

# CORPORATE GOVERNANCE AND FIRM SURVIVAL OF OIL & GAS COMPANIES IN SOUTH-SOUTH NIGERIA

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## ABSTRACT-----

*The purpose of this study was to empirically examine the relationship between corporate governance and firm survival of oil & gas companies in Rivers State. The study adopted cross-sectional survey design in accessing the study's elements. While the study's population comprise of senior staff of top management staff of these companies, however, a total of 36 personnel were administered copies of questionnaire. Information retrieved through this means were analyzed with Spearman's Correlation Coefficient tool and results revealed that board composition and size have strong and positive correlation with firm survival. The study therefore concluded that presence of insider directors on the composition of the board brings about a greater knowledge of the firm, which has a positive effect on strategic planning decisions and firm survival. Based on the findings and conclusion, the study recommended that management of oil & gas companies who want to achieve sustainable survival should endeavor to furnish the Board with more of nonexecutive members; as these practices have been confirmed to improve supervision, employee productivity and operational efficiency.*

**KEYWORDS:** Corporate Governance, Board Composition, Operational Efficiency, Firm Survival -----

## INTRODUCTION

Increasingly, the oil & gas industry is considered a major influential sector in the global market; as its operations is felt across several industry especially, with the world's energy heavily dependent on oil & gas products (Amnesty International, 2017). The sector's significant role to economic growth is more evident in Nigeria ever since crude oil was discovered in the country. In this regard, the sensitivity of the oil & gas resources is clearly reflected as the major resources for the Nigerian economy as well as the main foreign exchange earner; contributing over 80% of government revenues, 30% of GDP, and 95% of the total export revenue which is used for the development of Nigeria's infrastructures and other industries (Nuraddeen & Hasnah (2016). Basically, the petroleum industry is composed of upstream and downstream sectors; whose activities includes exploring, extracting, refining, transportation, marketing, and consumption.

Despite the key role of the industry to the country's economy, However, increasing competition among oil & gas companies in their bid to remain competitive, growing number of scandals, and the subsequent widespread public and media outcry, etc; have necessitated a number of governance norms, codes of conduct, best practices, and standards for company procedures and processes. This paradigm shift has signal new thinking on the regulatory responsibilities of corporate entities in protecting the interests of shareholders (Zahid, Sanyaolu, Ogunleye & Ngene, 2018). Hence, irrespective of competitive interest among these companies, it has been argued that the urgent and common for all players in the industry is to the establishment and implementation of corporate governance framework that can help to overcome business failure and bring about many benefits in order to achieve sustainable development, protect shareholders interest; as among the preconditions for the development of today's society (Garuba & Donwa, 2019).

Again, the increased interdependence at the global level among multinational oil & gas corporations in the international capital markets which has in turn, given rise to continuous integration of the world economy that has brought about an increase in mobility of capital across national boundaries of the globe. With this development therefore, it is crucial to ensure that investors have some level trust, transparency and confidence in the capital market; hence, the issue of corporate governance becomes the institutional model for firm sustainable survival (Garuba & Donwa, 2019).

According to Garuba & Otomewo (2018), the concept of corporate governance could be thought of as the combination of statutory and non-statutory framework within which boards of directors exercise their fiduciary duties to the organizations that appoint them. For Solomon (2010), the fundamental idea of corporate governance is that the directors of organization owe its shareholders two basic fiduciary duties; 'the duty of loyalty and the duty of care'. According to this author, the primary objectives of corporate governance is to enhance the value of the organization through ethical behavior; designing policy of openness and fairness; and ensuring informed decision making throughout the organizations. Corporate governance is considered a key driving force in firm's performance. The financial success of an organization is not only dependent on efficiency, innovation and quality management but also on compliance of corporate governance principles (Arun & Turner 2015). Implementation of corporate governance standards improve the internal efficiency of the firms, as it positively impacts firm survival (Okike, 2007). Corporate governance has acquired a higher level of status and importance in organizational sustainability due to the need for greater integrity, transparency, and availability of timely information.

