BOARD CHARACTERISTICS, OWNERSHIP STRUCTURE AND FIRM VALUE OF LISTED PETROLEUM FIRMS IN NIGERIA

BY

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DECLARATION

I declare that the work in thisthesis entitled "Board Characteristics, Ownership Structureand Firm Value of Listed Petroleum Firms in Nigeria" has been performed by me in the Department of Accounting. The information derived from the literature has been duly acknowledged in the text and in alist of references provided. No part of this thesis was previously presented for another degree or diploma at this or any other Institution.

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CERTIFICATION

This thesis entitled "BOARD CHARACTERISTICS, OWNERSHIP STRUCTUREAND FIRM VALUE OF LISTED PETROLEUM FIRMS IN NIGERIA" by Samaila THOMPSON, meets the regulations governing the award of the degree of Doctor of Philosophy (PhD) in Accounting and Finance of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

Dedicatedto our Almighty God JEHOVAH.

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ABSTRACT

This research work studied the relationship between board characteristics,ownership structure and the firm value of listedpetroleum firms in Nigeria. From a population of fifteen firms, the study used six listed petroleum firms that had consistently published their annual audited financial reports from 2008 to 2015.The data was analyzed using the robust pooled-OLS multiple regression technique in view of the absence of panel effect in the data as confirmed by the result of Breusch Pagan Lagrangian Multiplier test. The results of the robust pooled-OLS regression analysis revealed that board independence, board size as well as managerial shareholding had a negative but significant relationship with firm value. In the case of board gender diversity, it was discovered that the inclusion of females on the board of petroleum firms in Nigeria had a positive and significant relationship with firm value.While ownership concentration has an insignificant relationship on firm value. In view of the findings, the study recommended an optimal board size of nine directors, beyond which an additional board member will create added costs greater than the benefit derivable from the added board member. Also, not less than two femalesare recommended on the boards of listed petroleum firms in Nigeria to improve firm value. In addition, concentrated shareholding should be encouraged at the level of 19%, but should not be above 74% of the firm's shareholding, while a large managerial ownership structure should be moderated to about 37% to reduce the abuse of shareholders resources.

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The sensitivity of Nigeria's petroleum industry is clearly reflected in its importance to the Nigerian economy, because as a major foreign exchange earnerit contributes over 80% of government revenues and also provides for the development of Nigeria's infrastructures and other industries (Anya, 2002; Chukwu, 2002; Mathiason, 2006). According to the British Petroleum (BP) Statistical Energy Surveyas cited in Mbendi (2014), Nigeria is a leading oil and gas producer in Africa and is ranked as the tenth largest oil producer in the world with proved oil reserves of about 37.2 billion barrels, and estimates in excess of 187.5 trillion standard cubic feet of natural gas as at the end of 2011.

The foregoing underscores the vast investments potentials of the Nigerian petroleum industry; hence, investment decisions is likely to be influenced by the value of firms in the industry.Given that the maximization of firm value depends upon the financial health of the firm, which involves the evaluation and selection of appropriate governance strategies and financial structures that can influence the firm's value. Thus, the aim of firm executives is to maximize the value of the firmand its stock (Namazi&Kirmani,2009).

Consideringthat the operations of firms associated with the Nigerian petroleum industry are volatile and the characteristics of its assets and liabilities are opaque, leading to an asymmetry of information, less transparency and a greater ability to obscure existing and developing problems, good corporate governance is seen as a necessary instrument that will complement effective supervision and allow managers and supervisors to better allocate scarce

resources to improve firm value in the industry. It is also believed that the implementation of good corporate governance would protect the interests of stakeholders, build and maintain public confidence and ultimately contribute to the integrity and stability of the industry as well as improve the overall value of the firms.

Several studies (Fama & Jensen, 1983; Baysinger & Hoskisson, 1990; Bathala & Rao, 1995; Christensen, Kent & Stewart, 2010) view the predominant role of corporate governance as concerned with the structure of rights and responsibilities among the parties with a stake in the firm, and is reflected in accounting and finance literature as the agency view of conflict of interest between owner and manager (Aoki, 2001; Pham, Suchard & Zein, 2011). The view asserts that while shareholders are concerned about maximizing returns at reasonable risk, managers may prefer to maintain costly labor or production standards above the necessary competitive minimum. Given the potential conflict of interest as a result of separation of ownership and control, various corporate governance components are needed to align the interests of principals and agents (Berle & Means, 1932; Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983; Cheng & Zhu, 2012).

The alignment of the interests is meant to improve firm value, enhance investor trust, attract outside investments and demonstrate a country's commitment to observe international standards. Theoretically, Black (2001), Gompers, Ishii and Metrick (2003), Gillan (2006), Bauer, Frijns, Otten and Tourani-Rad (2008) and Black & Kim (2012) have argued that the quality of governance components in the form of an efficient board of directors and an appropriate ownership structure in a firm can positively affect firm value. In view of this, Black & Kim (2012) concluded that corporate governance components should have significant effect on the value of firms especially in countries with weak laws and weak governance behavior.

Empirically, Gompers, Ishii and Metrick (2003) and Cicon, Ferris, Kammel and Nonronha (2012) showed that there is a positive relationship between governance index and corporate performance in the long-term.While, Gillan (2006) and Griffin, Kelly and Nardari (2010) found that a firm's rating has positive effect on firm value and returns to shareholders, as literature has documented a number of corporate governance mechanisms and how the mechanisms affect the performance and the value of firms. The mechanisms are broadly classified into board characteristics and ownership structure have components of board independence,size, composition, committees and diversity on one hand, and on the other hand different types of ownership interest in the firm that include foreign, institutional, block, managerial and concentrated.

Corporate boards are the internal governing mechanism that shape firm governance given their direct access to the other two in the corporate governance triangle which are managers and shareholders. Ownership structure refers to the different types of ownership interest that holders of stocks have in a firm (Adams & Mehran, 2002).Previous studies (LaPorta, Lopez-de-Silances & Vishny, 2000; Salterio, Conrod & Schmidt, 2013) have indicated that the degree of control and deviation can be used to measure the quality of corporate governance mechanisms. Hence, the larger the deviation the more controlling shareholders will be motivated to erode the assets of the firm as well as the interests of external investors. According to Habbash (2010) and Aggarwal, Erel, Ferreira and Matos (2011), corporate boards use the audit committee as an important part of the decision control system for internal monitoring. Thus, the existence of an audit committee improves the monitoring of a firm's internal controls and also helps to promote good corporate governance which in turn improves firm value thereby reducing agency cost (Al –Sa'eed & Al-Mahamid, 2011).

