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*Keywords:* board characteristics, audit committee, return on assets, tobinsq, financial reports, accounting based performance and market based performance.

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# Board Characteristics, Audit Committee and Firms' Financial Performance in Nigeria: Hausman Test Approach

Usman O. A<sup>α</sup>, Oladejo, M.O<sup>σ</sup>, Alimi, A. A<sup>ρ</sup> & Adeoye, M. A<sup>Ω</sup>

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*Corporate failures and financial scandals have shaken the corporate world and sparked a global conversation about the need for good corporate governance. Specifically, the study evaluated the effect of board characteristics on financial performance of selected industrial goods companies in Nigeria. The study used secondary data that sourced from the yearly financial reports of the thirteen industrial goods companies that were sampled for the study, which covered the ten-year period from 2011 to 2020. To accomplish the study's objective, the data were examined using both descriptive and inferential statistics.*

*The findings of Panel regression reported that the board size and board gender diversity have a positive and significant effect on the accounting-based measure of performance of industrial firms. While in the case of market-based measure of performance, board independence, board gender diversity and audit committee size are positive and statistically significant. The study concluded that there is a positive and significant relationship of board characteristics, audit committee size with Return on Asset (ROA) and Tobin's Q for industrial firms. It is therefore recommended that industrial firms in the country should put in place strict evaluation mechanism to identify the most appropriate board characteristics that will help to sustain improved performance at all time and this evaluation mechanism should be design to factor in dynamic adjustment that might be inherent in the patterns of influence of board structure on performance.*

*Keywords:* board characteristics, audit committee, return on assets, tobinsq, financial reports, accounting based performance and market based performance.

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## I. INTRODUCTION

Corporate failures and financial scandals have shaken the corporate world and sparked a global conversation about the need for good corporate governance. The recurrence of high-profile company failures and scandals around the world has weakened investors' and other users' confidence in annual reports and accounts and thus impair the performance of companies (Iyanuoluwa, 2019). Owolabi (2015) emphasized that with the corporate collapses of Enron (2001), WorldCom (2001), Cadbury (2009), Oceanic bank (2011), PHB Bank (2011), textile industries and Intercontinental bank (2013), among others, the corporate scandal took on a new dimension in early 2000. Financial scandals that have shaken users' confidence have resulted in a loss of credibility due to poor performance of manufacturing companies in Nigeria. The financial scams and crises in emerging markets have led to renewed discussions on the issue of corporate governance. Investor protection has become a much more vital issue for all businesses and financial markets. Indeed, corporate disclosure acts as a basis for investment decisions of various primary participants of the capital market. The soul of corporate governance is transparency, which is exposed to the corporate

disclosure made by the firm (Neeti, Payal, Satish and Radha, 2020).

Most firms in Nigeria are characterized by paucities in accounting standards, poor financial reporting, financial impropriety, lack of compliance with the code of best practices with adverse effects on return on investment and productivity. Other Nigerian companies' corporate problems include a lack of transparency and accountability, inadequate control and monitoring, which significantly decreases the trust of investors in management. In the 1998 UAC audit report, for instance, the directors' attempt to sell the company's property to themselves was rejected by shareholders (Jonathan, 2013).

As a result, for a strong appreciation of corporate governance in Nigeria's manufacturing sector, it is imperative to take a fast look at the condition of manufacturing performance in Nigeria. Adenikinju (2005) revealed that the share of GDP in the sector increased from 5.4% in 1980 to a peak of 8.1% in 1990 and subsequently decreased to 6% in 2019. Exports rose from 0.3 percent in 1980 to 0.6 percent in 2019, but the export contribution to foreign exchange earnings was found to be less than 1 percent, while the industry used about 81 percent of the total foreign exchange earnings of the country. In terms of employment generation, around 10 percent of the population was engaged in job development, compared to 70 percent in agriculture and 20 percent in services.

Corporate governance protects firms against some long-term loss. Big scandals like Enron, in particular, have had a significant impact on the industry and the economy. Several stakeholders, including employees, customers, consumers, vendors, shareholders, and regulators, have a duty to ensure that the firm performs well. As a result, corporate governance affects not just the firm but also society (Scherer and Palazzo 2008). Good governance, in every field of society, whether be the corporate environment or the general society, or the political environment, is important. Good governance will boost public confidence and trust in the political environment. It is a good level of

governance that can help to promote the wellbeing of society if the resources are too small to reach the minimum needs of the people. And, of course, governance issues are at least as common in the business sector (Crowther and Seif, 2010)

Nigeria's weakness is exacerbated by its heavy reliance on Chinese imports. In 2019, raw materials accounted for 70% of total imports from China into Nigeria, while Asia and Europe accounted for 86 percent of Nigeria's imports in Q4 2019, according to the National Bureau of Statistics (NBS). The new constraints on cross-border trade have greatly distorted supply chains for producers, and the Nigerian economy is beginning to feel the effects. Via board decisions, industrial goods companies must become more flexible, local, and sensitive to customer needs, whether by increasing supplies or depending more on e-commerce (NBS, 2020). It is against this background that this study seeks to analyse the relationship between corporate governance, audit committee, and firms' financial performance. Consequently, this paper is divided into five parts. Part one deals with the background discussed in chapter one while part two deals with previous literatures and conceptual clarifications, part three describes the methodological aspect of the paper, part four deals with presentation and discussion of the results, and finally part five explains summary, conclusions and policy recommendations.