Many studies have been conducted in the area of corporate governance and various firm outcomes. Oghoghomeh & Ogbeta (2014) examined corporate governance and organizational performance in Nigerian banks. The authors adopted code of conduct, board-management relationship and corporate ethics as dimensions of corporate governance in order to evaluate their impact on corporate social responsibility and organizational reputation. Zahid et al. (2018) investigated the effect of corporate governance on Firm's Financial Performance. In their study, they used board composition and board size as dimensions of corporate governance, while profitability and return on investment were the measures of financial performance. Also, Adebayo, Ayeni, & Oyewole, (2013) examined the relationship between corporate governance and organizational performance. Here the authors adopted board independence, board composition, board size as dimensions of corporate governance. In view of the above studies and several other related ones, this research deviated from extant studies by adopting a combination of Zahid et al. (2018)'s model of corporate governance with a view to evaluating its association with employee productivity and operational efficiency. Thus, this research investigated the relationship between corporate governance and firm survival of oil & gas companies in Rivers State.

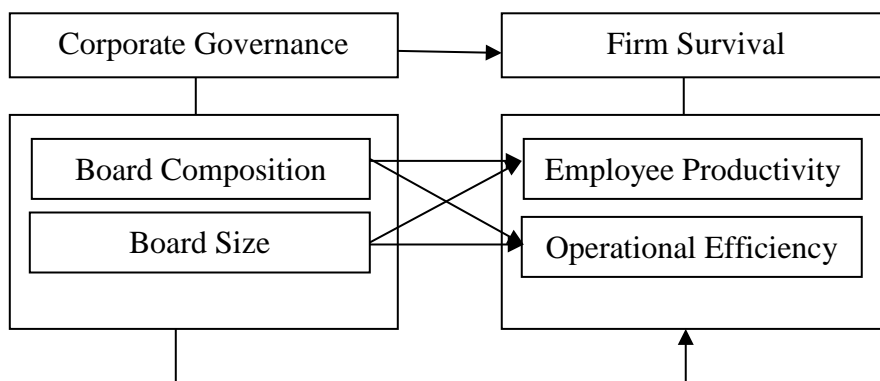
#### OPERATIONAL FRAMEWORK AND RESEARCH HYPOTHESES OF THE STUDY

This research has two main variables, which are corporate governance (independent) and firm survival (dependent). The former has board composition and board size as dimensions. On the other hand, the latter was measured with employee productivity and operational efficiency. Below is the model specification:

|        |   |             |       |         |
|--------|---|-------------|-------|---------|
| FS     | = | $f(CG)$     | ----- | Model 1 |
| FS     | = | EP, OE      | ----- | Model 2 |
| CG     | = | BC, BS      | ----- | Model 3 |
| EP, OE | = | $f(BC, BS)$ | ----- | Model 4 |

#### Where:

|    |   |                         |
|----|---|-------------------------|
| FS | = | Firm Survival           |
| CG | = | Corporate Governance    |
| EP | = | Employee Productivity   |
| OP | = | Operational Performance |
| BC | = | Board Composition       |
| BS | = | Board Size              |



**Fig 1.1: Operational Conceptual Framework of the study**

*Source: Research Desk; as adopted from Zahid, Sanyaolu, Ogunleye & Ngene, 2018.*

Based on the above operational framework, the following hypotheses were formulated:

**H<sub>01</sub>:** There is no significant relationship between Board composition and employee productivity of oil & gas companies in Rivers State.

**H<sub>02</sub>:** There is no significant relationship between Board composition and operational efficiency of oil & gas companies in Rivers State.

**H<sub>03</sub>:** There is no significant relationship between Board size and operational efficiency of oil & gas companies in Rivers State.

**H<sub>04</sub>:** There is no significant relationship between Board size and operational efficiency of oil & gas companies in Rivers State.

## LITERATURE REVIEW

### Theoretical Framework

The theory upon which this research was anchored is the Agency Theory. This theory was propounded by Jensen & Meckling (1976), and this is based on the premise that when ownership of an organization is separated from control, managers acting as agents on behalf of the owners or principal, are prone to pursuing their own interest to the detriment of the owners. This theory further emphasized that managers have interest which does not align with maximizing returns to shareholders thus creating agency problem between shareholders (principal) and directors (agents).

The principal has to bear some agency cost in order to monitor the activities of the agent to ensure efficiency (Mizruchi, 2004).

