

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

This study investigated corporate governance and financial performance of manufacturing firms in Nigeria between 2016 and 2020. In recent times, accounting scandals and failure of many well performing companies owe their root on the absence of good corporate governance. Consequently, auditors, audit committees, shareholders, board members, investors have risen to challenge or reduce the negative effect of bad corporate governance. Based on conclusions, the researcher recommended that Board Size should be structured in line with professional requirements of the industry and other. The recommend the the regulatory body should strengthen the laws guiding the implementation of corporate governance code and practices on how to enhance the financial performance in the manufacturing industry. This can be achieved through improved over-sight functions of the regulators. This will help in checkmating the unethical practices that has bedeviled the industry.

Keywords: Corporate Governance, Financial Performance, Manufacturing Firm

INTRODUCTION

The absence of corporate governance may hinder the attraction of investor's fund by creating a perception of inadequate financial discipline and controls and this may erode investor's confidence. The practice of corporate governance also increases the operational cost of firms as more people are involved in the policy making and management of the organization through different boards and this if not controlled may affect the firms competitiveness. Operational efficiency is achieved when wasteful organizational practices of all kinds are minimized to the possible state. When there is no institutionalized mechanism in the organization that shoulders the responsibility of monitoring cost structure and control, compensation policies and day-today operational processes; it creates room for wastages in form of increased employees idle time, material lost, under-utilization of capacity and improper inventory management. These will create problems that will affect the performance of the organization negatively. The problems of weak or absence of corporate governance as enunciated above ultimately affects the growth of the firms negatively. This is because corporate growth is only possible when the firms makes reasonable profit and efficiently satisfy various stakeholders' interest.

Davidson and Rowe (2004) developed a theory of the on-board endogeneity of board Size and financial performance. Inner-temporary endogeneity is the idea that board Size at one time affects the financial performance of financial results in later periods, and financial performance in one period affects board composition in later periods. Thus, board Size and financial performance influence each other, but the effect is slowing down.

In their studies on corporate governance practices and manufacturing company performance in Kuwait, et al (2013) found that corporate governance practices influence corporate performance, using Board Independence, ownership concentration, duality of CEO and audit fees as the factors that analyzed the study's corporate governance practices. Previous research Marxioli and Selvam (2013) also demonstrate a substantial relationship between these variables and the dimension of firm earnings per share and other efficiency metrics. In his review of corporate governance practices and manufacturing company success in Nigeria, Uwuigbe (2011) also maintains that

effective corporate governance practices have been prioritized over time by companies in developed countries, while their significance has not been given to corporate governance practices of companies in emerging economies.

Previous studies on corporate governance (Yusuf, et al (2016), Weisbach & Hermalin (2002), Famogbiele (2012), Famogbiele (2012), Babatunde & Olaniran, (2009), Houda, et al (2016), Mihai and Mihai (2018).) have looked at corporate governance with different dimensions and in different time, These studies created research gap both in terms of variables and time of which this current study attempts to fill, it is looking at how corporate governance in terms of board size and audit committee size affects financial performance in terms of return on asset and earning per share of food and beverage manufacturing firms in Nigeria within the periods of 2016 and 2020.

Aim and Objectives of the Study

The main aim of this study was to determine the relationship between corporate governance and financial performance of food and beverage manufacturing firms in Nigeria between 2016 and 2020. Other specific objectives are- to

1. Access the effect of Board composition on Return on Assets of food and beverage manufacturing firms in Nigeria.
2. Investigate the effect of Board composition on Earnings per share of food and beverage manufacturing firms in Nigeria.
3. Ascertain the effect of Audit Committee Size and Return on Asset of food and beverage manufacturing firms in Nigeria.
4. Investigate the effect of Audit Committee Size and Earnings per share of food and beverage manufacturing firms in Nigeria.

Concept of Corporate Governance

Corporate Governance According to the Organization of Economic Cooperation and Development-OECD (2005), is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the major stakeholders/participants in the corporation, such as the board, managers, shareholders and even the other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance. Securities and Exchange Board (2003) defines corporate governance as the acceptance by management, of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company. According to Ammar, et al (2013), Corporate Governance is a mechanism through which management takes necessary steps to safeguard the interest of stakeholders. It is also the framework within which rules, relationships, systems and processes are controlled (Osundina et al 2016). Stability and good management can be achieved when firms incorporate corporate governance which is all about complying with stipulated standards, rules and regulations. Sound corporate governance increases the efficiency and value of a firm on the capital market rather than pulling it down and boost the confidence of all stakeholders.