In view of the relationshipthat has been theoretically established between good corporate governance and firm value, it is believed that good corporate governance practice is particularly desirable to improve firm value in the Nigerian petroleum industry.This argument is predicated upon the fact that thecountry assessment of 2008 on Nigeria's Corporate Governance Report on the Observance of Standards and Codes (ROSC, 2008) and the Securities and Exchange Commission (SEC) Code of Corporate Governance (CCG, 2003) reviewed in 2008 for firms listed on the Nigerian Stock Exchange (NSE) had examined and identified problems that affect board performance and the execution of certain shareholders rights.

Against this backdrop, it is imperative to study the relationship between board characteristics and ownership structure components of board independence, board size, board gender diversity, ownership concentration and managerial shareholding on the value of firms in the Nigerian petroleum industry.Given that investment decisions in the industry is likely to be influenced by firm value which is recognized as the firms economic performance reported in the annual financial statements which contain various measures of firm assessment as returns on assets (ROA), return on equity (ROE), return on investments (ROI), earnings per share (EPS) and firm value (Tobin's Q).

These measures serve as yardsticks for the assessment of firms in the Nigerian petroleum industry by various stakeholders (Chukwu, 2002). The variables and measures as observed by Brennan and Schwartz (1985), Breuer (1999), Xie, Davidson and DaDalt (2003) and McLean, Zhang and Zhao (2012) relative to some pre-established benchmarks, rules, and mechanisms which influence the integrity of the financial statements as the primary source of information that ensures protection for shareholders, investors, suppliers and also captures firm value.

1.2 Statement of the Problem

Firm value represents the past, present and future performance of a firm, as well as the long-term interest of shareholders and stakeholders(Bhullar & Bhatnagar, 2013). The effectiveness of firms is to guarantee the satisfaction of the needs of stakeholders whose main interest is that of maximizing the value of the resources they have invested in the firms(Dadashi, Pakmaram & Moein al-Din, 2015).The dominant issue therefore is the effectiveness of corporate governance mechanisms to guarantee the satisfaction ofthe needs of shareholders and other stakeholders whose main interest is that ofmaximizing the firm value (Fratini & Tettamanzi, 2015),and this has become an important policy concern in Nigeria especially given a number of events that have raised the profile of corporate governance reforms. These events include the growth and decline in the Nigerian equity market and the expansion in the number of shareholders, together with a variety of corporate scandals (ROSC, 2008).

In a Nigerian survey of disclosure practices commissioned by the World Bank (WB) and the International Finance Centre (IFC), the survey suggested a relatively high compliance with several governance principles, but in practice a number of corporate governance problems that affect board performance, the execution of certain shareholders rights, the disclosure of ownership of listed firms on the NSE and the poor implementation of firm audit committee, together with a relatively weak enforcement of some aspects of the corporate governance framework remained (ROSC, 2008). This in addition to the SEC Code of Corporate Governance 2003 reviewed in 2008 for firms listed on the NSEwhich identified weak corporate governance practices among firms as a constraint to improvement in firm value.

Several empirical literature studying the link between board characteristics and ownership structure components and firm value have concentrated on aspects such as board

composition,executive compensation, investor protection, and shareholder activism. For example, Millstein and MacAvoy (1998), Bhagat and Black (1999) and Balasubramanian, Black and Khanna (2010) investigated the relationship between board characteristics and firm performance. While the findings of Karpoff, Marr and Danielson (2000), Chua, Eun and Lai (2007) and Cheung, Stouraitis and Tan (2011) linked firm performance with shareholder activism. However, Bhagat, Carey and Elson (1999) and Adams, Hermalin and Weisbach (2010) in their studies looked at the relationship between outside director pay and firm performance. While the research of Gompers, Ishii and Metrick (2003) and Hodgson, Lhaopadchan and Buakes (2011) linked firm performance to a corporate governance index based largely ontakeover defenses. Some other studies such as Klapper and Love (2002), Black, Jang and Kim (2006), Chong and Lopez-de-Silanes (2006), Black and Khanna (2007) and Black, Gledson-de-Carvalho and Gorga (2012)examined monitoring mechanisms and transparency standards across firms. It is observed that in addition to being foreign-based, these studies did not establish the relationship between board characteristics and ownership structure components of board independence, board size, board gender diversity, ownership structure and managerial shareholding with firm value using Nigerian data.

In Nigeria, several studies on corporate governance similarly took the pattern of component-specifics. For instance, the study of Sanda, Garba and Mikailu (2008) focused only on board independence, Babatunde and Olaniran (2009) covered audit committee and audit size, Adams (2010) studied board of directors, Tsegba and Ezi-Herbert (2011) emphasized on ownership structure, and Garba and Abubakar (2014) concentrated on board diversity. Though the study of Idornigie (2010) and Ajala, Amuda and Arulogun (2012) covered some aspects of board characteristics and ownership concentration, however, their research was focused on the

banking industry. Since the various mechanisms of corporate governance serve different purposes, a study that ignore board characteristics and ownership structure components on ground of industry peculiarity will undoubtedly suffer scope limitation.

Studies by Aggarwal, Erel, Ferreira and Matos (2011), Kim, and Lu (2013) and Alhassan, Bajaher and Alsheri (2015), concluded that a poor corporate governance culture will lead to poor firm value. However, in the Nigerian petroleum sector, operations have been observed to be associated with several volatilities that include crude oil theft, oil bunkering, pipe-line vandalism and kidnapping of oil-workers (Anya, 2002). These volatilities though are external factors, may generally have been fueled by poor corporate governance practices, and this has greatly affected the operations and investment decisions and firm value within the industry. Therefore, the need for good corporate governance practice which takes into account board characteristics and ownership structure components is desirous in other to improve firm value within the petroleum industry.

