



RESEARCH ARTICLE

THE INFLUENCE OF BOARD INVOLVEMENT ON PRICE EARNING: EVIDENCE FROM NIGERIA

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ABSTRACT

Investigation on the influence of board involvement on price earning was carried out using both the correlation and the multiple regression models to analyze publicly available data for a sample of 69 firms from 11 sectors quoted in the Nigerian Stock Exchange for the fiscal year 2011. This indicates that the research made use of cross sectional data. Several diagnostic tests have been applied to justify the validity of the results. The empirical investigations reveal that directors' shareholdings, firm's age and firm's leverage are significant. Good corporate governance standards are very essential to every organization and should be encouraged and practiced for the interest of the investors, shareholders and other stakeholders. From a developing economy, this paper is the first of its kind and offers evidence on the influence of board involvement on price earning. This research provides useful information that is of great value to policy makers, academia, corporate firms and other stakeholders.

INTRODUCTION

Though corporate governance can mean different things to different companies, but irrespective of these differences, there is one common central theme binding these differences, that central theme is "The Proper Management of the Company". Board strategic involvement may also occur outside of formal meetings via informal advising or social ties between individual directors and the CEO, familial interactions between the CEO and relatives who serve on the board, and contributions by inside directors in their role as managerial employees (Fiegener, 2005). The importance of corporate governance cannot be overemphasized. Such importance is seen in the protection of the overall interests of corporate stakeholders, in such a way as to increase the level of trusts and confidence investors and financiers have on the company (Wickramasinghe, 2006), thereby creating a market for verifiable information to all stakeholders. The board of directors, which has the power to hire, fire, and compensates senior management teams, serves to resolve conflicts of interest among decision makers and residual risk bearers. This economizes the transaction (agency) costs associated with the separation (specialization) of ownership and control and facilitates the survival of the open corporation as an organizational form (Baysinger and Butler, 1985). The board uses information from each of the top managers about his decision initiatives and the performance of other managers (Fama and Jensen, 1983).

It should be noted that board of directors play a central role in corporate governance (Chen and Wu, 2016); such focal role is the monitoring of management activities. The board is meant to meet often to discuss matters important for the company, perform checks and balances, and ensure that effective control systems are in place to avoid malpractice by managers and other employees. Thus, any failure of the board not getting fully involved in the matters that concern the company progress will bring about failure on the company's performance.

1.Literature Review

Since 1970's the issue of corporate governance has been the subject of significant debate in the US and all over the world (Afolabi, 2015). Poor corporate governance has been the downfall of many corporations in both developed and developing nations (Okike, 2007). This is a fact statement. Even though Nigeria experienced some corporate failures, it is not still limited to Nigeria and other developing countries. As it can be seen below, evidences of Okike's point that poor corporate governance also affected the developed countries.

Failure in corporate governance leads to failure in financial reporting. This is evidenced in the cases of Perwaja Steel, Technology Resources Industries (TRI), Transmile, Megan, Malaysian Airlines System (MAS), Port Klang Free Zone (PKFZ), Enron and WorldCom (WC) (Norwani, Mohamad and Chek, 2011). The recent financial turmoil in Asia in the late 1990s and the massive collapse of Enron and WorldCom in early 2000s made shareholders and governments to develop interest in corporate governance (Norwani, Mohamad and

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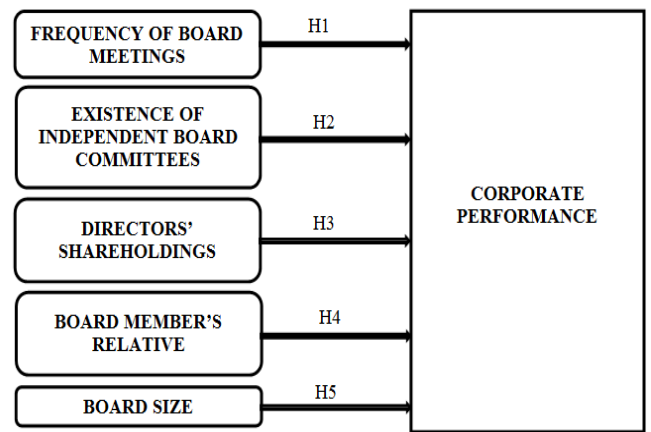
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Chek, 2011;Afolabi, 2015; Ehikioya, 2009; Senaratne and Gunaratne, 2008; Jackling and Johl, 2010; Agyemang and Castellini, 2013; Carver, 2010), which brought about Sabaness-Oxly Act of 2002. This Sabaness-Oxly Act of 2002 was enacted in order to protect shareholders, investors, and other stakeholders from fraudulent people, and also to act as guidelines to board members (He and Sommer, 2006). Corporate scandals in the global capital markets have elicited vigorous debate on corporate governance (Anderson, Melanson and Maly, 2007). Most importantly, fund managers are themselves agents whose interests are not aligned with their own investors (Marks, 1999). This is one of the major reasons why such managers are involved in the corporate scandals. This is in line with agency theory, where the principal is the shareholder and the agent is the manager. In order to gain agent’s (manager’s) commitment to achieve the goals set by the principal (owner) and to promote goal congruent behavior, agents need to be given additional incentives over and above his/her basic remuneration.