The underlying assumption of agency theory is that shareholders are perceived as principals while management as their agents. Agents usually act with rational self-interest; tend to maximize their monetary compensation; job stability and other perks, and do no more than seek to appease shareholders. They cannot, in other words, be expected to act in the interests of the shareholders.

They need, instead, to be monitored and controlled to ensure that the principals' best interests are served.

### Concept of Corporate Governance

The Code of Corporate Governance produced by the Central Bank of Nigeria (2006) defined corporate governance as a processes and structure by which an organization's affairs are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders. Good corporate governance therefore embodies both enterprise (performance) and accountability (conformance).

According to Narwal & Jindal (2015), corporate governance 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. Narwal & Jindal (2015) 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.

### **Firm Survival**

Firm survival is arguably one of the most important objectives and interesting subjects for many organizations over the years (Simpson et al., 2007). Maheshwari (2000) argued that the firm survival as a concept, is a multiple-dimensional with no common definition, making it elusive that there is no one single way of defining organizational survival. According to Perren (2000) firm survival refers to the ability of a firm to realize and actualize its goals in line with its mission despite the prevailing environmental conditions. The author argued that organizational survival is defined through financial and non-financial elements such as market share, profitability, products/services quality, customers' and employees', etc (Simpson et al., 2007).

### **Board Composition and Firm Survival**

Research shows that board composition has been one of the most common indicators for board independence. According to Adesanmi, Sanyaolu, Ogunleye & Ngene (2018) defined board composition in terms of the proportion of outside directors to inside directors or non-executive directors to executive directors. Sami, Wang & Zhou (2009), board composition explains the proportion of executive directors to non-executive directors on the board. Executive directors otherwise known as insider directors are responsible for the routine administration and operation of organizations, while non-executive directors otherwise known as outsider directors participate indirectly in the management of organizations.

With respect to the association between board composition and firm survival; De Andrés et al., (2005) found that a high proportion of outside directors on the board had a positive impact on productivity by monitoring employee work-related activities. Bermig & Frick (2010) found that insiders are an important source of firm-specific information for the board and their experience can improve firm performance, however, they may have distorted objectives due to private benefits and lack of independence from the CEO. Bhagat & Bolton (2009), who investigated the association between the board composition and firm's survival of the 277 nonfinancial listed Malaysian Companies. Found that that over the period of 2002 to 2007, organizations with high representation of outside and foreign directors on the board had a positive and significant relationship with the organizations' better performance. Based on these findings, we proposed the following hypotheses:

**Ho<sub>1</sub>:** There is no significant relationship between Board composition and employee productivity of oil & gas companies in Rivers State.

**Ho<sub>2</sub>:** There is no significant relationship between Board composition and operational efficiency of oil & gas companies in Rivers State.

### **Board Size and Firm Survival**

One of the most analyzed variables in the investigation of corporate governance is the size of the board (Bennedsen, Kongste, & Nielsen, 2008). An organization's board size explains the number of directors sitting on the board. Organizational success is a function of the board size as well as the quality of directors that constitute the board. Therefore, ascertaining an ideal size is crucial to board performance in particular, and the overall performance of the organization in general (Blanca, Txomin & Amaia, 2013). Kathuria & Dash (2010) believed that limited board size to a large extent will improve the performance of an organization because the benefits by larger boards of increased monitoring are outweighed by the poor communication and decision making of larger groups.

Mak & Li (2001) discovered in their study that, as board size increases, group dynamics, communication gaps, and coordination cost increase. This increment resulted to improved firm performance due to better communication and coordination among board members. Setia-Atmaja (2008) also revealed that organizational performance is positively correlated with small as opposed to large boards. Mark & Kusnadi (2005) supported Setia-Atmaja (2008)'s finding, as they agreed that a small size board has positive correlation with high employee

productivity. On the contrary however, Agrawal & Knoeber (1996) revealed larger boards are more efficient in monitoring and advising functions and create more value for an organization. It was against this backdrop; we state the hypotheses below:

**H<sub>03</sub>:** There is no significant relationship between Board size and operational efficiency of oil & gas companies in Rivers State.

**H<sub>04</sub>:** There is no significant relationship between Board size and operational efficiency of oil & gas companies in Rivers State.

