypotheses to establish the relationship which exists among the variables expressed.

Table 1: Panel Unit Root at Level

Method: Series: MV	Statistic	Prob.**	Cross-sections	Obs
Levin, Lin & Chu t*	-5.31702	0.0000	20	160
Im, Pesaran and Shin W-stat	-3.20540	0.0007	20	160
ADF - Fisher Chi-square	78.2852	0.0003	20	160
PP - Fisher Chi-square	149.656	0.0000	20	180
Series: EV				
Levin, Lin & Chu t*	-1.13532	0.1281	20	160
Im, Pesaran and Shin W-stat	-2.03654	0.0208	20	160

ADF - Fisher Chi-square	62.9802	0.0117	20	160
PP - Fisher Chi-square	142.166	0.0000	20	180
Series: BS				
Levin, Lin & Chu t*	-8.87140	0.0000	19	152
Im, Pesaran and Shin W-stat	-2.59039	0.0048	19	152
ADF - Fisher Chi-square	68.8961	0.0016	19	152
PP - Fisher Chi-square	73.0708	0.0005	19	171
Series: BI				
Levin, Lin & Chu t*	-76.3583	0.0000	20	160
Im, Pesaran and Shin W-stat	-20.1160	0.0000	20	160
ADF - Fisher Chi-square	115.720	0.0000	20	160
PP - Fisher Chi-square	133.895	0.0000	20	180
Series: BGD				
Levin, Lin & Chu t*	1.72734	0.9579	20	160
Im, Pesaran and Shin W-stat	-0.54824	0.2918	20	160
ADF - Fisher Chi-square	43.2823	0.3330	20	160
PP - Fisher Chi-square	137.101	0.0000	20	180
Series: BC				
Levin, Lin & Chu t*	-5.33456	0.0000	20	160
Im, Pesaran and Shin W-stat	-2.11053	0.0174	20	160
ADF - Fisher Chi-square	59.8862	0.0224	20	160
PP - Fisher Chi-square	145.348	0.0000	20	180

Source: E-Views output

At level, we reject null hypothesis and conclude that the variables are stationary at 5 percent level of significance, this implies that at first difference of the series at 5% level of significance in all case reject null hypothesis. Except for equity value and board gender diversity

Table 2: Panel Unit Root at Difference

Method: Series: MV	Statistic	Prob.**	Cross-sections	Obs
Levin, Lin & Chu t*	-10.1659	0.0000	20	140
Im, Pesaran and Shin W-stat	-4.62981	0.0000	20	140
ADF - Fisher Chi-square	99.1001	0.0000	20	140
PP - Fisher Chi-square	213.363	0.0000	20	160
Series: D(EV)				
Levin, Lin & Chu t*	-4.19488	0.0000	20	140
Im, Pesaran and Shin W-stat	-4.47382	0.0000	20	140
ADF - Fisher Chi-square	96.6735	0.0000	20	140
PP - Fisher Chi-square	256.134	0.0000	20	160
Series: D(BS,2)				
Levin, Lin & Chu t*	-12.8770	0.0000	20	120
Im, Pesaran and Shin W-stat	-5.76905	0.0000	20	120
ADF - Fisher Chi-square	113.544	0.0000	20	120
PP - Fisher Chi-square	271.048	0.0000	20	140
Series: D(BI,2)				
Levin, Lin & Chu t*	7.81897	0.0000	20	120
Im, Pesaran and Shin W-stat	-4.13193	0.0000	20	120

ADF - Fisher Chi-square	97.6596	0.0000	20	120
PP - Fisher Chi-square	362.083	0.0000	20	140
Series: D(BGD,2)				
Levin, Lin & Chu t*	-17.7681	0.0000	20	120
Im, Pesaran and Shin W-stat	-9.54382	0.0000	20	120
ADF - Fisher Chi-square	161.680	0.0000	20	120
PP - Fisher Chi-square	381.806	0.0000	20	140
Series: D(BC,2)				
Levin, Lin & Chu t*	-18.7424	0.0000	20	120
Im, Pesaran and Shin W-stat	-6.71595	0.0000	20	120
ADF - Fisher Chi-square	116.592	0.0000	20	120
PP - Fisher Chi-square	333.228	0.0000	20	140

Source: E-Views output

At first difference, we reject null hypothesis and conclude that the variables are stationary at 5 percent level of significance, this implies that at first difference of the series at 5% level of significance in all case reject null hypothesis.