The dearth of board characteristics and ownership structure studies on the petroleum sector using Nigerian data underscores the need for an effort to conduct a research on the relationship of board independence, board size, board gender diversity, ownership concentration and managerial shareholding components on firm value, which will fill the identified gap in the literature. This study therefore represents a modest effort to undertake an empirical study of firm value relation with some board characteristics and ownership structure componentsof board independence, board size, board gender diversity, ownership concentration and managerial shareholding in order to contribute to an area that has received little attention among researchers.

1.3 Research Questions

This study seeks to find answers to the following research questions:

(i) Does board independence have a relationship with firm value of listed petroleum firms in Nigeria?

(ii) Does board size have a relationship with firm value of listed petroleum firms in Nigeria?

(iii) Does board gender diversity have a relationship with firm value of listed petroleum firms in Nigeria?

(iv) Does ownership concentration have a relationship with firm value of listed petroleum firms in Nigeria?

(v) Does managerial shareholding have a relationship with firm value of listed petroleum firms in Nigeria?

1.4 Objectives of the Study

The overall objective of this study is to evaluate the relationship between board characteristics, ownership structure components of board independence, board size, board gender diversity, ownership concentration and managerial shareholding on firm value of listed petroleum firms in Nigeria. The specific objectives are to:

(i) determine the relationship of board independence on the firm value of listed petroleum firms in Nigeria.

(ii) determine the relationship of board size on the firm value of listed petroleum firms in Nigeria.

(iii) determine the relationship of board gender diversity on the firm value of listed petroleum firms in Nigeria.

(iv) determine the relationship of ownership concentration on the firm value of listed petroleum firms in Nigeria.

(v) determine the relationship of managerial shareholding on the firm value of listed petroleum firms in Nigeria.

1.5 Hypotheses of the Study

The following hypotheses have been formulated:

$H0_{1:}$ There is no significant relationship between board independence and the firm value of listed petroleum firms in Nigeria.

$H0_{2:}$ There is no significant relationship between board size and the firm value of listed petroleum firms in Nigeria.

$H0_{3:}$ There is no significant relationship between board gender diversity and the firm value of listed petroleum firms in Nigeria.

$H0_{4:}$ There is no significant relationship between ownership concentration and the firm value of listed petroleum firms in Nigeria.

$H0_{5:}$ There is no significant relationship between managerial shareholding and the firm value of listed petroleum firms in Nigeria.

1.6 Scope of the Study

This study covered the board characteristics and ownership structure components of board independence, board size, board gender diversity, ownership concentration and managerial shareholding and their relationship with firm value. The selection of these board characteristics

and ownership structure components while consistent in literature is predicated on their relevance and appropriateness to the Nigeria's petroleum industry.

The population of this study consists of all the fifteen (15) petroleum firms listed on the Nigerian Stock Exchange (NSE) and carrying on with operations in Nigeria during the period 1st January, 2008 to 31st December, 2015. The sample size of the study are six (6) firms. This number is arrived at as a result of employing some filters, asthe analysis is based on these six firms. The choice of the period 2008 to 2015 is considered appropriate because the 2008 assessment on Nigeria's Corporate Governance Report (ROSC, 2008), and the reviewedSECcode of corporate governance of 2008 found a number of problems that affect board performance, execution of certain shareholders rights, disclosure of ownership of listed firms on the NSE and problematic implementation of firm audit committee.

The period therefore offered a sound basis for a study of the relationship of the selected components on the value of the firms as per the reviewed 2008 code of corporate governance. In addition, the period witnessed the fall-out of the global financial crisis that led to the collapse of some major corporations of which governance malpractice was identified as one of the major causes of the collapse.

1.7 Significance of the Study

An effectivefirm guarantees the satisfaction of its stakeholders by maximizing the value of the resources invested in the firms.Thus, to guarantee the satisfaction ofthe needs of stakeholders whose main interest is that ofmaximizing firm value therefore depends on the effectiveness of good corporate governance mechanisms, and this need in the Nigerian petroleum

industry is of particular interest to all stakeholders because of the contribution of the sector to Nigeria's economic development.

The level of research interest in this area directly reflects the importance that corporate governance has on decision making by the various users of financial accounting statements of the listed petroleum firms in Nigeriaespecially after the 2008 assessment on Nigeria's corporate governance report, and the reviewedSECcode of corporate governance of 2008 which found a number of problems that affect board performance, the execution of certain shareholders rights, disclosure of ownership of listed firms amongst others. This study therefore makes a modest and original contribution to the literature on the determination of the relationship between board characteristics, ownership structure components on the firm value of listed firms in the Nigerian petroleum industry.

In addition, the empirical evidence from this study is expected to provide recommendations for stakeholders in designing and implementing good corporate governance policies that will be beneficial to investors, as these policies will provide some insights into the relationship of firm value on board characteristics and ownership structure components for petroleum firms operating in Nigeria.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter begins with a discussion of the conceptual issues that are relevant to the study. This is followed by the review of empirical literature on the relationship between board characteristics, ownership structure components and firm value. Specifically, the chapter discusses the relationship between board size, board independence, board gender diversity, ownership concentration and managerial shareholding on one hand and firm value on the other hand. The chapter also discusses the theoretical framework of the study.

2.2 Concept of Corporate Governance

With the complexity of operations, owners' roles are completely relinquished to managers who are saddled with the responsibility of utilizing the resources of the firm in the best interest of the shareholders (Fallatah, 2015). The separation of ownership from control turns the owner into principal, and the controller into an agent. This arrangement triggers the agency problem; a situation where managers do not act in line with shareholders' wealth maximization objectives (Ramly & Rashid, 2010; Chaghadari, 2011; Fung & Tsai, 2012). Corporate governance arises as a consequence of the agency problem to mitigate the unavoidable conflict. As such, Gull and Abid (2013) suggested that managers and shareholders should be able to enter into a binding contract that will ensure that shareholders' interests in the firm are fully represented. Similarly, Varshney, Kaul and Vasal (2012) noted that good governance structure can serve to reduce agency cost arising from managerial opportunistic behaviour.