Good corporate governance enhances accountability, transparency, ensures efficient and effective use of limited resources, creates competitive and efficient managed companies, attracts and retains investors (Arinze, 2013). Efficient and effective corporate governance leads to satisfaction of employees and consumers. It ensures financial reports reliability and efficient use of resources thereby increasing the reputational effects among internal and external stakeholders. According to Dar, et al (2011), corporate governance reduces transaction cost, cost of capital and vulnerability of financial crises. It leads to the increment of shareholders wealth, survival of companies in turbulent periods, development of capital market and strengthens the global

economy. Effective and Efficient Performance Profitability is a measure of performance and it defines how well a firm has judiciously utilized the available limited resources in all its operations; however, profitability is only a means to an end. Yusuf, et al (2016) see profit as the rallying point of all stakeholders. According to them, performance of the firm guarantees the payment of dividend, interest, wages, and taxes of shareholders, lenders, employees and government respectively. Therefore, good corporate governance increases performance (Osundina, et al 2016, Dar et al 2011) and ensures a firm's commitment to all its stakeholders are met and which invariably increases the firm's accessibility to funds, reduces financial crises and engenders sustainable economic growth. To this extent, the ultimate objective of a firm has been reasonably argued as not the welfare of the owners/ shareholders but effective and efficient corporate performance which meets and satisfies the needs and intents of all stakeholders, as any breach and or deviation could be disastrous to the profitability and eventually the corporate goal.

Corporate Governance Structure a business organization has the responsibility to satisfy the need of stakeholders who affect or get affected by the actions of the company. Dar et al, (2011) made it known that there are internal stakeholders (board of directors, executives and employees) and external stakeholders (shareholders, debt holders, trade creditors, suppliers, customers, government and communities). The shareholders as one of the stakeholders play a vital role in the organization as the owners and key financiers of the company. Debenture holders are creditors because funds are borrowed from them. They receive priority interest on the principal at regular intervals from the company and at a fixed period; the principal shall be repaid or converted as the case maybe. There are certain rights which the shareholders have that debt holders cannot exercise such as taking major decisions in fundamental corporate changes, involvement in the election and removal of certain officers that manage and control the organization. Still, the debt holders are the first to be paid their interest before the shareholders can receive their return.

Principles of Corporate Governance

Pandey (2018) opines that good corporate governance requires companies to adopt practices and policies which comprise performance, accountability, effective management control by the board of directors, constitution of board committee as part of professionally qualified, non-executive and independent directors on the board, the adequate timely disclosure of information and the prompt discharge of statutory duties. Chris (2006) sees key elements of good corporate governance principle to include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect and commitment to the organization. Of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically especially concerning actual or apparent conflict of interest and disclosure in financial report.

The Organization for Economic Cooperation and Development (OECD) put forward a set of international principles of corporate governance. These principles were developed both in response to growing recognition of the importance of governance to enterprise performance and to the spate of recent corporate failures in the world. The OECD principles are organized under five headings, namely The rights of shareholders, equitable treatment of shareholders, the role of stakeholders, Disclosure and transparency; and the responsibilities of the board.

This principle deals with the rights of shareholders. It concerns the protection of shareholders' rights and the ability of shareholders to influence the behavior of the corporation. The basic shareholders' rights include the right to Secure methods of ownership registration; Convey or transfer share; Obtain relevant information on the corporation on the timely and regular basis; Participate and vote in general shareholder meetings; Elect members of the board; and Share in the profits of the corporation.

Fredrick (1999) noted that while these rights are important to good corporate governance, it must be noted that extensive rights in and of themselves are not equivalent to good governance.

This principles emphasizes that all shareholders, including foreign shareholders, should be treated fairly by controlling shareholders, boards and management. This principle calls for transparency with respect to the distribution of voting rights and the ways in which voting rights are exercised. The high points of the principles include All shareholders of the same class should be treated equally. Insider trading and abusive self-dealing should be prohibited; Members of the board and management should be required to disclose any materials interests in transactions or matters affecting the corporation.