## METHODOLOGY

The study is quantitative in nature; therefore, nomothetic data would be required as the study resorted to the use of questionnaire in eliciting information from respondents. Thus, this study adopted cross-sectional survey which is a type is quasi-experimental design. Again, the reason for this design is due to the fact that the research has a very minimum control over the study subjects, of which these subjects are human beings that behave differently in many instances.

More so, the population of this study consists of top management staff of oil & gas companies in Rivers State. It is crucial to note that this research was limited to major oil & gas companies with known board members and whose head or operational base is in Rivers State. These include;

Nigeria National Petroleum Corporation (NNPC), Shell Petroleum Development Company (SPDC), Mobil Producing Nigeria Unlimited (MPNU), Nigerian Agip Oil Company Limited (NAOC), Total Petroleum Nigeria Limited (TPNL), Chevron Nigeria Limited (CNL). The research targeted designated positions within the top hierarchy whose occupants are known to have sufficient knowledge and experience to give their valuable response to questions raised in the questionnaire. The following positions are; an executive member and non-executive member of the Board, Regional/branch head, business managers, operations managers, accountants/auditor, and marketing heads. Persons occupying these positions in each of the six companies were administered with copies of the research instrument. The research therefore has a total 36 target population in total that were considered. However, the study used convenient sampling technique in accessing these staff.

Data for this study were obtained from two principal sources – primary and secondary. While the former source was gotten with the help of questionnaire, interview, and observation; the latter was retrieved from internet publications, journal articles, government publications, etc. In terms of validating the research instrument, the research contacted research experts in the field of management. Cronbach's Alpha test was carried out to test the reliability of the instrument. Lastly, at the primary level, descriptive statistical tools such as tables, charts, percentages, etc, were used to analyze primary data. More so, Spearman's Rank Correlation Coefficient was adopted at the secondary level of analysis to test the four proposed hypotheses with the help of SPSS (version 21.0).

## DATA ANALYSES AND DISCUSSION

The analysis in this chapter is divided into two sections. The first part is the descriptive analysis of the population of the study while the second part reports the results of the statistical test of the hypotheses.

**Table 1.1: Questionnaire Distribution and Retrieval**

| Questionnaire                 | Number | Percentage (%) |
|-------------------------------|--------|----------------|
| Distributed Copies            | 36     | 100            |
| Retrieved and Used Copies     | 32     | 89             |
| Retrieved But Not Used Copies | 4      | 11             |

**Source:** Field Survey Data, 2021, SPSS 21 Output

A total of thirty-six (36) copies of questionnaire were distributed to respondents, out of thirty-two (32) copies representing 89% were completely filled and retrieved. However, four (4) copies representing 11% were retrieved but not usable for the analysis.

Table 1.2: Reliability Test Results

| Constructs             | Cronbach Alpha |
|------------------------|----------------|
| Board Composition      | 0.870          |
| Board Size             | 0.821          |
| Employee Productivity  | 0.836          |
| Operational Efficiency | 0.855          |

Source: Cronbach Alpha output, 2021.

Based on the table above, the Cronbach's Alpha value for board composition is 0.870, board size is 0.821, employee productivity is 0.836, and operational efficiency has a score of 0.855. Based on the above, it was revealed that all Cronbach's Alpha values for each construct is more than 0.70. Thus, it can be concluded that all items for each construct in the research instrument were in the range of 'good' and 'very good' which showed high stability, consistent results and also in the satisfactory level.

### Testing of Hypotheses

In this study, a total of four hypotheses were proposed earlier and tested statistically with Spearman's Rank Correlation Coefficient.

#### Hypothesis One

**Ho<sub>1</sub>:** Board composition has no significant relationship with employee productivity of oil & gas companies in Rivers State.

Table 1.3: Correlation Analysis Showing the Relationship between Board Composition and Employee Productivity Correlations

|                       |                         | Board Composition | Employee Productivity |
|-----------------------|-------------------------|-------------------|-----------------------|
| Board Composition     | Correlation Coefficient | 1.000             | .874                  |
|                       | Sig. (2-tailed)         | .                 | .000                  |
|                       | N                       | 32                | 32                    |
| Employee Productivity | Correlation Coefficient | .874              | 1.000                 |
|                       | Sig. (2-tailed)         | .000              | .                     |
|                       | N                       | 32                | 32                    |

\*\* . Correlation is significant at the 0.05 level (2-tailed).