Corporate governance as a concept does not have a consensus definition because of the inherent differences in firm structures and regulatory framework across industries and countries. However, the differences in definitions generally arise because of the disparities in economic, legal, social, and cultural settings of industries that operate in different countries on one hand, and on other hand the perception of academicians, practitioners and regulators. According to Oyejide and Soyibo (2001), corporate governance can be viewed from at least two perspectives. Firstly; the narrow perspective, sometimes referred to as Anglo-American paradigm, which view corporate governance as being concerned with ensuring that the firm is run in the interest of shareholders (McConnell & Servaes, 1990). Supporters of this perspective such as Schleifer and Vishny (1997: 737) defined corporate governance as "the mechanism by which suppliers of funds exert control on managers in order to ensure that their capital is not only safe from being expropriated but can also earn a return on their investment." This definition examined only one side of the argument by considering only the relevance of suppliers of funds and ignoring the important aspect of managers and the governance components that will lead to the convergence of managers' and shareholders' interests. Secondly; the broad perspective also referred to as Franco-German model views corporate governance as being concerned with ensuring that firms are run in such a manner that the societies' resources are utilized efficiently (Macey & O'Hara, 2001; Oyejide & Soyibo, 2001; Luo & Salterio, 2014).

These two definitions seem to summarize the problems of corporate governance because they recognize all the three governance structures, viz: the processes, which relates to the means of mitigating the agency problem between managers and shareholders; improve long-term shareholder value, which identifies the ultimate goal of corporate governance as working towards the value maximization objective of the firm; and accounting for the interest of other

stakeholders, which is an acknowledgement that corporate governance should focus on the utilization of the societies' resources efficiently.

Similarly, Ramly and Rashid (2010: 2198) defined corporate governance as "covering a broad spectrum of endogenous and exogenous mechanisms that are intended to mitigate agency risk by increasing the monitoring of management actions, limiting managers opportunistic behavior and improving the quality of a firms' information flow in the context of separation and control". This definition is also not far from McConnell and Servaes (1990: 595) who referred to corporate governance as "the set of mechanisms, both institutional and market based that induces the self-interested controllers of a company to make decisions that maximize the value of the firm to its owners". Finally, Sanda, Mikailu and Garba (2005) viewed firm governance as a mechanism that is concerned with ways in which all parties interested in the firm's well-being attempts to ensure that managers and other insiders take measures that safeguard the interest of the stakeholders.

According to O'Shea (2005), these codes of good governance have some generally accepted principles for effective firm governance as they haveexplicitly or implicitly recommendations on the following six governance practices which relates to a balance of executive and non-executive directors, such as independent non-executive directors; a clear division of responsibilities between the chairman and the chief executive officer; the need for timelyand quality information provided to the board; formal and transparent procedures for theappointment of new directors; balanced and understandable financial reporting; and the maintenance of a sound system of internal control, and one mechanism to implement these codes is through the development of stringent corporate legislation.However, such a compulsory

approach is rarely found in codes of good governance and is more commonly associated with laws and regulations.

Voluntary firm compliance as originally done in the Cadbury Report is the other mechanism used to implement the codes,which is based on the rule of comply or explain. They are then required to state how they have applied the principles in the code, and where it is not required for listed firms to comply with all the code's recommendations, and in the cases of noncompliance, they must explain the reasons. Goncharov, Werner and Zimmermann (2006) showed that the degree of compliance with the code is the consistent value-relevant information for the capital market; as such firms with higher compliance are priced at an above average premium.

It is clear from the foregoing that corporate governance has been defined in various ways. In spite of the various definitions, two issues appear to dominate its conceptualization. First, managers should be able to steer the firm in the right direction in the face of external constraints caused by the fear of displacement, litigation and government interference (Babatunde & Olaniran, 2009; Lazarides & Drimpetas, 2011). Second; in exercising their freedom of controlling the firm, managers should take into account the interest of various stakeholders. Thus, corporate governance in its broad sense covers the relationship between firm managers and stakeholders, by steering the firm towards its value maximization objectives in the most accountable and transparent manner. It arises because of the separation of ownership between a firm and its owners, which makes the firm a nexus of relationship among all its stakeholders.

2.3 Corporate Governance Mechanisms

A fundamental concernof corporate governance has to do with the structure of rights and responsibilities that exist among parties with stake holding in the firm (Aoki, 2001). Studies by Fama and Jensen, 1983; Alhassan, Bajaher and Alshehri, 2015 established that while shareholders are concerned about maximizing returns at reasonable risk, managers may prefer growth to profits and may maintain costly labor or product standards above the necessary competitive minimum. Thus, various corporate governance mechanisms are required to align the interests of both principals and agents, and this is reflected in accounting and finance literature as the agency theory (Bathala & Rao, 1995; Ongore & K'Obonyo, 2011).

The literature has documented a number of corporate governance mechanisms and how thesemechanisms affect the activities of firms. Thesemechanisms are broadly classified into board characteristics, ownership structure and the audit committee (Fallatah & Dickens, 2012). Board characteristics components are thus classified as board size, diversity of board members in terms of number of members, age, gender, nationality, ethnicity, experience, independence, expertise and whether stockholders or not. Ownership structure covers different types of ownership interest in firms that include foreign, institutional, block, managerial and concentrated (Li & Sun, 2013) andan audit committee which has the particular role of ensuring that the interests of shareholders are properly protected in relation to internal controls (Habbash, 2010; Al-Matari, Al-Swidi, Fadzil & Al-Matari, 2012). The audit committee is normally discussed in terms of its size and independence,as well as the diversity of its members.

The literature also indicated that though issues of corporate governance cut across all sub-sectors of the private sector, in some sub-sectors, certain characteristics of especially ownership type play little or no role due to firm nature or type. In what follows, a review of

theoretical and conceptual issues on some governance mechanisms that relate to the petroleum sub-sector of emerging economies such as Nigeria is presented.

2.3.1 Board Characteristics

Studies by Shleifer and Vishny(1997) and Cheng, Su and Zhu (2012) concluded that agency costs can arise due to problems in monitoring management by the shareholders because they have imperfect information to make qualified decisions, hence contractual limits to management discretion may be difficult to enforce. To reduce these costsfrom an agency perspective, mechanisms such as corporate boards are designed to align the interests of the management with those of the stockholders to help in monitoring the actions and decisions of management.