On the other hand, Agrawal and Knoeber (1996) argued that agency problems arise within a firm whenever managers have incentives to pursue their own interests at shareholders expense. In situation like this, the board has to monitor such managers in order to protect the interests of the shareholders (Fama and Jensen, 1983). Furthermore, Dogan and Smyth (2002) made it clear that it is the board as a whole rather than the highest paid director that can be best regarded as the shareholders’ agent. This is supported by Carver (2010) who said that the board should be the most vigorous shareholder activist in sight. This is true because if anything goes wrong in the company, the board is to be held responsible because they are the direct recipient of owners’ authority vested with the responsibility for managing the firm and its activities (Carver, 2010).

From an agency theory perspective, a supervisory board should be dominated by independent non-executive members in order to generate effective monitoring of executives (Ramdani and Witteloostuijn, 2010). This argument is valid because, the impact of CEO duality depending on the firm simply means that in a company where there is CEO duality, the firm should ensure that there should be a strong independent element that will be the vice chairman that will help monitor the activities of the CEO in order to ensure that the CEO duality has impact on the firm (Iyengar and Zampelli, 2009). Dharmadasa, Premarthne and Hearth (2014) made this point clear by saying that CEO duality has no influence on firm performance. Furthermore, due to the fact that the non-executive members are not involved in management, makes them to be unbiased and best tools in the monitoring process (Senaratne and Gunaratne, 2008).

Firm’s age is measured as the number of years since its establishment (Ehikioya, 2009; Nwokwu, Dharmadasa, and Rathnasingha, 2018); firm’s size is the total assets of the firm, measured as the natural logarithm of total assets (Azeez, 2015; Ehikioya, 2009; Nwokwu, Dharmadasa, and Rathnasingha, 2018); board skills is measured as the number of board members with degree/qualification (Ehikioya, 2009; Nwokwu, Dharmadasa, and Rathnasingha, 2018); firm’s leverage is measured as the total liabilities divided by total assets (Azeez, 2015; Ehikioya, 2009; Nwokwu, Dharmadasa, and Rathnasingha, 2018).



Source: Researcher’s Construction.

Figure 2.1. Research Framework

- H1:** Frequency of board meetings is associated with corporate performance.
 - H2:** Independent board committees are associated with corporate performance.
 - H3:** Directors’ Shareholding is associated with corporate performance.
 - H4:** Board Members’ Relatives is associated with corporate performance.
 - H5:** Board’s size is associated with corporate performance.
- PE** is measured as Price per Share (PPS) divided by Earnings per Share (EPS) (Ehikioya, 2009).

The Model

The multiple regression models are defined by the following equation:

$$PE_i = \alpha_0 + \alpha_1FRE_i + \alpha_2INDBC_i + \alpha_3DSHARE_i + \alpha_4BRELAT_i + \alpha_5BSIZE_i + \alpha_6FAGE_i + \alpha_7FSIZE_i + \alpha_8BSKILL_i + \alpha_9FLEV_i + \mu_i \tag{1}$$

Where:

- PE: Price Earning, that is the performance measure
- FRE: Frequency of Board Meeting
- INDBC: Independent Board Committees
- DSHARE: Directors’ Shareholdings
- BRELAT: Board Members Relatives
- BSIZE: Board Size
- FAGE: Firm Age
- FSIZE: Firm Size
- BSKILL: Board Skills
- FLEV: Firm Leverage
- μ_i : Error Term

The above measure is the proxy for performance.