Challenges and Weaknesses of Corporate Governance in Companies in Nigeria.

- (1) Disagreement between board and management giving rise to board squabble
- (2) Ineffective board oversight function.
- (3) Overbearing influences of chairman on MD/CEO.
- (4) Weak internal controls
- (5) Non- compliance with laid down internal controls and opinion procedures.
- (6) Passive shareholders.
- (7) Sit tight directors- even when such directors fail to make meaningful contribution to the growth and development of the organization.
- (8) Inability to plan and respond to changing business circumstances.
- (9) Succumbing to pressure from other stakeholders e.g. appetite for high dividend. (10) Ineffective management information system.
- (11) Establishing Codes

There is a popular saying that where there is no law, there is no offence. For most institutions and professional bodies in Nigeria, it is either that there is no codes of conduct or the codes are not being followed. Therefore, the first challenge is ensuring good start from taking appropriate steps to ensure that a code that will guide stakeholders is put in place.

The challenge of enlightenment There is the need for mass enlightenment on corporate governance. In this part of the world corporate governance is relatively a new concept and even some company directors are not fully aware of the onerous responsibilities of a director.

Corporate Governance Mechanisms

According to Denis (2001), corporate governance encompasses the set of institutional and market mechanisms that induce self-interested managers to maximize the value of the residual cash flows of the firm on behalf of their shareholders. I highlight seven main ways to mitigate agency problems elaborated in McColgan (2001), these are corporate boards, corporate financial policy, block holders and institutional investors, managerial remuneration, managerial ownership, the managerial labor market and the market for corporate control. The first five mechanisms can be categorized as internal control mechanisms while the latter two are external control mechanisms. To be effective, a governance mechanism must narrow the gap between the interests of manager and investors, and have a significant and positive effect on corporate performance and value (Denis, 2001).

Financial Performance

Companies need to profit from their activities in order to survive and grow over a long period of time. Company performance, according to Kajola (2008), is an essential concept that connotes the way in which a company's financial resources are used prudently to achieve its overall goal. Pandey (2018) stated that it is necessary to earn sufficient profits to maintain the operation of the company, to be able to obtain funds from investors for growth and growth, and to contribute to social overheads for the welfare of society.

The word performance is derived from the word parfourmen, meaning to do to perform, or to render. It relates to the act of performing; execution, achievement, fulfillment, etc. Performance in the border sense refers to the performance of a given task measured against current standards

of accuracy, completeness, cost and speed. It refers, in other words, to the degree to which an accomplishment is or has been achieved. In Kohlar's words, performance is a general term used to refer to a part or all of an organization's activities over a period of time, often with reference to past or projected cost efficiency, responsibility for management or accountability or the like. Thus, not only the presentation, but the performance refers to the quality of the results achieved. Performance is used to indicate the success, circumstances and compliance of the company.

Therefore, financial performance refers to the act of conducting financial activity. Financial performance, in a broader sense, refers to the degree to which financial goals are or have been achieved. It is the process of measuring in monetary terms the results of the policies and operations of a company. Financial performance measures the overall financial health of the company over a given period of time and can also be used to compare similar companies in the same sector or to compare aggregate industries or sectors, Kohlar (2015).

Financial performance is a subjective measure of how well a company can use assets and generate revenues from its primary mode of business. This term is often used over a given period of time as a general measure of the overall financial health of a business, and can be used to compare similar companies in the same industry or to compare aggregated industries or sectors.

The Stakeholder Theory

The stakeholder theory developed and championed by R. Edward Freeman in the 1980s. The stakeholder model takes a broader view of the firm. According to the traditional stakeholder model, the corporation is responsible to a wider constituency of stakeholders other than shareholders. Other stakeholders may include contractual partners such as employees, suppliers, customers, creditors, and social constituents such as members of the community in which the firm is located, environmental interests, local and national governments, and society at large (Blair, 1995). This view holds that corporations should be socially responsible institutions, managed in the public interest. According to this model performance is judged by a wider constituency interested in employment, market share, and growth in trading relations with suppliers and purchasers, as well as financial performance. The problem with the traditional stakeholder model of the firm is that it is difficult, if not impossible, to ensure that corporations fulfill these wider objectives.