#### *Statement of the Problem*

Researchers have been concerned with means to address the challenges faced by companies as a result of poor corporate governance and a lot of researches conducted with a view to proffering ways of resolving it. In Nigeria, for example, the study of Sanda, Mukailu and Garba (2005) looked at the entire firms listed on the floor of the Nigerian Stock Exchange (NSE) as at year 2000. Study like Emeka and Alem (2016) focused on the insurance and the banking sectors respectively. In fact, the recent study of Ibe, Ugwuanyi and Okanya (2017) equally looked at the entire listed firms on the NSE. To the best of the researcher's knowledge, no study has been conducted in this area using Industrial firms. Based on sectoral

indices released by the NSE, industrial sectors represent the sectors with the highest sectoral market capitalization as at December 31, 2020. Therefore, the need to investigate the relationship between corporate governance mechanisms and financial performance of these sectors in Nigeria cannot be over-emphasised.

A company can face a crisis if it lacks good corporate governance. As a result of weak corporate governance processes, many businesses may become excessively leveraged and/or have a high level of short-term debt, resulting in a financial crisis. The Global Financial Crisis of 2008 is one of the most well-known examples of a crisis caused by a company's financing decisions. As a result of the economic meltdown that hit the United States of America in 2008, Nigeria's firms were in shambles. Until now, some of our industries have not recovered from the effects of the economic recession despite the government's bailout fund and intervention (Luqman, 2015). Corporate governance mechanism and its effect on firm performance had been studied by several researchers, but just very few researchers emphasised corporate governance practices and its impact generated on firm performance using industrial sector

This study employs two alternative measures of firm performance. First and foremost, accounting profitability is a common measure of firm financial performance proxy by Return on Asset (ROA). Second, Tobin's q has been employed by many researchers to capture firm value in the literature and this study also includes Tobin's q as the second measure of performance. Shareholders interest are usually conflict with the management interest but cannot be underestimated. Further, the audit committees are extremely important in promoting good corporate governance because they are in charge of ensuring the accuracy and clarity of financial reporting. Investors use these financial reports to assess a company's financial status (Saad, 2010). Velnampy and Pratheepkanth (2012) asserted that corporate governance is a very critical issue in both the private and public sector and this continues to be an issue of great importance to firms in both short and long-run survival of firms, this study will serve as a

database for further researches in this field of research which will be determined by what they engage in whether questionable or unquestionable, thus enhancing transparency aimed at improving corporate governance structures in Nigeria's industrial sectors. In order to obtain a solid conclusion, this study includes more relevant explanatory and controlled variables, panel unit root test, and a powerful econometric approach such as variance inflation factor.

### *Research Hypothesis*

H<sub>01</sub>: Board characteristics and audit committee have no significant effect on financial performance of selected industrial goods companies in Nigeria

## II. LITERATURE REVIEW AND CONCEPTUAL EXPLANATION

### *2.1 Theoretical Review*

#### *Agency Theory*

In fact, due to information miscommunication and opportunistic behaviour, some agents cannot always behave in the best interests of shareholders, which can lead to conflict between them. As a result, the agent-principal relationship becomes an agency issue (conflict), and the organizations suffer numerous losses known as agency expense. The division of ownership and management in the business of the company results in the transition of responsibility for all decisions to management since they must have a great deal of knowledge to accomplish the aim of optimizing shareholder capital. The agency's theory helps to link the interest of managers and owners with the promise that there is no conflict of interest between the management and the firm owner (Fama and Jensen, 2018). Agency Theory explains how to create a contract between the principal and the agent that will result in the agent's best effort on behalf of the principal. The most critical aspect is that information is not distributed equally among managers and owners. This issue is referred to as information asymmetry, and it consists of two distinct but related elements: moral hazard and adverse selection. As it relates to contemporary

organizations, agency theory's main goal is to reconcile the principal's and the agent's competing interests. One of the drawbacks of agency theory is that it restricts the principal to the owners and only pursues the interests of the owners. However, there are more stakeholders that are interested in the contract, and this deficiency gave rise to the stakeholder's theory, which is covered in more detail below.

### *Stakeholder Theory*

Stakeholder theory asserts that several stakeholders are participating in the organization, each of whom is entitled to a reward for their efforts. This idea first appeared in Milton Friedman's work (1970). According to this principle, the profit of a company is maximized when it is managed on behalf of all stakeholders and returns are distributed fairly among them in a manner that is agreeable to all. Unfortunately, there is no universally accepted method for dividing returns among all stakeholders, and stakeholder theory is severely lacking in suggestions in this regard. Nonetheless, this theory has some traction, and it is founded on the idea that running a company in this way results in the maximization of returns to shareholders as part of the overall process of maximising returns to all stakeholders (Vargas-Hernandez and Gonzalez, 2018; Murphy and Smolarski, 2020)

### *Signalling theory*

Ross (2017) stressed that signaling theory is concerned about how businesses can interact with users of financial statements in the form of details on what the manager has achieved in achieving the owner's goals. Financial success, which is essential to certain parties, may serve as a signal. Profit is one of the factors that decide dividend policy for shareholders; the higher the profit, the higher the dividends, and this is generally well-received by the market, increasing the share price. The benefit is an incentive for investors to bring funds from investors into a business.

### *Information Asymmetry theory*

According to the asymmetry principle, parties connected with the venture do not have the same knowledge about the company's prospects and risks. Managers, on average, have more

knowledge than outsiders like investors. Individuals participating in all streams of ties between the organization and stakeholders, according to this theory, should not have the same knowledge at the same time. This means that people will behave differently and make choices that will affect the company's success. As a consequence, in the theory of information asymmetry, the information that individuals possess is very important, as are the decisions that they may make based on that information (Marcel, Ortan, and Otgon, 2010).

## *2.2 Corporate Governance Practices and Firms' Financial Performance*

### *Concept of Corporate Governance*

According to Tsamenyi *et al.* (2017), emerging economies face a slew of issues, including risk and uncertainty, political instability, poor regulation, high levels of government interference, and a lack of investor security. As a result, it is critical to adopt and implement successful corporate governance mechanisms. Improve the strength and transparency of capital market systems to increase overall investor trust, improve the performance of domestic businesses, and encourage growth through the use of equity rather than debt have all been proposed as ways to further improve governance structures (Reed, 2002).