Table 3 Pedroni Residual Cointegration Test

Series: EV BS BI BGD BC

	<u>Statistic</u>	<u>Prob.</u>	<u>Weighted Statistic</u>	<u>Prob.</u>
Panel v-Statistic	-4.796361	1.0000	-3.517707	0.9998
Panel rho-Statistic	3.559656	0.9998	3.446264	0.9997
Panel PP-Statistic	-2.396298	0.0083	-4.027580	0.0000
Panel ADF-Statistic	3.989553	1.0000	1.460646	0.9279
Alternative hypothesis: individual AR coefs. (between-dimension)				
	<u>Statistic</u>	<u>Prob.</u>		
Group rho-Statistic	5.449169	1.0000		
Group PP-Statistic	-7.125515	0.0000		
Group ADF-Statistic	2.180480	0.9854		
Series: EV BS BI BGD BC				
Panel v-Statistic	-4.796361	1.0000	-3.517707	0.9998
Panel rho-Statistic	3.559656	0.9998	3.446264	0.9997
Panel PP-Statistic	-2.396298	0.0083	-4.027580	0.0000
Panel ADF-Statistic	3.989553	1.0000	1.460646	0.9279
Alternative hypothesis: individual AR coefs. (between-dimension)				
	<u>Statistic</u>	<u>Prob.</u>		
Group rho-Statistic	5.449169	0.0000		
Group PP-Statistic	-7.125515	0.0000		
Group ADF-Statistic	2.180480	0.9854		

Source: Computed from E-view 9.0, 2021

Null Hypothesis: No cointegration

Trend Assumption: No deterministic intercept or trend

Automatic lag length selection based on SIC

The results of the cointegration test proved that the variables are cointegrated as the probability coefficient of the variables are greater than 0.05, we accept the alternate hypotheses that there is no presence of long run relationship between the dependent and the independent variables.

Table 3: Fixed Effect Regression Results on the Effect of Board Characteristics on Market Value

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000631	0.006985	0.090409	0.9281
D(BI)	0.007754	0.011131	0.696589	0.4871
D(BS)	-0.164805	0.126943	-1.298266	0.1961
D(BGD)	-0.060377	0.157086	-0.384355	0.7012
D(BC)	0.077101	0.084677	0.910524	0.3640
ECM(-1)	-1.018829	0.079081	-12.88340	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.530152	Mean dependent var		0.000111
Adjusted R-squared	0.457401	S.D. dependent var		0.127090
S.E. of regression	0.093616	Akaike info criterion		-1.770976
Sum squared resid	1.358425	Schwarz criterion		-1.327510
Log likelihood	184.3879	Hannan-Quinn criter.		-1.591170
F-statistic	7.287233	Durbin-Watson stat		2.100772
Prob(F-statistic)	0.000000			
Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		11.493155	5	0.0424

Source: Computed from E-view 9.0, 2021

The question of which is the most appropriate or suitable methods arises. Therefore, some means of selecting the most suitable method among the different approaches especially between the fixed effect model (FEM) and random effect model (REM) is needed. But when such a correlation exists, the Fixed Effects Model would be more suitable because the random effect model would be inconsistently estimated. From the table above the probability of the Hausman test is less than 0.05, therefore, the study adopt the fixed effect model.

Furthermore, the results indicates that 53 percent variation in market value of the quoted firms can be explained by variation in the board characteristics, the model is statistically significant based on the f-statistics and probability while the Durbin Watson proved the absence of serial autocorrelations. The results indicates that board independence and board composition have positive but no significant effect on the market value of the quoted manufacturing firms while the results indicates that board size and board gender diversity have negative and no significant effect on market value of quoted manufacturing firms in Nigeria.

Table 3: Fixed Effect Regression Results on the Effect of Board Characteristics on Equity Value

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.382579	0.822589	1.680765	0.0946
BS	0.158421	0.240234	0.659444	0.5105
BI	-0.064764	0.039542	-1.637828	0.1033
BGD	-0.065296	0.546678	-0.119442	0.9051
BC	0.198215	0.296763	0.667923	0.5051
ECM(-1)	0.578342	0.057168	10.11648	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			0.227845	1.0000
Weighted Statistics				
R-squared	0.311082	Mean dependent var		1.680333
Adjusted R-squared	0.291285	S.D. dependent var		0.315529
S.E. of regression	0.265629	Sum squared resid		12.27720
F-statistic	15.71398	Durbin-Watson stat		2.449413
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.311082	Mean dependent var		1.680333
Sum squared resid	12.27720	Durbin-Watson stat		2.449413
Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		2.025686	4	0.7310