Blair (1995) states the arguments against this point of view. The idea failed to give clear guidance to help managers and directors set priorities and decide among competing socially beneficial uses of corporate resources, and provided no obvious enforcement mechanisms to ensure that corporations live up to their social obligations. As a result of these deficiencies, few academics, policymakers, or other proponents of corporate governance reforms still espouse this model. However, given the potential consequences of corporate governance for economic performance, the notion that corporations have responsibilities to parties other than shareholders merits consideration. What matters is the impact that various stakeholders can have on the behavior and performance of the firm and on economic growth. Any assessment of the implications of corporate governance on economic performance must consider the incentives and disincentives faced by all participants who potentially contribute to firm performance. With this in mind, the stakeholder model has recently been redefined; where the emphasis has been to more narrowly define what constitutes a stakeholder. Therefore, the new stakeholder model specifically defines stakeholders to be those actors who have contributed firm specific assets, see Blair (1995). This redefinition of the stakeholder model is also consistent with both the transaction costs and incomplete contract theories of the firm in which the firm can be viewed as a nexus of contracts, see Aoki, et al (1990). The best firms according to the new stakeholder model are ones with committed suppliers, customers, and employees. This new stakeholder approach is, therefore, a natural extension of the shareholder model. For example, whenever firm-specific investments need to be made, the performance of the firm will depend upon contributions from various resource providers of human and physical capital. It is often the case that the competitiveness and ultimate success of the firm will be the result of teamwork that embodies contributions from a range of different resource

providers including investors, employees, creditors, and suppliers. Therefore, it is in the interest of the shareholders to take account of other stakeholders, and to promote the development of long term relations, trust, and commitment amongst various stakeholders (see Mayer, 1996).

Empirical Review

The empirical literature shows that a lot of studies try to measure the corporate governance influence on firm performance.

Mubarak (2018) conducted research in the Nigerian chemical and paint industry to analyze the impact of corporate governance on financial reporting standards. The importance of corporate governance in the Nigerian chemical and paint sector cannot be overstated. It includes management's administrative success in producing stable and growing financial results in this industry. The purpose of this research is to look into the impact of corporate governance on the financial reporting standards in the Nigerian chemical and paint industries. The total number of firms registered on the Nigeria Stock Exchange as of December 2013 is used as a population, with a sample of four (4) companies chosen across a five-year period (i.e. 2009-2013). The data was gathered from secondary sources, such as the companies' annual reports and accounts, as well as the correlation and regression data studied. In the Nigerian chemical and paint business, the study found that the size and independence of the board had no effect on the quality of financial reporting, and that the engagement of non-executive directors in the company audit committee had no effect on the quality of financial reporting.

Muath, et al. (2018) looked at the impact of corporate governance arrangements on disclosure standards in companies listed on the Palestine Exchange. For decision-making stakeholders, financial reports are the most essential source of accounting information, and poor financial reporting can lead to poor decision-making. Corporate governance, as measured by unequal accruals, is critical to the transparency requirement. The corporate governance variables investigated in the report were board size, board ownership, board compensation, position duality, number of board meetings, audit committee size, and auditor form. The research looked at the substance of annual reports for companies listed on the Palestine Exchange for ten years, from 2005 to 2016. Panel data has been used by the researchers over the past twelve years since it provides more detailed information, greater variability, less collinearity, more degrees of freedom, and higher quality. The study found that while board size, board ownership, and auditor form all have a favorable influence on disclosure quality, position duality, board salary, and audit committee size all had a negative impact. The study was significant for Palestinians since it improved the uniformity of the corporations' disclosure.

Chinedu and Chidoziem (2017) conducted research to determine the impact of audit firm characteristics on the financial performance of Nigerian deposit money institutions. The analysis will look at the impact of audit efficiency, audit fees, and audit report latency on the assets of Nigerian banks. Assess the impact of the audit standard, audit charge, and audit report latency on Nigerian banks' earnings per share. Finally, look into the impact of audit quality, audit charge, and audit report lag on Nigerian banks' net profit margins. The review used an ex post facto and correlational analysis design. At the end of the 2015 financial year, the sample population included all extant deposit money banks in Nigeria. The study discovered that audit efficiency had a substantial impact on Nigerian banks' return on assets; however, the audit fee and audit report lag had no significant impact on the return on assets, earnings per share, or net profit margin of Nigerian banks. As a result, the study suggests that mandatory auditor rotation be implemented as a key factor in ensuring auditor independence and improving audit quality, as well as the establishment of corporate governance standards that address issues such as board independence and committee sizes in order to guide banking sector activities.