MATERIALS AND METHODS

The quantitative method has been linked with the empiricist-positivist tradition. It seeks to rely on ‘objective’ data that are verifiable, and does not reflect the subjective value judgments of the researcher or research participants. Because of this commitment to objectivity, numerical or quantifiable data are considered as the most reliable, and therefore truly scientific (Uyangoda, 2015). In this section, the results of the analysis will be interpreted.

Descriptive Statistics

The below table 3.1 is the descriptive statistics for price earning.

Table 3.1. Descriptive Statistics of Corporate Performance

	PE
Mean	3.049710
Median	0.850000
Maximum	25.00000
Minimum	-7.14
Std. Dev.	6.344095
Skewness	2.149528
Kurtosis	7.466032
Jarque-Bera Probability	110.4785 0.000000
Sum	210.4300
Sum Sq. Dev.	2736.833
Observations	69

Source: Author's Construction.

The findings and analysis of the results commenced by examining the data for certain corporate governance variable used in the empirical research. Table 3.1 presents summary of the descriptive statistics of the dependent variable. From the descriptive statistics, PE has a mean of 3.04 and standard deviation of 6.34. Meaning that on the average, the price earning is #3.04k. Descriptive statistics of exogenous variables are provided by table 3.2.

Correlation Analysis

Association of covariate and response variables is given by table 3.3.

According to the correlation analysis, probabilities of the association between FRE and INDBC, FRE and BSKILL, INDBC and BSIZE, INDBC and BSKILL, BSIZE and BSKILL, BSIZE and FLEV, BSKILL and FLEV, DSHARE and PE are all significant at 1% level, while DSHARE and FAGE is having significant association at 5% level. On the other hand, DSHARE and BSIZE, DSHARE and FLEV, BRE and FAGE are marginally having significant association at 10% level. DSHARE is the only independent variable whose hypothesis is accepted because it correlates with PE, while FRE, INDBC, BRE and BSIZE are the stimulus variables whose hypotheses were all rejected as they are not correlated.

Regression Models and Diagnostics Tests

The results of the regression models and diagnostics tests are tested in this section. According to Breusch-Godfrey Serial Correlation LM Test, probability of observed R square is 0.91. This is insignificant at 5%. It indicates that residuals are not correlated over the time or they are independent. This means that residual is independent. Hence, results are valid. Probability of the observed R-square of Breusch-Pagan-Godfrey Heteroskedasticity Test is 0.29. This is insignificant. Therefore, variance of residual is constant. It indicates that residuals are having homoscedasticity. Accordingly, model is appropriate. The researcher tested the parameters stabilization using CUSUM test with respect to 5% level of significance. The curve behaves between the two (2) border lines. This indicates that the parameters (i.e. the constant and the individual beta values) of the regression models are stable.

Accordingly, result is more valid. Furthermore, it also means that the model can be used for prediction because the model is valid.

Effect of Board Involvement on Price Earning (PE)

The effect of board involvement on price earning has been analyzed using multiple regression models. Result is provided by Table 3.6. Probability of F-test statistics is 0.001. This is highly significant at 1% level. Therefore, explanatory variables jointly influence on PE. As the P-value is highly significant, regression model is appropriate. DSHARE is marginally positively significant with PE at 10%. This implies that hypothesis 4 is accepted. The researcher dropped FSIZE because it's perfectly correlated with BSKILLS. Therefore FSIZE is not available in the model, hence, no multicollinearity problem. FRE, INDBC, BRE and BSIZE are insignificant individually but influence jointly on PE. The Durbin Watson test statistics is 2.07. This is between 1.5 and 2.5. Therefore, residuals are independent and the model is more appropriate. Probability of each independent variable is 1.00. They are perfectly insignificant. Therefore, residuals are not correlated with independent variables, and residuals are appropriate.

Discussion of Findings, Conclusion and Recommendations

Using a cross-sectional data regression model on a sample of 69 firms listed in the Nigerian Stock Exchange for the fiscal year 2011. This study has examined the influence of board involvement on corporate performance in sub-Saharan Africa as evidenced by Nigeria. The results recorded that all the hypotheses were rejected except the hypothesis with regard to DSHARE. The results showed adverse effect for frequency of board meetings on firm performance. According to both, resource dependence and agency theories, board members are to have unbiased boardroom meetings with reasonable number of frequency of board meetings in order to avoid external dependences and information asymmetry. These points are consistent with (Vafeas, 1999).