Source: Computed from E-view 9.0, 2021

The question of which is the most appropriate or suitable methods arises. Therefore, some means of selecting the most suitable method among the different approaches especially between the fixed effect model (FEM) and random effect model (REM) is needed. But when such a correlation exists, the Fixed Effects Model would be more suitable because the random effect model would be inconsistently estimated. From the table above the probability of the Hausman test is greater than 0.05, therefore, the study adopt the random effect model.

Furthermore, the results indicates that 31 percent variation in equity value of the quoted firms can be explained by variation in the board characteristics, the model is statistically significant based on the f-statistics and probability while the Durbin Watson proved the absence of serial autocorrelations. The results indicates that board independence and board composition have positive but no significant effect on the equity value of the quoted manufacturing firms while the results indicates that board size and board gender diversity have negative and no significant effect on equity value of quoted manufacturing firms in Nigeria.

Discussion of Findings

From the regression results formulated in section three of this study, the study found that board independence and board composition have positive but no significant effect on the market value of the quoted manufacturing firms while the results indicates that board size and board gender

diversity have negative and no significant effect on market value of quoted manufacturing firms in Nigeria. The positive effect of the variables confirms the a-priori expectations of the results and justifies the objective of management policies such as financing policies and investment policies. Theoretically, the findings confirm the agency theory and the stakeholder's theory. The positive effect of the variable contradict the findings of Somathilake (2018) that board size has a negative but significant influence on company performance but confirm the findings of Gambo, Bello and Rimamshung (2018) that board size has no significant effect on financial performance of Information Communication Technology companies.

From the second regression model the study found that 31 percent variation in equity value of the quoted firms can be explained by variation in the board characteristics, the results indicates that board independence and board composition have positive but no significant effect on the equity value of the quoted manufacturing firms while the results indicates that board size and board gender diversity have negative and no significant effect on equity value of quoted manufacturing firms in Nigeria. The findings confirm the a-priori expectations as we expected apposite relationship between the variables. Empirically, the findings of the study confirm the findings of Bhagat and Black (2002) that lower performing firms were more likely to add independent directors, the findings of Chan and Li (2008) found that independence of the audit committee (i.e. to have at least 50 per cent of expert-independent directors serve on audit committee) positively impacts the firm performance as measured by Tobin's Q. Ilona (2008) showed that there is a positive relationship between audit committee independence and firm performance as measured by return on equity. Using data collected from top 100 companies listed in Colombo Stock Exchange, Somathilake (2018) concluded that director's independence has positive but insignificant influence on firms' performance in Sri Lanka and the findings of Gambol, Bello and Rimamshung (2018) that board independence has a significant impact on financial performance of Information Communication Technology companies.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study concludes that there is no significant relationship between board size and market value of quoted manufacturing firms in Nigeria. The study concludes that there is no significant relationship between board size and equity value of quoted manufacturing firms in Nigeria

The study concludes that there is no significant relationship between board composition and market value of quoted manufacturing firms in Nigeria. The study concludes that there is no significant relationship between board composition size and equity value of quoted manufacturing firms in Nigeria

The study concludes that there is no significant relationship between board independence and market value of quoted manufacturing firms in Nigeria. The study concludes that there is no significant relationship between board independence size and equity value of quoted manufacturing firms in Nigeria

The study concludes that there is no significant relationship between gender diversity and market value of quoted manufacturing firms in Nigeria. The study concludes that there is no significant

relationship between gender diversity size and equity value of quoted manufacturing firms in Nigeria

Recommendations

1. Board composition of the manufacturing firms in Nigeria should be reformed and the proportion of executive to non-executive directors should be in line with corporate governance codes.
2. Board diversity components of Nigeria food and beverage firms which include gender diversity, board size, board independence, and board-director duality need to be strengthened to positively affect value of the firms
3. There is need for managers to ensure that the size of the board is also congruent to organizational needs, such that the board size, competencies, skills and ability advance organizational quest for increase value of the firms.
4. There is need for directors and chief executive officers of the firms to consider the implication of poor corporate governance on the finance management of the quoted food and beverage firms and ensure adequate measures to achieve high level of corporate governance.

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