According to the previous researches, corporate governance and agency theory provide a theoretical rationale for the correlation between corporate governance and firm success, as well as testable theories on the various corporate governance mechanisms in terms of improved financial performance.

### *Functions of Corporate Governance*

According to Jonathan (2017), corporate governance refers to the rules, strategies, and practices that a company utilizes to achieve its business objectives and improve its infrastructure. Corporate governance functions include, but are not limited to, the following:

#### i. Goals and Risk Management

The board of directors of a firm establishes policies and processes to effectively satisfy the company's short- and long-term investment goals while minimizing the extent of risk associated with the investment. Each investment decision is made with the purpose of ensuring the company's long-term growth and profitability. The board of directors handles the risk associated with each new investment opportunity by carefully examining the venture's worth and assessing the most likely challenges. This enables the organization to anticipate possible problems and devise measures to mitigate them (OECD, 2014)

#### ii. Corporate Accountability

Corporate governance further promotes compliance within the board of directors and the improved operational structure of the organization. This creates a framework of checks and balances to ensure appropriate execution of company operations and initiatives. Because of the increased accountability and communication within the company's management structure, the board of directors can keep up with the progress of investments and business ventures (Emiliano, 2017)

#### iii. Shareholder Meetings

Effective corporate governance requires shareholders to remain well informed of the company's financial health and the status of its ongoing business initiatives. To keep shareholders informed, a corporation's board of directors' schedules regular meetings where the board shares the company's level of profitability, its strategies for achieving goals and any problems it foresees in the market that may cause them to fall short of meeting those goals. Shareholders who are kept well-informed of company practices are more likely to trust the board of directors and remain as corporate investors as opposed to selling company stock (OECD, 2014)

#### iv. Government Regulations

Transparency in respect to government corporate rules is an important aspect of corporate governance. Regular financial reporting, ethical treatment of workers, safe environmental standards, and the handling of hazardous chemicals are only a few of the operations covered

by these rules. The 2010 BP Deepwater Horizon oil spill is an example of how a lack of corporate governance resulted in inadequate practices, resulting in a large-scale environmental disaster that impacted a wide area of the United States (OECD, 2007).

#### *Problems of Corporate Governance in Nigeria*

There are numerous challenges to good corporate governance in Nigeria. These include:

##### i. The Institutional Challenges

The interwoven link between governmental regulators and the private sector is one of the issues in enforcing corporate governance in Nigeria. Public officials utilize private enterprises to launder money stolen from the public sector (among other things), compromising their independence in enforcing a strict regulatory environment (Ogbonna, 2020). Even when it is clear that a company is defaulting, it is covered. Sanctions should be imposed without prejudice in order for business laws to be enforced effectively. The Nigerian corporate governance framework is inefficient due to its poor institutional base. The Nigerian corporate governance framework is inefficient due to its poor institutional base. According to Adegbite (2015), corporate law enforcement and self-regulatory activities in Nigeria are stuck in idealism due to the country's inadequate institutional backdrop.

##### ii. Corruption

Corruption is one of the primary obstacles to Nigeria's smooth corporate governance practice. It is widely held opinion that you cannot obtain anything without paying a bribe, particularly from government or public authorities. As a result, private business owners who require government approval or waivers are unable to do so unless they engage in corrupt methods (Yakasai, 2020). Corruption is Nigeria's biggest problem when it comes to corporate governance. Corporate executives milk their own companies and become "fat cats," while investors become "anemic," which is a serious problem in any non-transparent developing country. This is a situation that is all too common in Nigeria.

Nigeria is ranked 144th out of 180 countries, indicating that corruption is a severe problem in

the country. As a result of deep-seated corruption, weak governance emerges, which obstructs the efficient application and enforcement of laws (Gholami and Habeeb, 2019).

### iii. Multiplicity of Codes on Corporate Governance and Weak Regulatory Mechanisms

According to Osemeke (2020), the lack of specificity (i.e. the inclusion of ambiguities) in the code's suggestions, as well as disputes among them, are concerns related to the multiplicity of codes. Multiple corporate governance standards, according to the report, are ineffectual in controlling the corporate sector, particularly in emerging nations. Multiple contradicting codes result in "reduced compliance by enterprises and poor enforcement by regulatory agencies," according to the report.

Corporate organizations such as banks have been unable to achieve their goals of maintaining adequate corporate governance in Nigerian banks due to poor implementation and enforcement of corporate governance regulations.

### iv Protection for Whistle Blowers

Fear of retaliation has deterred many potential whistleblowers from reporting corporate governance violations (Brennan and Kelly, 2007). When employees in positions to disclose these wrongdoings remain silent for fear of losing their jobs or being "harmed" in the process, it becomes difficult for corporate governance practices to function effectively. Nigeria currently lacks any comprehensive whistleblowing legislation.

Despite these obstacles, Nigeria remains one of Africa's top five countries for corporate governance compliance, according to the Organisation for Economic Co-operation and Development (OECD).

### *Corporate Governance Mechanisms*

Good corporate governance practice is germane to business survival, business growth, and in appreciating the value of the firm as well as its effect on the Nigerian economy at large. The provisions include the roles of the board and management of quoted companies, the rights and privileges of shareholders, and the role of the audit committee. The following are some of the variables that can be used to assess corporate

governance and audit committee in an organization:

### *Board Size*

Board size which uses the number of the director as a proxy is an important yardstick in corporate governance. Previous studies on board size show that there exists both a positive and negative relationship between board size and firm value. Mak and Yuanto (2003) found that firm value is highest when board sizes are small. Sanda *et al.* (2003), on the other hand, discovered that small board size, rather than large board size, is positively associated with firm financial efficiency.

- i. The composition of the board of directors and a clear-cut job definition of all board members is another index.
- ii. Separation of CEO from the chairman of the board of directors. Previous studies showed that firms are more valuable when the CEO and the chairman of the board positions are manned by different persons.