Chanhgadari (2011) defined boards as the internal governing mechanism that shapes firm governance, given their direct access to the two other aspects of the corporate governance triangle which are managers and shareholders. In addition, Fama (1980) argued that the composition of board structure is an important component due to the presence of non-executive directors which represents a method of monitoring the actions of the executive directors and of ensuring that the executive directors pursuethe firm’s policies that are consistent with shareholders' interests. In effect, the board of directors is now seen as a target of blame for corporate misdeeds and also as a source capable of improving corporate governance. Much of the capacity in solving the excess power within firms has been assigned to the board of directors with a specific need for non-executive directors to help increase executive accountability.

Hillman and Dalziel (2003) in their study described the two main functions of the board of directors as monitoring and providing resources. The board’s monitoring function which is

underpinned by the agency theorydescribes the potential for conflicts of interest that arise from the separation of ownership and control in firms (Fama & Jensen, 1983: Iturralde, Maseda & Arosa, 2011). As a primary function,agency theorists see boards as monitoring the actions of managers (agents) in order to protect the interests of owners (principals) (Eisenhardt, 1989; Ghabayen, 2012). Hence, Fama(1980) and Alhassan, Bajaher and Alshehri (2015) concluded that monitoring by the board is important to eliminate the potential costs incurred when management pursues its own interests at the expense of shareholders' interests. Thus, monitoring by boards of directors can reduce agency costs which is inherent in the separation of ownership and control andin this way, improve firm value.

The literature documented size, diversity and independence as the main characteristics of a board. Some authors also subsumed audit committee under board characteristics. According to this line of thinking, the use of an audit committee is an important part of the decision control system for internal monitoring by boards of directors (Fama & Jensen, 1983; Al-Matari, Al-Swidi, Fadzil & Al-Matari, 2012). The existence of an audit committee improves the monitoring of firm's internal controls and also helps to promote sound corporate governance which in turn improves firm value thereby reducing agency cost (Al –Sa'eed & Al-Mahamid, 2011). It is noteworthy that while audit committee independence is a major element of corporate governance in Nigeria, the SEC code of corporate governance in 2008 recommended that the audit committee must be composed of equal representatives of shareholders and board of directors. According to agency theory the separation of firm management and firm ownership results in agency problem. This means that management may not always act in the interest of the shareholders (Fama & Jensen, 1983; Ameer, Ramli & Zakaria, 2010).

To mitigate the agency problem, boards of directors assume an oversight role which involves appointing the chief executive officer (CEO), approving business strategy, monitoring control systems and liaising with external auditors. Agency theory thus suggests that a firm's demand for an audit committee is associated with the magnitude of its agency problem. Given its diverse responsibilities, the board of directors typically delegates its oversight activities to different committees, and the audit committee is one of these committees with its main responsibility of overseeing financial reporting. The audit committee as a sub-committee of the board of directors and has the primary role of monitoring and reviewing financial statements (Yammeesri & Herath, 2010).

Brief explanation about board characteristics is given hereunder in order to improve understanding of the variables of interest to this study.

2.3.1.1 Board Independence

The management of any firm requires a board with strategic vision, in addition to efficient monitoring. Several studies on the role and effectiveness of boards of directors has emphasized the potential importance of board independence (Raheja, 2005; Adams & Ferreira, 2007; Boone, Field, Karpoff & Raheja, 2007; Coles, Daniel & Naveen, 2008; Tariq & Abbas, 2013). One stream of research had focused on independent director representation on the board and concluded that the nature of a firm's investment opportunities affects its demand for outside directors with particular attributes to enhance a board's advisory and monitoring roles.

Another stream of research emphasizes private benefits of control and CEO influence over board nominations to explain the degree of board independence. Existing evidence finds an insignificant impact of distance in a variety of situations where monitoring has substantial value.

Manas and Saravanan (2006) argued that proximity affects its willingness to invest in a firm or join a firm's board since it is generally less costly to oversee local firms than more distant ones. Peasnell, Pope and Young (2006) found that foreign independent directors, who are far removed from a firm, are less likely to attend board meetings and boards that include them are more likely to offer excessive CEO compensation and restate earnings as a result of financial misreporting and exhibit significantly poorer firm value. Forbes and Daniel (1999) presented evidence of local investment bias among mutual fund managers and evidence that they earn higher abnormal returns on nearby investments, while Bae, Jon and Jin (2002) illustrated the information advantage of local stock analysts in forecasting earnings. Yasser, Entebang and Mansor (2011) showed that local investment bias is present among individual investors, while earlier works by Carter, Simkins and Simpson (2003) and Cheng and Ritenga (2009), suggested that information costs being a positive function of distance to an investment can partially explain these investor preferences.

While the proportion of independent directors is an indicator of the degree of board oversight, it is not a sufficient measure of the quality of such oversight or of a board's ability to provide expert advice to management. Outside directors with executive experience are crucial to shareholder wealth creation (Fich & Lawrence, 2005; Balasubramanian, Black & Khanna, 2010), and executives of other local firms comprise a significant proportion of independent directors and of the local pool of prospective directors. Corporate boards require more than general managerial experience from their independent directors; they also require individuals with specialized knowledge and skills to advise the board and CEO (Linck, Netter & Yang, 2008; Luo & Salterio, 2014). A number of prior studies reported evidence that greater representation of outside directors on boards lead to gains in shareholder wealth (Brickley, Coles & Terry, 1994;

Beasley, 1996; Yermack, 1996; Rosenstein & Wyatt, 1997; Dedman, 2000; Gompers, Ishii & Metrick, 2003; Gul & Leung, 2004; Gupta, Otley & Young, 2008; Arosa, Iturralde & Maseda, 2010). However, many well-known researchers have raised concerns about endogeneity of board composition and the challenges in attributing causation to the observed board independence-firm value relation (Boone, Field, Karpoff & Raheja, 2007; Duchin, Matsusaka & Ozbas, 2010).

There are strong perceptions therefore that the existence of independent directors lead to increased good corporate governance (Pombo & Gutierrez, 2011). The high expectations of the role of the non-executive board members are interesting since the existing empirical studies have shown mixed results regarding the relationship between firm value and board independence (Peng, 2004; Easterwood, Ince & Raheja, 2012). Furthermore,Al-Matari, Al-Swidi, Fadzil and Al-Matari, 2012 had argued that a super-majority of independent directors will lead to worse performance.