However, having continuous board meetings and not having time to implement what have been discussed is of no use to the firm. Ultimately, the board members should work towards having few board meetings in a financial year and ensure that whatever good decision that has been decided by them should be implemented and importantly give some time to see and know if their decisions and actions are yielding fruits. In as much as frequency of board meeting is necessary for the growth of the company, it should not be done in excess. In other words, board meetings should only be called for when the need arises and not anytime the board members feel like having meeting. The board members should have this in their minds before calling for a board meeting, that among themselves there are independent board committees meetings. And these independent board committees are set up in order to achieve smaller goals which are summed up to be the overall goal of the company. It should be noted that, these goals were delegated by the corporate board among the available independent board committees (Vafeas, 1999). Since these board committees are expected to achieve certain goals, it simply means that they will have their own separate meetings. However, all these should help reduce the frequency of board meetings, because, Kesner (1988) and Klein (1998) suggest that most board activity takes place not during board meetings

Table 3.2. Descriptive Statistics of Board Involvement

	FRE	INDBC	DSHARE	BRE	BSIZE	FAGE	BSKILL	FLEV
Mean	5.289855	3.811594	0.159135	0.173913	9.811594	36.55072	9.739130	0.554220
Median	5.000000	4.000000	0.061600	0.000000	9.000000	32.00000	9.000000	0.520500
Maximum	12.00000	6.000000	0.893500	1.000000	18.00000	117.0000	18.00000	1.521300
Minimum	2.000000	1.000000	0.000300	0.000000	5.000000	5.000000	5.000000	0.063400
Std. Dev.	1.863752	1.101808	0.206456	0.381812	2.936962	23.00865	2.893462	0.275184
Skewness	1.384200	-0.353064	1.457124	1.720618	0.930323	1.107770	1.003356	0.497798
Kurtosis	4.982928	2.990061	4.422937	3.960526	3.322628	4.588135	3.558992	3.550318
Jarque-Bera	33.33862	1.433810	30.23809	36.69856	10.25251	21.36352	12.47566	3.720427
Probability	0.000000	0.488261	0.000000	0.000000	0.005939	0.000023	0.001954	0.155639
Sum	365.0000	263.0000	10.98030	12.00000	677.0000	2522.000	672.0000	38.24120
Sum Sq. Dev.	236.2029	82.55072	2.898444	9.913043	586.5507	35999.07	569.3043	5.149395
Observations	69	69	69	69	69	69	69	69

Source: Author's Construction.

Table 3.3. Correlation Analysis

Correlation Probability									
	FRE	INDBC	DSHARE	BRE	BSIZE	FAGE	BSKILL	FLEV	PE
FRE	1.00								
INDBC	(0.31)***	1.00							
DSHARE	0.03	-0.19	1.00						
BRE	-0.01	-0.03	0.03	1.00					
BSIZE	(0.43)***	(0.34)***	(-0.20)*	-0.05	1.00				
FAGE	0.12	0.08	(-0.26)**	(-0.23)*	0.00	1.00			
BSKILL	(0.34)***	(0.32)***	-0.19	-0.04	(0.98)***	-0.07	1.00		
FLEV	0.17	0.17	(-0.20)*	0.03	(0.36)***	0.20	(0.34)***	1.00	
PE	-0.04	-0.01	(0.36)***	-0.12	-0.03	(-0.36)***	-0.02	(-0.35)***	1.00

Source: Author's Construction.

***, ** and * indicate the significance levels at 0.01, 0.05 and 0.10 respectively.

Table 3.4. Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.074887	Prob. F(2,57)	0.9279
Obs*R-squared	0.180831	Prob. Chi-Square(2)	0.9136

Source: Author's Construction.

Table 3.5. Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.212225	Prob. F(9,59)	0.3051
Obs*R-squared	10.76801	Prob. Chi-Square(9)	0.2919
Scaled explained SS	23.09451	Prob. Chi-Square(9)	0.0060

Source: Author's Construction.