### *Composition of board members*

The composition of board members is also proposed to help reduce the agency problem (Hermalin and Weisbach 2003). The proportion of outside directors on the board of directors is assumed to have a positive relationship with firm efficiency. Outside directors, as opposed to inside directors, are more positioned to challenge CEOs. Outside directors are expected to make up at least two-thirds of the board in the United Kingdom, perhaps in acknowledgment of their importance. In the United States, they must make up at least three-quarters of the board (Bhagat and Black, 2001).

Other studies also found no evidence of a connection between firm financial performance and the number of outside directors on the board (Hermalin and Weisbach 2003). In reality, according to Weng and Lin (2017), there is a negative correlation. The importance of committee structure in increasing the board's independence is emphasized by John and Senbet (1998). They cite Klein's (1998) work to argue for the creation of specialized audit, remuneration,

and selection committees. In contrast to the previous claim in favour of board structures,

#### *Board size and Firm performance*

Yermack (1996) examined the relationship between board size and firm performance, concluding that the smaller the board size the better the performance, and proposing an optimal board size of ten or fewer. The results of Yermack, according to John and Senbet (1998), have important consequences on the firm because they relied on forces outside the market system to decide the size of the board.

#### *Ownership concentration*

The next important element of governance mechanisms examined is ownership concentration, which refers to the proportion of a firm's shares owned by a given number of the largest shareholders. A high concentration of shares puts more pressure on managers to act in ways that maximize shareholder value. According to Shleifer and Vishny (2017), an increase in ownership concentration would be correlated with an increase in firm value at low levels of concentration, but the relationship may be negative above a certain level of concentration.

#### *Audit Committee size*

The principle behind audit committees vary according to the objectives, functions, and responsibilities assigned to them. According to Arens *et al.* (2009), an audit committee is a group of people chosen from the board of directors who are responsible for maintaining the auditor's independence. Furthermore, according to Al-Thuneibat (2006), it is a committee made up of non-executive directors in the company. The audit committee was formed with the primary aim of improving the quality of auditing and questioning of the board of directors.

Klein (2002) found a negative correlation between earnings management and audit committee independence. Anderson, Mansi and Reeb (2004) observed a significant relationship between independent audit committee and low debt financing cost.

#### *CEO Pay Slice*

According to Bebchuk, Cremers, and Peyer (2011), the CEO's pay slice (CEOP) reflects the CEO's relative importance in terms of skills, contribution, and power. This is a good proxy for the CEO's relative importance in the top management team. CEOP is described by Bebchuk *et al.* (2011) as the CEO's total compensation as a percentage of the combined total compensation of the company's top five executives (including the CEO). Salary, bonus, other annual pay, long-term retention payouts, the total value of restricted stock awarded that year, Black-Scholes value of stock options granted that year, and all other total compensation are included in total compensation.

#### *Insider shareholding and Firm Value*

The use of insider shareholding is the first claim to answer the issue of agency. Several studies have been conducted on this subject with very mixed results. Insider ownership and firm results have a significant curvilinear relationship (Bino and Tormar, 2010). Bino and Tormar (2010) discovers a substantial and strong nonlinear relationship between Tobin'sQ and REIT insider ownership, which is consistent with the trade-off between incentive alignment and insider ownership entrenchment.

#### *Corporate Governance Approaches*

##### i. Rule-Based Approach

A rules-based approach to corporate governance is based on the belief that corporations should be forced to follow existing corporate governance standards by law (or by some other form of mandatory regulation). The rules which only extend to some types of businesses, such as large stock market firms. However, the rules must be followed by the organizations to which they refer, and few (if any) exceptions are permitted.

##### ii. Principle-Based Approach

An alternative to a rule-based approach to corporate governance is a principle-based approach. It is founded on the belief that a single set of rules is ineffective for all firms. Companies have different circumstances and conditions. The circumstances of a single business can shift over time. This means that the best corporate governance practices for a business can vary

depending on the circumstances, and that the best corporate governance practices for a company can evolve over time. As a result, it is proposed that all large corporations be subjected to a corporate governance code, which should consist of principles rather than laws.

#### *Firm Financial Performance*

Financial Performance measures are germane to an enterprise not only to evaluate the implementation of the strategy and the strategic actions that managers take to pursue the strategy but also to inform managers about the relevant aspects they need to consider when making those decisions. Because whether a company is growing, profitable, or increase shareholders' value, financial performance is the main goal for most companies. Financial success affected the outcomes and results of the business sector, reflecting the firm's overall financial health over time. Financial performance refers to how efficiently a company uses its capital to increase shareholder wealth and profitability.

Financial ratios are the most common performance measurement used in the field of finance and statistical inference. While a full assessment of a firm's financial performance should include other types of metrics, financial ratios are the most common performance measurement used in the field of finance and statistical inference (Farah, Farrukh and Faizan 2016). In this study, the financial performance used for the measurement of the financial performance of the manufacturing sector (Industrial goods companies) are return on asset and Tobin's Q from the period 2011-2020.