Similarly, Hillman, Cannella and Paetzold (2000) in their research while highlighting the difference between skills as distinct from monitoring,stress on the important to also have board members with varied skills such business experts, support specialists, and members of a community organization as being insiders in the firm. However, Boyd (1990) from the resource dependence perspective, presents an alternative to the agency perspective, arguing that good corporate governance is achieved when board members are appointed for their expertise to help firms successfully cope with environmental uncertainty. Much of the policy prescriptions enshrined in codes of good corporate governance rely on universal notions of best practice, which often need to be adapted to the local contexts of firms or translated across diverse national institutional settings (Kim & Lim, 2010; Shan & Mclver, 2011).

Studiesby Daily(1995),Barnhart, Marr and Rosenstein (2006), Nguyen and Nielsen (2010) and Mahadeo, Soobaroyen and Hanumn (2012) on the monitoring function of boards have generally shown a preference forboards dominated by independent outside directors. These studies had argued that boards consisting exclusively of insiders who may be current or former managers, employees of the firm or those outsiders who are not independent of present management of the firm due to business dealings, family or social relationships have less incentive to monitor management, because of their dependence on the firm. However, boards that are dominated by non-affiliated directors (outside) are believed to be better monitors of the board because they lack the disincentive to monitor.

The theoretical approach based on the work of Pfeffer and Salanciks (1978) on resource dependency and adopted by scholars as Boyd (1990), Hillman, Cannella and Paetzold (2000) and Ahern and Dittmar (2012) took a relatively less explored path researchers take to study boards, firmperformance and value relied on the provision of resources which caninclude legitimacy, advice and counsel, linked to other organizations by the board of directors. Resources help reduce dependency between the firm and external contingencies,thereby diminishing uncertainty, lower transaction costs and ultimately aid in the survival of the firm (Pfeffer & Salancik, 1978; Singh, House & Tucker, 1986), also as established by the stakeholder traditions (Hillman, Keim & Luce, 2001; Amman, Oesch & Schmid, 2011).

Empirical studies by Boyd(1990) and Haider, Hassan and Hussain (2013) in the resource dependence tradition have established that a relationship exist between board capital and firm value, just as Westphal(1999) and Carpenter and Westphal (2001)found that boards that consist of directors who have ties to strategically related organizations were able to provide better advice and counsel, and ispositively related to firm value (Ntim & Oseit, 2011). In addition, Hillman,

Zardkoohi and Bierman (1999) found that shareholders value was positively affected when directors established connections to the U.S. government, as such they concluded that such connections held the promise for information flow, more open communication and potential influence with the government, a critical source of uncertainty for many firms. Researches by Geletkanycz and Hambrick(1997) and Reddy, Locke and Scrimgeour (2010) provideempirical evidence which shows that executives' external ties play a critical role in future strategy formulation which subsequently increase firm value. Similarly, Rosenstein and Wyatt (1994) using event-study methodology,further show that shareholder value of a firm improves when a firm's CEO is asked to join the board of another firm.

A large scale archival study conducted by Larcker, Richardson and Tuna (2004) found that monitoring as a measure of governance is of limited value in explaining the behavior of managers as well as the performance and the value of firms. Further, Shah, Butt and Saeed (2011) argued that by restrictingcorporate governance to a narrow view of only monitoring activities may potentially undervalue the role that corporate governance can play. As such, the priorities of the board of directors are not independent only from the context in which the firm operates, hence, Randoy and Jenssen (2004) argued that firms in highly competitive industries will already be monitored by the market and therefore, they should have fewer outside board members. In effect, the study of Randoy and Jenssen (2004) found a negative relationship between board independence and firm value inindustries with highly competitive product markets among publicly traded Swedish firms, andattributed this to the detrimental effect on the predominance of the director's resource function over the monitoring function, thus boards monitor and provide resources. Theoretically, both are related to firm value.

The demand for monitoring is expected to be influenced by the distribution of power amongstthe stakeholders and their individual incentives, thusthe monitoring role of outsidedirectors is most important when ownership is concentrated (diffuse), that is when thelarge shareholder(s) can effectively influence and monitor the management, by either personally sitting on the board. Shleifer and Vishny (1997) argued that large shareholders havea strong incentive to monitor managers because of their significant economic stakes. Evenwhen they cannot monitor the management themselves, large shareholders can facilitate thirdpartytakeovers by splitting the large gains on their own shares with the bidder.

A research in the agency literature by Ongore and Authority (2011) suggests that somecontrol mechanisms may be substitutable so that there could be a trade-off among varioussources of controls available to individual stakeholders. Boards as an by internal governing mechanism that shapes firm governance, has emerged as both a target of blame for corporate misdeeds and a source capable of improving corporate governance. Much of the weight in solving the excess power within corporations has been assigned to the board of directors and, specifically, to the need for non-executive directors to increase executive accountability.

Agency theorists as Fama(1980), Faleye, Hoitash and Hoitash (2011) have argued that the composition of board structure is an important governance mechanism as the presence of non-executive directors is means of monitoring the actionsof the executive directors by ensuring that theyare pursuing policies consistent with shareholders' interests. An outsider,from the resource provision point of view can bring in important knowledge, provide legitimacy, bolster the public image of the firm, provideexpertise, link the firm to important stakeholders and important entities, facilitate access capital, build external relations, and aid in the formulation of

strategy or other important firm decisions. However, as established by Desender(2009), the desired characteristics of the outside board members are different for boards that is focused on monitoring as compared to boardsthat is focused on providing resources. Thus, the board focused on monitoring may be interested in financial expertise as the most important element, while knowledge of the industry, competitors, law or other relevant resources may be more important for a board focused on providing resources.Conclusively, from both perspectives bringing outsiders to the board may improve firmvalue

2.3.1.2 Board Size

Prior studies as those by Kogan and Wallach (1966) and Moscovici and Zavalloni (1969) on group decision making showed that it is generally harder for largergroups to reach an agreement. According to this position, final decisions of larger groups usually includemore compromises which tend to be less extreme in smaller groups. Thus,the board of directors and its effectiveness as a governance component is one of the most widely studied topics in corporate governance literature; the earliest literature being by Lipton and Lorch (1992) and Jensen (1993).Board size refers to the total number of directors on the board. As a widely used variable in the literature offirm governance, its value is found by counting the number of directors on the board of afirm, inclusive of the CEO and Chairman, outside directors, executive directors and non-executive directors for each accounting year (Chaganti, Mahajan & Sharma, 1985; Nakano & Nguyen, 2013; Schultz, Tian & Twite, 2013). This classification is similar to the categorization of board directors used by Bhagat and Black (2002) and Adams, Hermalin and Weisbach (2010) with the exception of a category of directors named as grey directors. These

grey directors are directors whose status is questionable, such as family members of employees, lawyers, investment bankers and former company officers.