Kajola (2008) investigated the relationship between indicators of corporate governance (board size, board composition, chief executive status and audit committee) and performance which are proxies with return on equity and profit margin. He sampled 20 Nigerian listed firms from periods 2000 to 2006 and adopted panel data methodology and OLS to analyze. Results found proved a positive significant relationship between ROE and board size and chief executive status; positive relationship between profit margin and chief executive status; and insignificant relationship between the two performance ratio, board composition and audit committee. Utilizing the regression method,

Ammar et al (2013) from a sample of 160 firms in the Karachi Stock Exchange (KSE) for periods 2007 to 2011 gathered that there exist a positive association between board size and firm performance while a negative relationship existed between nonexecutive directors' percentage, chief executive officer duality and performance.

Osundina et al (2016) studied the relationship between corporate governance measured by board structure index, ownership structure index and audit committee index and performance measured by ROA of selected Nigerian manufacturing companies. The study adopted ex-post facto research design and 30 sampled companies were investigated from period 2010 to 2014. Results indicated that board Elects Owns Stake in Shareholders Management

Thuraisingam (2013) in the study of the relationship between corporate governance and company performance of financial service industry with a sample of 33 banks listed in the CSE of Sri Lanka from year 2008 to 2011 and adopting simple linear regression model, discovered an insignificant association between board size, board composition, audit committee (measures of corporate governance) and measures of performance i.e. ROA and ROE. Ibrahim and Abdul-Samad (2011) looked at the relationship of corporate governance mechanism and performance between family and non-family ownership of public listed firm in Malaysia from 1999 through 2005 as measured by Tobin's Q, ROA and ROE. Results revealed that family ownership experiences higher value than non-family ownership based on ROE.

Xavier et al (2015) had a study on the effect of corporate governance measured by board size, CEO duality, institutional ownership and board composition on financial performance of commercial banks in Rwanda. With a sample of 92 senior managers and a descriptive research design, findings revealed that board size, board composition, CEO duality and institution ownership have no effect on performance. It was recommended that the regulatory body of commercial banks in Rwanda is to provide guidance on the use of corporate governance practices which may impact positively the financial performance of commercial banks.

Yermack (2013) studied higher market valuation of companies with a small board of directors in United States. A sample size of 452 large U.S industrial corporations between 1984 and 1991 was used. The study used correlation and regression analysis to estimate the relationship between board size and performance of firms, using Tobin's Q as proxy for performance. The result shows a negative correlation between board size and profitability. More so, Vincent and Nicole (2017) examined the relationship between firm performance and board characteristics in Ireland. Sample size of 77 firms listed on Irish Stock Exchange at the end of December 2001. The results showed that board size exhibits a significant negative association with firm performance, and a positive and significant association between firm performance and the percentage of non-executives on the board.

CONCLUSION

Based on the findings, the study concludes that; board size has no significant relationship with Earnings per share. Likewise, there is no significant relationship between board size and Return on Assets. The study also revealed that audit committee size has no significant relationship with earnings per share. The study also revealed that there is no significant relationship between audit committee size and Return on Assets. This is also in line with the findings of (Laith 2015), in his study the role of audit committee and external audit in enhancing

companies' profitability.

RECOMMENDATIONS

Based on the findings of this study and the conclusion drawn thereof, we specifically make the following recommendations

1. The regulatory body should strengthen the laws guiding the implementation of corporate governance code and practices on how to enhance the financial performance in the manufacturing industry. This can be achieved through improved over-sight functions of the regulators. This will help in checkmating the unethical practices that has bedeviled the industry.
2. The study further recommend that audit committee be made truly independence of the executive and more oversight functions be given to the committee to oversee the financial activities of the firms. This will reduced, if not eliminate the poor financial and corporate management problems faced by the industry.
3. Board size should be structured in line with professional requirements of the industry.
4. The manufacutering sector should promote its audit committee meeting frequency so as to improve independent auditors' tenure in subsequent financial reporting periods

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