#### *2.3 Review of Empirical studies*

Neeti *et al.* (2020) emphasized that corporate governance ensures that corporations are transparent, accountable, and equal. For the period 2014 to 2018, the data is collected for Indian automotive companies listed on the NSE top 500 firms. The relationship between parameters of corporate governance and parameters of financial performance and corporate governance and the structure of capital is discussed. To research, the impact of

independent variables, such as board composition, remuneration of the directors, Chief Executive Officer (CEO) duality independent directors, skilled and independent audit committee, a board of directors, descriptive statistics, correlation and multiple regression analysis were used. Financial performance and capital structure represented by ROE and total debt/total asset are proxied to be dependent variables and are not significant to the independent variables used in the study. The study does not provide conclusive evidence, but they do highlight that policy conclusion of the results based in Indian data that are not necessarily transferable to other countries such as Nigeria

The relationship between corporate governance and corporate performance was also examined by Kuen-Chang, Ta-Cheng, Chih-Hao, Pei-Hsun (2019). To act as a decision-making guide for managers and investors, the study aimed to establish a more robust corporate governance evaluation process. The results suggested that corporate output was affected positively by corporate governance. These findings were consistent in both an overall review and several periodic studies. Findings on the effects of different corporate governance dimensions on corporate performance suggested that the arrangement of ownership, equal treatment of shareholders, and the structure of the board of directors (BD) can be used to strengthen corporate performance. However, the result of this study cannot be generalized because Nigeria was not captured in the scope of the study. Yameen, Farhan and Tabash (2019) examined the impact of corporate governance practices on a firm's performance in the Indian tourism sector. The study employed a panel dataset of 39 hotels listed on the Bombay Stock Exchange (BSE) for the period from 2013/2014 to 2015/2016. The ordinary least square regression model was used for estimating the results. The study posited that the size of the board of directors and the size of the audit committee have a negative effect on the performance of Indian hotels, while the composition and diligence of the board of directors, the composition and diligence of the

audit committee, and foreign ownership have a positive impact on the performance of Indian hotels as calculated by accounting proxies. Furthermore, the study found that the size of the board of directors, the size of the audit committee, and foreign ownership have a positive effect on the performance of Indian hotels as calculated by marketing proxies, while the composition of the board of directors, the vigilance of the board of directors, and the composition of the audit committee have a negative impact. Hence, this study used inadequate sample size that will be distinct from the study under consideration. In Nigeria, Odunayo (2019) examined the impact of corporate governance on firm financial performance. To capture corporate governance, the model used return on asset (ROA) and return on equity (ROE) as dependent variables and ownership structure (OWNSTR), board independence (BIND), board size (BSIZE), and board gender diversity (BGD) as explanatory variables. Board independence (BIND) has a positive impact on return on asset, while ownership arrangement (OWNSTR), board size (BSIZE), and board gender diversity (BGD) have negative effects. The study also discovered that board independence (BIND) has a positive impact on return on asset, while ownership arrangement (OWNSTR), board size (BSIZE), and board gender diversity (BGD) have negative impacts. All of the explanatory variables, such as ownership structure (OWNSTR), board independence (BIND), board size (BSIZE), and board gender diversity (BGD), have an important and positive impact on return on equity, according to the report. The study found that corporate governance has a major impact on return on equity, and it was suggested that the size of the board of directors (membership) be increased, but

not beyond the maximum number prescribed by the bank's code of corporate governance.

### III. METHODOLOGY

The main focus of this study is the Nigeria's manufacturing companies being a driving force of the Nigerian economy with emphasis on industrial goods companies. This sector was chosen because the industrial goods industry is largely concerned with the production of goods. Aluko (2018) asserted that the industrial goods sector of the Nigerian Stock Exchange (NSE) shows the highest growth rate among other sectors thus far in 2018. The NSE Industrial Goods Index, which appreciated 23.8 percent in 2017, has recorded a growth of 18.9 percent so far in 2022. It has outperformed the NSE Banking Index, which currently has recorded a growth of 9.3 percent. After the recovery of the Nigerian economy from a six-quarter-long recession, which ended in 2017, the industrial goods market is back on track to trend upwards, as Nigeria is predicted to become one of the Top 20 economies in the world by 2030.

Therefore, even with the major challenges in the industrial sector that most companies will have to overcome, according to the present trends in the public market, the opportunities for growth in this sector look very promising. The study employed six key corporate governance variables (board independence, board size, equity ownership, CEO pay slice, board gender diversity and audit committee size), two firms' financial performance variables that capture both market-based performance and accounting-based performance (return on asset and Tobin's Q) were also employed

#### Model Specification

*Model 1:* Board characteristics, audit committee and financial performance (ROA) of selected industrial goods companies in Nigeria

$$ROA_t = f(BND_t, BZ_t, CEPA_t, EO_t, ACZ_t, LNNTA_t, BGD_t). \quad (1)$$

$$ROA_t = \gamma_0 + \gamma_1 BND_i + \gamma_2 BZ_i + \gamma_3 CEPA_{it} + \gamma_4 EO_t + \gamma_5 ACZ_t + \gamma_6 BD_t + \gamma_7 lnTA_{it} + \varepsilon_{it} \quad (1)$$

*Model 2:* Board characteristics, audit committee and financial performance (Tobin's q) of selected industrial goods companies in Nigeria.

$$\text{Tobin's } Q_t = f(\text{BND}_t, \text{BZ}_t, \text{CEPA}_t, \text{EO}_t, \text{ACZ}_t, \text{LN}TA_t, \text{BGD}_t) \quad (2)$$

$$\text{Tobin's } Q_t = \gamma_0 + \gamma_1 \text{BND}_i + \gamma_2 \text{BZ}_i + \gamma_3 \text{CEPA}_{it} + \gamma_4 \text{EO}_t + \gamma_5 \text{ACZ}_t + \gamma_6 \text{BD}_t + \gamma_7 \ln TA_{it} + \varepsilon_{it} \quad (2)$$

Where:

Dependent variables

$ROA_i$  = Return on assets of selected firms  $i$  in industrial sector

$Tobin's Q_t$  = Tobin's  $q$  of selected firms in industrial sector

Independent variables

BND= Independent Director

BZ = Board size

BD = Board Gender Diversity

EO = Equity ownership

CEPA = CEO pay slice

ACZ = Size of Audit Committee

Control variables

LnTA= Natural logarithms of total assets

$ei_t$  = Stochastic error Term

$\gamma - \gamma_7$  = regression parameters

$i$ =individual firms

$t$ =time

The *a priori* expectation is such that:

$BND_t, BZ_t, BD_t, EO_t, ACZ_t, Ln TA, CEPA_t > 0$ . A positive relationship is expected between explanatory variables ( $BND_t, BZ_t, BD_t, EO_t, ACZ_t, Ln TA, CEPA_t$ ) and the dependent variables (ROA and Tobin's Q). The correlation coefficient ( $\gamma_o$ ) explained the various levels of association between the independent variables.