Corporate governance reforms, most of them based on Sarbanes-Oxley Act (2002) have been published and implemented globally over the last decade, however there is very little empirical evidence on the Sarbanes-Oxley's effectiveness or its impact on firm value (Spong &Sullivan, 2007; Bayrakdaroglu, Arsory & Citak, 2012; Easterwood, Ince & Raheja, 2012). Literature on the relationship between board size and firm value offers mixed findings. Several studies had focused on board characteristics components such as size, composition, diversity, CEO duality and frequency of meetings and their relationship to firm value, with size and composition being the aspects most studied. Literature however presents contradicting arguments on the relationship between board characteristics components such as board size and composition and firm value (Short & Keasey, 1999; Adams & Mehran, 2002; Xie, Davidson & DaDalt, 2003; Miguel, Pindado & Torre, 2004; Wang, Chuang & Lee, 2010; Ahern & Dittmar, 2012).

Board size plays an important role in corporate monitoring, as such Mallin (2002) argued that as board size increases it becomes less efficient due to slower decision making. But, Spong and Sullivan (2007) contented that size is not related to firm value by arguing that size is dependent on each individual firm's age, size, and the need for advising and monitoring. However, Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members' agency problems may increase. Lipton and Lorch (1992) therefore recommended limiting the number of directors on a board to seven or eight, as numbers beyond that they argued would be difficult for the CEO to control.

A large board could also result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board (Lipton & Lorch, 1992). In addition, the problem of coordination outweighs the advantages of having more directors (Jensen, 1993) and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management (Hermalin & Weisback, 2003). On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton & Dalton, 2005). Expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities.

Fama and Jensen (1983) believed that as board size increases, decision-making becomes slower and with free-riding problems it becomes less efficient leading to lower firm value. In support of this argument, Mallin (2002) and Nakano and Nguyen (2013) provided evidence that smaller boards are related to higher firm value. On the other hand,Black and Kim (2012) provided evidence that both very large and very small board sizes affect firm value,suggesting that there is no optimal board size, since board size tends to depend on either advising or monitoring needs and this changes from firm to firm.

2.3.1.3 Board Diversity

Diversity on the board is clearly well encouraged in corporate governance literature. Such

diversity as is often advocated includes; combination of executives, independent and non-executive directors, diversity of experience, expertise and skill (Campbell & Minguez-Vera, 2010;Rhode& Peckel, 2010). Other areas of diversity often ignored include; social diversity, racial diversity and gender diversity. Board gender diversity is becoming a strategic issue as some institutional investors are beginning to see gender diversity as a crucial criterion of the investment policy (Carter, Simkins & Simpson, 2003; Carter, D'Souza, Simkins & Simpson, 2010). Some research studies have shown that board gender diversity falls within the scope of the business case of diversity which was introduced by Cos and Blake (1991) and Dang, Nguyen and Vo (2012).

Previous researches by Carter, Simkins and Simpson(2003) and Catalyst (2014) found thatgood corporate governance is positively associated with board diversity. As such, Rhode and Packel(2010) opined that a well-managed diversity on board of directors enhances firm value in terms of the decision-making process and corporate image with equality. Milliken and Martins (1996) summarized the types of diversity into observable attributes, which are readily detectable and refers to gender, age, race and ethnic background, while the non-observable attributes, which are less visible are defined as personal value, personality characteristic and education. It is therefore argued that board gender diversity will benefit the firm in financial terms which should be regarded in the context of shareholder value (Dang, Nguyen & Vo, 2012).

Women normally are more careful and this may be brought to bear on risk taking and this is likely to lead to better protection of the firm's investments and assets. They are also sometimes more painstaking and this may lead to better investment decisions.As noted by Robinson and Dechant (1997), at the bottom of the argument is the belief that increased demographic diversity among corporate boards will help to improve decision making and hence positively affect firm

value. Apart from the increased number of women who are getting educated and the social awareness being created about gender equality, the increase in the number of women on the board is explained by the robustness of the evidence of performance effect of board gender diversity (Smith, Smith & Verner, 2006; Campbell & Minguez-Vera, 2008; Yi & Bob, 2009; David, Carter, Frank, Betty & Simpson, 2010; Dezso & Ross, 2012).

2.3.2 Ownership Structure

The conflict between cash flow rights and control rights gave rise to the agency problem. Studies such as by LaPorta, Lopez-de-Silances and Vishny(2000) and Watanabe, Xu, Yao and Yu (2013) had indicated that the degree of control and deviation can be used to measure the quality of corporate governance mechanisms. The quality of corporate governance will be inadequate because the larger the deviation, the more controlling shareholders will be motivated to erode the assets of the firm as well as the interests of external investors. Ownership structure therefore refers to the different types and classes of ownership interest that holders of stocks have in a firm. Thus, ownership structure involves factors, such as director's shareholding, managerial shareholding, concentrated shareholding and institutional shareholding.

Similar studies by McConnell and Servaes (1990) concluded that insider shareholding and firm value have a parabolic relationship, as Morck, Shleifer and Vishny (1988) also presented the same findings. However, Demsetz and Len (1985) contend that for a competitive selection in which various cost advantages and disadvantages are balanced to arrive at an equilibrium organization of the firm,ownership structure is an endogenous outcome.Thus, a firm's ownership structure is not correlated with its value.

The literature has therefore identified concentration, managerial, institutional, foreign, and block shareholding as the main components of ownership structure in a firm. In the petroleum sub-sector, there is little or no variation among petroleum firms in Nigeria with regard to foreign and institutional shareholding in view of the fact that most of the firms are foreign-and-institutional-owned. For instance, in monitoring the operations of the firm,institutional shareholders possess professional knowledge and supervising abilities so that they are more capable of contributing to firm value (Fama & Jensen, 1983; Chaganti, Mahajan & Sharma 1985; McConnell & Servaes, 1990). Several researches as by Gompers, Ishii and Metric(2003), Klapper and Love(2004), Black and Khanna(2007), Black, Gledson-de-Carvalho and Gorga(2010) and Black, Gledson-de-Carvalho, Khanna, Kim and Yurtoglu(2013) in usually representits metric by a dummy variable to indicate presence or absence of institutional shareholders in a firm. Given that all listed petroleum firms in Nigeria have institutional shareholders as easily discerned from their financial statements in addition to their being; foreign-based, including these components in a study would result in variable redundancy.