Source: Field Survey Data, 2021, SPSS 21 Output.

**Decision:** From Table 1.3, the Spearman Rank Correlation Coefficient is 0.874 while the p value is 0.000, this shows that there exists a strong and positive relationship between board composition and employee productivity of oil & gas companies in Rivers State. Therefore, we reject the null hypothesis and accept the alternate hypothesis, because the PV (0.000) < 0.05 level of significance.

#### Hypothesis Two

**Ho<sub>2</sub>:** Board composition has no significant relationship with operational efficiency of oil & gas companies in Rivers State.



**Table 1.4: Correlation Analysis Showing the Relationship between Board Composition and Operational Efficiency**

|                |                                             |                         | Correlations      |                        |
|----------------|---------------------------------------------|-------------------------|-------------------|------------------------|
|                |                                             |                         | Board Composition | Operational Efficiency |
| Spearman's rho | Board Composition<br>Operational Efficiency | Correlation Coefficient | 1.000             | .893*                  |
|                |                                             | Sig. (2-tailed)         | .                 |                        |
|                |                                             | N                       | 32                | 32                     |
|                |                                             | Correlation Coefficient | .893*             | 1.000                  |
|                |                                             | Sig. (2-tailed)         | .000              | .                      |
|                |                                             | N                       | 32                | 32                     |

\*. Correlation is significant at the 0.05 level (2-tailed).

Source: Field Survey Data, 2021, SPSS 21 Output.

**Decision:** Table 1.4 above reveals a Spearman Rank Correlation Coefficient of 0.893 and probability value of 0.000. This result indicates that there is a strong and positive relationship between board composition and operational efficiency of oil & gas companies in Rivers State. Therefore, we reject the null hypothesis and accept the alternate hypothesis, because the PV (0.000) < 0.05 level of significance.

### Hypothesis Three

**Ho<sub>3</sub>:** Board size has no significant relationship with employee productivity of oil & gas companies in Rivers State.

**Table 1.5: Correlation Analysis Showing the Relationship between Board Size and Employee Productivity**

|                |                                     |                         | Correlations |                       |
|----------------|-------------------------------------|-------------------------|--------------|-----------------------|
|                |                                     |                         | Board Size   | Employee Productivity |
| Spearman's rho | Board Size<br>Employee Productivity | Correlation Coefficient | 1.000        | .861*                 |
|                |                                     | Sig. (2-tailed)         | .            |                       |
|                |                                     | N                       | 32           | 32                    |
|                |                                     | Correlation Coefficient | .861*        | 1.000                 |
|                |                                     | Sig. (2-tailed)         | .000         | .                     |
|                |                                     | N                       | 32           | 32                    |

\*. Correlation is significant at the 0.05 level (2-tailed).

Source: Field Survey Data, 2021, SPSS 21 Output.

**Decision:** From Table 1.5, above reveals a Spearman Rank Correlation Coefficient of 0.861 and probability value of 0.000. This result indicates that there is a strong and positive relationship between board size and employee productivity of oil & gas companies in Rivers State. Therefore, we reject the null hypothesis and accept the alternate hypothesis, because the PV (0.000) < 0.05 level of significance.

### Hypothesis Four

**Ho<sub>4</sub>:** Board size has no significant relationship with operational efficiency of oil & gas companies in Rivers State.

**Table 1.6: Correlation Analysis Showing the Relationship Board Size and Operational Efficiency Correlations**

|                |                        |                         | Board Size | Operational Efficiency |
|----------------|------------------------|-------------------------|------------|------------------------|
| Spearman's rho | Board Size             | Correlation Coefficient | 1.000      | .899                   |
|                |                        | Sig. (2-tailed)         | .          | .000                   |
|                | Operational Efficiency | N                       | 32         | 32                     |
|                |                        | Correlation Coefficient | .899       | 1.000                  |
|                |                        | Sig. (2-tailed)         | .000       | .                      |
|                |                        | N                       | 32         | 32                     |

\*. Correlation is significant at the 0.05 level (2-tailed).