Table 3.6. Individual Effect of Board Involvement on Price Earning (PE)

Dependent Variable: Price Earning (PE)				
Method: Least Squares				
Sample: 1 69				
Included observations: 69				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.163	3.878	0.815	0.418
FRE	-0.214	0.448	-0.478	0.634
INDBC	0.357	0.664	0.537	0.593
DSHARE	6.564	3.643	1.801	(0.077)*
BRE	-2.820	1.802	-1.565	0.123
BSIZE	1.107	1.310	0.845	0.401
FAGE	-0.069	0.034	-2.033	(0.047)**
BSKILL	-0.807	1.281	-0.630	0.531
FLEV	-5.410	2.703	-2.001	(0.050)**
R-squared	0.356	Mean dependent var		3.050
Adjusted R-squared	0.258	S.D. dependent var		6.344
S.E. of regression	5.464	Akaike info criterion		6.368
Sum squared resid	1761.428	Schwarz criterion		6.691
Log likelihood	-209.679	Hannan-Quinn criter.		6.496
F-statistic	3.630	Durbin-Watson stat		2.076
Prob(F-statistic)	0.001			

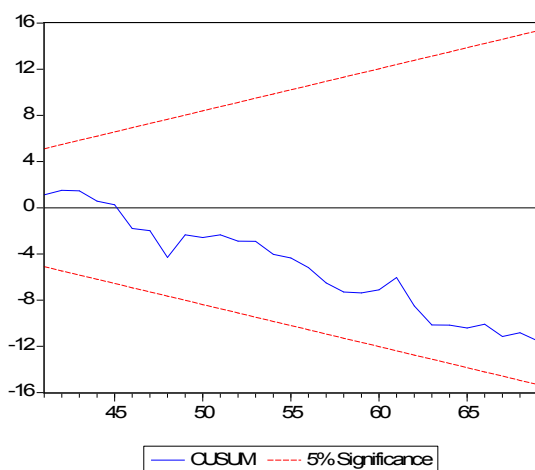
Source: Author's Construction.

***, ** and * indicate the significance levels at 0.01, 0.05 and 0.10 respectivel

Table 3.7. Relationship between Residuals and Explanatory Variables

Sample: 1 69	
Covariance Analysis: Ordinary	
Correlation	
Probability	RESID
FRE	-2.20E-17
P value	1.00
INDBC	-2.52E-16
P value	1.00
DSHARE	1.68E-16
P value	1.00
BRE	-8.07E-17
P value	1.00
BSIZE	6.29E-16
P value	1.00
FAGE	1.36E-16
P value	1.00
BSKILL	-3.97E-16
P value	1.00
FLEV	-1.52E-16
P value	1.00

Source: Author's Construction.



Source: Author's Construction.

Figure 3.1. CUSUM Test

but during committee meetings. In addition, “Monitoring” tasks like auditing and compensation of management are almost exclusively performed by committees. “Advising” tasks are also commonly accomplished through committees (Chen and Wu, 2016; Helland and Sykuta, 2004). In addition, when an organization set up a distinct strategic planning committee of the board, more formality occurred in the development of long-range goals and action plans, as well as in the monitoring of results (Siciliano, 1996). Also the independent board committees help to achieve smaller goals which are summed up to be the overall goal of the company. The result of FRE is not significant with PE. PE has been operationalized with respect to price per share and earnings per share. Accordingly, FRE is not having significant association with price per share and earnings per share. The results of the study have not shown any influence between independent board committees and firm performance. Though, the essence of setting up independent board committees is to encourage specialization and division of labour. But this act can also make board of directors to be too occupied thereby reducing their 100% efficiency and effectiveness, which will on the long run reduce the performance of the company. This result is supported by Chen and Wu (2016).

They argued that board committees can cause information segregation and overloaded directors. Though, independent board committee is an essential variable in corporate governance, the board members should be given some space to carry out their respective duties in order to experience corporate performance, and not be over burdened with frequency of board meetings and independent board committees meetings, if the firm really wants to increase their performance level. The result of INDBC is not significant with PE. Accordingly, INDBC is not having significant association with price per share and earnings per share. There is significant evidence that there is a need to encourage directors’ shareholdings among board members in firms. This can be seen as result of their commitment in protecting the interests of investors, shareholders and other stakeholders by way of monitoring the activities of managers. Furthermore, this will create better incentives for the board members to undertake the monitoring process, and thus lead to superior performance. PE revealed that directors’ shareholding is having marginally positive influence on corporate performance. This implies that an increase in directors’ shareholdings will equally bring about an increase in the performance of the firm; also it means that a decrease in the directors’ shareholdings will also lead to a decline in the company’s performance. As a result, firms should at all times consider the shareholdings of directors in order to achieve performance. DSHARE is positively significant with PE at 10% level. This means that DSHARE is marginally significant with PE. Accordingly, DSHARE is having marginal significant association with price per share and earnings per share.