Table 1: Measurement of Variables

Variables	Definitions	Previous Studies
Return on Asset (ROA)	This measures the net income divided by total assets at the end of the year (Accounting based measure of firm performance). This will be extracted from the annual report of companies under consideration.	Ahmadi et al. (2018), Đặng et al. (2020) and Yang et al (2019)
Tobin's Q (TQ)	This measures market capitalization to the total asset of the company (Market-based measure of firm performance)	Satwinder, Naeem, Tamer, and Georgios (2017).
Board size (BZ)	Total number of directors that are on board	Haque, Deegan and Inglis (2016)
Equity ownership (EO)	The percentage of equity ownership held by the management who run the operations of the firm	Ahmadi et al. (2018)
Audit Committee size (AZ)	Total number of members of the Audit committee	Werder, Talaulicar and Kolat (2005).
Board independence (BND)	Board Independence is measured as the ratio of non-executive directors on the Board divided by total directors on the Board	Nadeem, Suleman and Ahmed (2019)

Board gender diversity <sup>y</sup> (BD)	Percentage of Female Executives	Low et al. (2015), Haque, Deegan and Inglis (2016)
CEO pay slice (CEPA)	Fraction of the total compensation to the group of top-five executives that is received by the Chief executive officer (CEO)	Xiangwei (2017)
Firm size	Natural logarithms of total Assets	Byoun et al. (2016)

Source: Author's compilation, 2022

#### IV. RESULTS AND DISCUSSIONS

##### 4.1 Unit Root Tests

Table 2 report all the variables used in the study for industrial goods companies and the first row of the table depicted different panel unit root tests

results which are given at the level as well as the first difference against each variable. The results indicated that most of the variables are stationary at level and other variables are stationary at first difference i.e I(1).

Table 2: Unit Root Test for Industrial Goods Companies

Variables	IPS		FADF		LLC	
	I(o)	I(1)	I(o)	I(1)	I(o)	I(1)
ROA	-1.57	-2.61	29.78	46.79	1.5e+02	-98.98
TOBINSQ	2.38	-2.94	19.64	112.36	-4.83	-11.21
BZ	-1.37	-4.94	40.18	102.2	-8.24	-13.81
BND	-4.94	-5.09	2.36	11.89	-3.24	-9.95
BD	1.22	-8.96	16.45	35.83	-6.21	-14.36
CEPA	-3.27	-6.79	73.87	173.23	-11.00	-16.20
ACZ	4.38	-3.67	104.40	66.63	-8.95	-15.24
EO	-1.02	-1.54	31.72	43.07	-6.14	-11.57
LN_TA	-6.54	2.68	19.36	52.64	-11.57	-19.57

Source: Computed by researcher using data extracted from annual reports of Industrial goods companies (2022)

##### 4.2 Variance Inflation Factor (VIF)

The VIF test show in Table 3 is the test of multicollinearity assumption of the classical regression model. Multicollinearity is a problem that occurs when explanatory variables of the model share a linear relationship, and it may disturb the results of the regression model. If the value of VIF is less than 10 or 1 / VIF is greater than 0.1, the study found that there is no strong correlation between all predictions. Thus, the

results of the analysis reported that no predictor with linear relationships is found. The VIF shows that there is no difficulty with multicollinearity among the variables in this study, indicating that there is no need to be concerned about the connection between the explanatory variables. Gujarati (2003) and Shan and McIver (2011) both agree that a VIF of less than 10 causes no concern. As a result, the model for industrial sector has no problem with multicollinearity.

Table 3: Variance Inflation factor (VIF)

VARIABLES	Industrial Goods	
	VIF	1/VIF
ACZ	1.25	0.798423
EO	1.16	0.859527
BZ	1.37	0.729619
BND	1.35	0.739362
BD	1.09	0.915725

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CEPA	1.25	0.800330
LN_TA	1.09	0.919503
Tobin's Q	1.05	0.953903
ROA	1.04	0.961538

Source: Author's Computation (2022)

#### 4.4 Descriptive Analysis

The descriptive statistics presents summary of all variables employed in the study for industrial goods. Statistics reported under this section include mean, standard deviation, minimum and maximum of the pooled observations of all variables across unit and time period i.e 13 industrial goods companies over 10 years period spanning 2011 to 2020. Summary of the descriptive statistics is presented in table 4. The minimum value of the variable ROA is 13 percent for industrial goods while the maximum, or largest, value of ROA is 87.000. The arithmetic mean across the observations is the most widely

used measure of central tendency. It is commonly called the average. The descriptive statistics of all the variables was examined; the result showed that average ROA value of 41.7808 for industrial goods companies shows the average return from assets of each firm. This means that every industrial company listed on the Nigerian Stock exchange generates an average profit margin of 42% of the total assets which is a good indicator for industrial markets. For TobinsQ, which shows a value of 4.28 for industrial good companies, which means that the firms worth more than the cost of their assets since their average mean value is greater than 1.