Source: Field Survey Data, 2021, SPSS 21 Output.

**Decision:** From Table 1.6, the Spearman Rank Correlation Coefficient of 0.899 and probability value of 0.000. This result indicates that there is a strong and positive relationship between board size and operational efficiency of oil & gas companies in Rivers State. Therefore, we reject the null hypothesis and accept the alternate hypothesis, because the PV (0.000) < 0.05 level of significance.

**Table 4.24: Summary of Results with respect to the Hypotheses**

| S/N                   | Hypothesis                                                                                                            | Rho   | Findings |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------|-------|----------|
| <b>H<sub>01</sub></b> | Board composition has no significant relationship with employee productivity of oil & gas companies in Rivers State.  | 0.874 | Reject   |
| <b>H<sub>02</sub></b> | Board composition has no significant relationship with operational efficiency of oil & gas companies in Rivers State. | 0.893 | Reject   |
| <b>H<sub>03</sub></b> | Board size has no significant relationship with employee productivity of oil & gas companies in Rivers State.         | 0.861 | Reject   |
| <b>H<sub>04</sub></b> | Board size has no significant relationship with operational efficiency of oil & gas companies in Rivers State.        | 0.899 | Reject   |

Source: Field Survey Data, 2021, SPSS 21 Output.

It is crucial to mention that in all the hypothetical statements, there exist a positive and significant relationship between the independent and dependent variables as the case may be.

## DISCUSSION OF FINDINGS

Hypothesis one (**H<sub>01</sub>**) and two (**H<sub>02</sub>**) were tested using Spearman Rank Correlation Coefficient, and the analysis showed that board composition is significantly related with employee productivity (Rho=0.874) and operational efficiency (0.893). Therefore, we reject the null hypothesis and accept the alternate hypothesis, because the PV (0.000) < 0.05 level of significance. These findings were consistent with the findings of De Andrés et al., (2005) found that a high proportion of outside directors on the board had a positive impact on productivity by monitoring employee work-related activities. Bhagat & Bolton (2009), who investigated the association between the board composition and firm's survival of the 277 non-financial listed Malaysian Companies.

Hypothesis three (**H<sub>03</sub>**) and four (**H<sub>04</sub>**) from our findings showed that board size is significantly related with employee productivity (0.861) and operational efficiency (0.899). In line with these findings, Setia-Atmaja (2008) revealed that organizational performance is positively correlated with small as opposed to large boards. Mark & Kusnadi (2005) supported Setia-Atmaja (2008)'s finding, as they agreed that a small size board has positive



correlation with high employee productivity. On the contrary however, Agrawal & Knoeber (1996) revealed larger boards are more efficient in monitoring and advising functions and create more value for an organization.

## CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The presence of outside directors has been confirmed to be more independent and less favoritism in the supervision of management; and may likely improve the productivity of staff. It was also revealed that the presence of insider directors on the composition of the board brings about a greater knowledge of the firm, which has a positive effect on strategic planning decisions and firm survival. More so, small firms may experience problems with inconsistent information between managers and shareholders where the board has a majority of outside directors. This leads to ineffective control and affects efficient operations of the firm.

In small organization, independent directors had a minimal knowledge of the firm's values and culture as compared to the inside directors. This tend to affect the overall operations of the firm, as service delivery may not be in line with corporate values, and subsequently may affect the possibility of achieving organizational success.

However, in large organizations such as deposit money banks, it was observed that where majority of independent directors on the board exist, would provide a safeguard for a balance of power or management relationship. Hence, independent directors provide a variety of independent thinking, and majority of them could reduce the dangers of bureaucratic tendencies. Therefore, independent directors are better equipped to improve operational efficiency and improve organizational performance.

In the light of the above conclusions the research recommended that management of oil & gas companies who want to achieve sustainable survival should endeavor to furnish the Board with more of non-executive members; as these practices have been confirmed to improve supervision, employee productivity and operational efficiency. These companies are also encouraged to have small board size due to its effectiveness in monitoring, communication, and fast in decision making. These practices have been confirmed by this research to have a positive impact on the day-to-day affairs and operational efficiency of the organization.

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