It’s recommended that Nigeria firms should place directors’ shareholdings as priority when considering any of the corporate governance variables. The reason is that it’s having both individual and jointly influence on PE. It should be noted that DSHARE is the only independent variable that is significant with this measure of performance (PE). In other words, DSHARE is the only independent variable that is having marginal significant association with price per share and earnings per share. Also the hypothesis connected with DSHARE is the only hypothesis accepted in this research. Furthermore, DSHARE is the only independent variable with hypothesis that correlates with PE at 1% significance level. It was also found that firms where a board member has a relative that acts on the same board tend to face challenges in instituting a coherent system of checks and balances, thereby creating the opportunity for some members to manipulate the activities of the board, thereby, leading to low performance (Ehikioya, 2009). These points are consistent with the findings that board members’ relatives on board have no significant effect on performance. It was argued that having more than one relative on same board will adversely affect the performance of the firm. And the results of the analysis supported this argument. This point is supported by Ehikioya (2009), who observed that more than one family member in a board will result to adverse effect. This is true because if more than one family member are in the same board meeting, and they are not at peace with each other in the family, they might bring in the family grievances into the board meeting, and this will cause disagreement and disunity among board members. On the other hand, they can be at peace with each other, and they might use the unity existing among them to satisfy their greed by embezzling the company’s money. From the above examples illustrated, it can be vividly seen that both scenarios do not favour the company, and as such will adversely affect

the corporate performance of the firm. The result of BRE is not significant with PE. Accordingly, BRE is not having significant association with price per share and earnings per share. The regression model reveals that board members relatives on same board have an adverse effect on performance. On this note, the practice of having board members relatives on same board should be discouraged. The analysis proves that, board size is not significant with PE. The result of BSIZE is not significant with PE. Accordingly, BSIZE is not having significant association with price per share and earnings per share. Firm's age is having negative effect on corporate performance at 5% level with PE. The negative significant effect also means that as firm age decreases, firm performance will increase and as firm age increases, firm performance will decline. The implication of this is that when the firm starts to get older, the performance level will drop. This is as a result of when firms are getting older; there will be need to expand their businesses to other new areas. The existing funds are utilized for the new projects and it will affect the existing business negatively. This act will definitely slow down the performance level of the company, because the business is new in those areas and is like starting from the beginning. In other words this also means that in order for a firm to have high performance level, the firm should not be too young and also not to be too old, but should be in between. This scenario is in line with the production life cycle, whereby at the introduction and growth stages, the organization is not making much profit (i.e. performance) compared to that of maturity stage, and at the decline stage too, the firm is not having much profit (i.e. performance) compared to that of maturity stage which is the peak of performance for the company. However, high performance takes place at the maturity stage. At this point, it is required of firms to know when they have reached their maturity age (i.e. high performance level).

The analysis revealed that firm age is negatively significant with corporate performance. This implies that when the firm starts to get older, the performance level will drop. However, high performance takes place at the maturity stage. In order for a firm to have high performance level, it is expected that the firm should not be too young and also not to be too old, but should be in between. At this point, it is required of firms to know when they have reached their maturity age (i.e. high performance level), and to formulate and apply some business strategies that will help them to maintain it and even increase the performance level. This point is seen among firms that are more than 100 years in age, and they are still performing well. The leverage of the firm has negative impact on firm performance with PE at 5% level. The implication of these results is that the more the firms are depending on debt to finance their businesses, the more they will experience low performance, and the less they depend on debt to grow their businesses, the more increase in performance they will experience. The result also revealed negative significance for firm leverage. This implies that firms are to be discouraged from accumulating debt because the higher the debt, the lesser the performance of the firm. Accordingly, FLEV is having significant association with price per share and earnings per share. From the above, firms are advised not to solely depend on debts for their expansions and growth. They are advised to resort to debt as their last option, when other means of raising funds have failed them, and not to go for debt as their first option. However, though some of the other independent variables are not individually significant with PE, but they are

jointly having effect on PE. Therefore, it's of paramount important that those variables should not be taken in isolation; rather they should all be considered jointly in order for them to really have jointly effect on corporate performance.

Limitations and Further Research: The sample in this study was dictated by the availability of data and the choice of statistical analysis was determined by the period and industries covered. It would therefore, be desirable to extend the current study by complementing it with studies using other methods and selecting other countries.

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