Table 4: Descriptive Statistics for industrial companies

VARIABLES	N	Industrial Goods			
		Mean	Std. Deviation	Minimum	Maximum
ROA	130	41.7808	14.1505	13.0000	87.0000
TOBIN'S Q	130	4.2792	1.4816	1.1899	8.2257
BZ	130	9.2154	2.0192	4.0000	14.0000
BND	130	2.2538	1.0877	0.0000	5.0000
BD	130	1.6385	0.8353	1.0000	3.0000
CEPA	130	3.4154	0.8697	2.0000	5.0000
ACZ	130	3.8000	1.0373	1.0000	6.0000
EO	130	1.7769	0.9087	0.0000	4.0000
LN_TA	130	10.1788	1.2174	7.7444	14.737

Source: Researcher's computation using data extracted from annual reports of Industrial goods companies (2022)

#### Pool OLS Regression for Industrial Goods

Table 5 presents the OLS regression with the coefficients of explanatory variables. The explanatory variables board size, board gender diversity and audit committee size and natural logarithm of total assets exhibit positive coefficients, indicating that these variables possess a positive influence on financial performance of selected industrial goods measured by return on assets. Of all these variables, only the board size is statistically

significant at 5 percent level. The negative coefficients of board independence, CEO pay slice and equity ownership of -15.3735, -57.8692 and -2.23094 indicating that for every unit increase in all these variables, return on assets reduces by the same amount. Of these variables, only the board independence is statistically significant.

The positive coefficient of LN\_TA, which is statistically insignificant at 5 percent level indicating that the size has a positive effect on

return on asset. This brings out the question about size of large companies in industrial service sector in Nigeria as to whether the board reduces the size to derive personal benefits for the manager. The positive coefficients of board size,

board independence, board gender diversity, audit committee size and natural logarithm of total assets indicating that corporate governance practices in these industries contribute positively towards return on asset.

*Table 5: Pooled OLS Parameter Estimates (Industrial Goods- ROA) Series: ROA BDSZ BIND BGD CEPS ADCZ EQO LN\_TA*

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	-1037078	87.0693	-1.19	0.236
BZ	11.9466	4.13128	2.89	0.003*
BND	-15.3735	7.66441	-2.01	0.047
BD	2.95638	12.9687	-0.23	0.820
CEP	-57.8692	160.6145	-0.36	0.719
ACZ	5.19638	8.286813	0.63	0.532
EO	-2.23094	8.703166	-0.26	0.798
LN_TA	4.01948	6.52527	0.62	0.539
<i>R-square = 0.4986, Adjusted R-square = 0.4233, F-statistics = 1.59, Prob(F-stat) = 0.0340</i>				

Source: Field Survey, 2022

Table 6 presents the OLS regression with the coefficients of explanatory variables for industrial goods companies (Tobin's Q as a measure of performance). The explanatory variables board size, board independence, board gender diversity, CEO pay slice and natural logarithm of total assets (firm size) exhibit negative coefficients, indicating that these variables possess a negative influence on financial performance of selected industrial goods measured by Tobin's Q. Of all these variables, the board independence and audit committee size are statistically significant at 5 percent level. The negative coefficients of board size, board independence, board gender diversity, CEO pay slice and natural logarithm of total assets of -0.40822, --8.889663, -89.43894 and -4.45602 indicating that for every unit increase in all these variables, Tobin's Q reduces by the same amount. The negative coefficient of LN\_TA, which is statistically insignificant at 5 percent level indicating that the size has a positive effect on

TobinsQ. This brings out the question about size of large companies in manufacturing sector in Nigeria as to whether the board increase the size to derive personal benefits for the manager. The positive coefficients of audit committee size and equity ownership of 8.576464 and 4.75654 indicating that corporate governance practices in these industries contribute positively towards TobinsQ. R-square statistics reported in table 4.11 stood at 0.1997 which implies that about 20% of the systematic variation in TobinsQ can be jointly explained by corporate governance variables including board size, board independence, board gender diversity, CEO pay slice, audit committee size, equity ownership and natural logarithm of total assets. F-statistics reported in table 4.11 stood at 4.35 alongside probability value of 0.0002 which authenticate the significance of the joint influence of corporate governance variables on financial performance of industrial goods companies measured in terms of TobinsQ

*Table 6: Pooled OLS Parameter Estimates (Industrial Goods-TobinsQ) Series: TOBIN'S Q BDSZ BIND BGD CEPS ADCZ EQO LN\_TA*

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	3.369949	42.63672	0.08	0.937
BZ	-0.4082208	2.023036	-0.20	0.840
BND	-8.889663	3.753161	-2.37	0.019*
BD	-89.43894	78.65084	-1.14	0.258

<b>CEPA</b>	-89.43894	78.65084	1.23	0.134
<b>ACZ</b>	8.576642	4.057946	2.11	0.037*
<b>EO</b>	4.756942	4.261829	1.12	0.267
<b>LN_TA</b>	-4.456015	3.195341	-1.39	0.166
<i>R-square= 0.5997, Adjusted R-square=0.4988, F-statistics= 4.35, Prob(F-stat)=0.0002</i>				

Source: Field Survey, 2022

*Examining the effects of board characteristics on financial Performance of Selected Industrial goods company in Nigeria*

Table 7 showed the results of the fixed effect and GLS random effect estimation of Pooled OLS. The result of the estimation can only be reported but the more appropriate model can be achieved through the Hausman test of significance value. The result showed that the coefficient of board size is positive and statistically significant at the

level of 5% in case of ROA. The result reported an R-square value of 0.2650, which connote that about 27% of the systematic variation in return on asset of selected industrial goods companies can be explained by variation in corporate governance mechanisms included in the study. This shows that very small of the variation was explained by the joint explanatory variables. The result of random effect estimation also shows similar effect and the reported R-square value of 0.2650.

**Table 7:** Fixed Effect and Random Effect (Industrial Goods Companies- ROA)

Variable	Fixed Effect Model				Random Effect Model			
	Coefficient	Standard Error	T-Test Values	Probability	Coefficient	Standard Error	T-Test Values	Probability
C	-123.2219	89.87255	-1.37	0.173	-111.34	87.09144	-1.28	0.201
BZ	12.04402	.425344	-1.86	0.005*	11.9658	4.115791	2.91	0.004*
BND	-14.42488	7.760997	0.10	0.066	-14.97157	7.585778	-1.97	0.048*
BD	1.280499	13.21933	-0.45	0.923	2.31584	12.86796	0.18	0.015
CEPA	-74.26902	166.3979	0.78	0.656	-63.94794	160.4253	-0.40	0.690
ACZ	-6.53284	8.378805	-0.57	0.437	5.729888	8.196719	0.70	0.485
EO	-5.0983	8.998904	0.88	0.572	-3.356943	8.684115	-0.39	0.699
LN_TA	5.930198	6.740979	-1.37	0.381	4.769854	6.51039	0.73	0.464
<i>R-square= 0.3419, Adjusted R-square=0.3217, F-statistics= 2.67, Prob(F-stat)=0.0136</i>					<i>R-square= 0.2650, Adjusted R-square=0.2172, F-statistics= 2.95, Prob(F-stat)=0.0072, Wald chi2(7)=30.44</i>			
Hausman test chi2(7)=3.09, Prbo>chi2 = 0.8764								

Source: Field Survey, 2022

Table 8 reported the coefficient estimates of the of both fixed and random effect for industrial goods. Table 8 reported coefficient estimates of .2027118, .9.16517, 27.6694, -101.0293, 8.79362, 3.95954, -4.03766 for BZ, BND, BD, CEPA, ACZ, EO and LN\_TA for industrial goods using TobinsQ as metrics for financial performance under industrial goods. The result revealed that only the board gender diversity is positive and statistically significant at 5% level of significance. The result reported an R-square value of 0.2941 which connote that about 29% of the systematic variation in return on asset of selected industrial goods companies can be explained by variation in

corporate governance mechanisms included in the study. This shows that not much of the variation was explained by the joint explanatory variables.

Random effect model showed coefficients estimates of 0.408221, -8.8897, 28.1826, -89.4394, 8.57664, 4.75694, -4.45602 for BZ, BND, BD, CEPA, ACZ, EO and LN\_TA using TobinsQ as metrics for financial performance under industrial goods. The result reported an R-square value of 0.2650, which connote that about 27% of the systematic variation in Tobin's Q of selected industrial goods companies can be explained by variation in corporate governance mechanisms included in the study. This shows

that not much of the variation was explained by the joint explanatory variables.

*Table 8: Fixed Effect and Random Effect (Industrial goods-TobinsQ)*

Fixed Effect Model					Random Effect Model			
Dependent variables (Tobin's Q)					Dependent variables (Tobin's Q)			
Variable	Coefficient	Standard Error	T-test Values	Probability	Coefficient	Standard Error	T-test Values	Probability
<b>C</b>	-3.772148	44.85445	-0.08	0.933	3.369949	42.63672	0.08	0.937
<b>BZ</b>	.2027118	2.122846	0.10	0.924	-0.4082208	2.023036	-0.20	0.840
<b>BND</b>	-9.165165	3.873432	-2.37	0.020	-8.889663	3.753161	-2.37	0.018*
<b>BD</b>	27.66936	6.59763	4.19	0.000	28.18257	6.350585	4.44	0.000*
<b>CEPA</b>	-101.0293	83.04745	-1.22	0.226	-89.43894	78.65084	-1.14	0.255
<b>ACZ</b>	8.793615	4.181774	2.10	0.038	8.576642	4.057946	2.11	0.037*
<b>EO</b>	3.959539	4.491258	0.88	0.380	4.756942	4.261829	1.12	0.264
<b>LN TA</b>	-4.037662	3.364352	-1.20	0.233	-4.456015	3.195341	-1.39	0.163
<i>R-square= 0.2941, Adjusted R-square=0.2503, F-statistics= 6.72, Prob(F-stat)=0.0000</i>					<i>R-square= 0.2650, Prob(F-stat)=0.0001, Wald chi2(7)=30.44</i>			
<i>Hausman Test: chi2(7)= 1.61 Prob&gt;chi2 = 0.9783</i>								

## V. DISCUSSION OF FINDINGS

Table 7 reported that board size and board independence exert a positive significant influence on performance measured in terms of return on assets while in table 8, performance measured in terms of Tobins Q tend to increase by 28.18257 and 8.576642 for every one percent increase in the board independence and audit committee size for industrial goods. The participation of seasoned audit committee members will help to decrease financial mismanagement and improve quality oversight. As a result, having experienced audit committee members should be a top priority for industrial firms. The discovery made in this study about the interrelationship between board qualities, audit committee and performance is in agreement with an evaluation based on a-priori expectation. This finding supports recent findings by Peizhi and Ramzan (2020), Khan and Subhan (2019), Kung and Munyua, (2016), Morellec, Nikolov, and Schurhoff (2012) that board composition has a beneficial impact on a company's financial performance. The result disagreed with the findings of Opanga (2013). Through deductive reasoning, it could be established from this discovery that any industrial firms in the country can maximize their performance by increasing proportion of board size, board independence and board gender diversity sitting on the board.

## VI. CONCLUSION AND RECOMMENDATIONS

From the discoveries made in the study, the findings of Panel regression reported that the board size and board gender diversity have a positive and significant effect on the accounting-based measure of performance of industrial firms. While in the case of market-based measure of performance, board independence, board gender diversity and audit committee size are positive and statistically significant. These findings support the agency's assumption that independent directors, carefully selected board members (female board members), and audit committee oversight favourably impacted company performance for industrial goods companies. Certainly, these findings suggest that industrial firms should exercise caution when assembling boards of directors with varied members and incorporating various resources in order to pique directors' interest in the firm's main mission. As a result, industrial firms should devise ways to ensure executive directors' independence, as this will almost result in greater favourable changes in performance than dependent directors.

Overall, the study found a positive and significant relationship of corporate governance structures, comprised of board size, board independence, board gender diversity and audit committee size

with ROA and Tobin's Q for industrial goods companies. Furthermore, it is therefore recommended that industrial firms in the country should put in place strict evaluation mechanism to identify the most appropriate board characteristics that will help to improve performance.

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