The following are the key components of ownership structure that are relevant to the petroleum sector and how they affect the value of the firms.

2.3.2.1 Ownership Concentration

Ownership concentration refers to the proportion of a firm's shares owned by a given number of the largest shareholders. The link between firm value and ownership structure is often viewed as going through the interaction and power distribution between the owners and managers of firms. In this context, the issue that has received major attention without resulting in

a consensus, is whether concentrated or dispersed ownership is more conducive to good governance.

Nigeria had over the years adopted changing and conflicting corporate ownership structures in an attempt to enhance firm value to stakeholders. Prior to independence and up to the late 1960's, foreign ownership was dominant in corporate Nigeria. In the early 1970's, Nigeria embarked on a large scale indigenization programme which reduced foreign participation in the ownership of firms. In the late 1980's, a shift in ownership restructuring to pave way for private holdings and the diversification of investor base among Nigeria's geopolitical zones. In the late 1990's, there was a general policy shift towards promoting ownership concentration with an increased foreign participation, hence, the concept of a core investor or dominant shareholder was introduced (Tsegba & Ezi-Herbert, 2011).

In their study which focused on the agency problem arising from the separation of ownership and control, Shleifer and Vishny (1997) argued for the desirability of concentrated ownership because it results in better monitoring of managers, maximization of shareholder value while providing external finance for firms. Models that stress the importance of managerial initiative and incentives to acquire information in situations of high uncertainty concluded that concentrated ownership may affect firm value (Aghion & Tirole, 1997; Adjaoud & Ben-Amar, 2010). A high concentration of shares tends to create more pressure on managers to behave in ways that are value-maximizing.

In support of this argument, Morck, Shleifer and Vishny (1988), and Shleifer and Vishny (1997) suggested that low levels of ownership concentration is associated with an increase in firm value, but that beyond a certain level of concentration the relationship might be negative. Another study by Hermalin (2006) reported results not totally in agreement with the hypothesis

of a positive relationship. Using a set of variables suggested by Yermack (1996), the authors reported no evidence to support the hypothesis of a positive relationship between firm value and ownership concentration similar to studies by Holderness and Shechan (1988), Mínguez-Vera and Martín-Ugedo (2007) and Alimehmeti & Paletta (2012).

Finally, legal minority ownership can be potentially important since the law entitles the holder of such a stake; at the general shareholders' meeting, such holder can obstruct its decisions by delaying implementation through lengthy court proceedings. Thus, effective legal minority shareholders may use their ownership position to delay or completely block the implementation of decisions by the majority shareholder(s). Similarly, as shown from studies by Holmstrom and Tirole(1983) and Cespedes, Gonzalez and Molina (2010), dispersed ownership can result in greater liquidity of a firm's stock, which is viewed as improving the information value of the stock market, and therefore firm value.Therefore, ownership dispersion may be optimal only if restructuring needs have to be carried out,or when managerial decisions need to be blocked to increase firm controlling stakes (Bolton &Von Thadden, 1998; Arosa, Iturralde & Maseda, 2010).

2.3.2.2 Managerial Shareholding

The literature has indicated that managerial ownership also affect the activities of firms because equity holding by management could motivate managers to make financial decisions for their own benefit or shareholders' interest thereby leading to increase or decrease in firm value (Morck, Shleifer & Vishny, 1988; McConnell & Servaes, 1990; Short & Keasey, 1999; Miguel, Pindido & Torre, 2004). Thus, the effectiveness of incentives is potentially a function of the level of managerial ownership in the firm (Davies, Hillier & McColgan, 2005). Some studies such as

Boone, Field, Karpoff and Raheja (2007) and Aggarwal, Erel, Stulz and Williamson (2009) had provided evidence that supported the nonlinear relationship hypothesis between managerial ownership and firm value. While some other studies which include James (1984), Crespi, Garcia and Salas (2004)and Adams and Ferreira (2007) had shown that the relationship between managers and shareholders has the potential to influence financial decision-making which in turn impacts upon firm value.

The issue of how managerial ownership affect firm value is also important because Brailsford, Oliver and Pua (2002) argued that firm managers and external block owners are two key groups of shareholders who have powerful influence on the decisions in a firm's resource allocation. The theoretical evidence about how managerial behavior influences financing behaviors directly and indirectly emerged in the middle of last decade such that Novaes and Zingales (1995) developed a set of a managerial model to explore how self-interested managers expropriate firm value by the tool of leverage. Zwieble (1996) also developed a model in which managers choose debt by their own interest. Wang (2006) similarly developed a contingent claims model to explain the role that shareholder-manager conflicts play in risk choice and financing decisions. Friend and Lang (1988) in support of entrenchment arising from managerial ownership examined whether managerial entrenchment induced by insiders' equity holding at least in part motivates capital structure decisions on a basis.

Demsetz and Lehn (1985) contend that substantial shareholding is not significantly correlated with firm value. While Holderness and Shechan (1988) posit that where a large-block shareholder is an outsider, this shareholder will endeavor to monitor managerial performance if driven by the incentives from external supervision which can result in an improvement in firm value. Besides, a study by Mehran(1995) based on the convergence of interest's hypothesis,

found that if managerial shareholding is high, then the interest of management will be more consistent with that of external shareholders. On the contrary, the entrenchment hypothesis states that a higher managerial shareholding gives the management greater control of the firm and reduces the effects of external controls on the management. Thus, Thomsen and Pedersen (2000) contend that for firm value to have positive effects on managerial shareholding and managerial shareholding to have positive effects on firm value, managerial shareholding and firm value must be simultaneously determined. However, issues associated with ultimate control, pyramid structures, and cross-shareholdings have been much emphasizedsince LaPorta, Lopez-de-Silances and Shleifer (1999) proposed the concept of cash flow rights and control rights. Therefore, if the controlling shareholders have higher cash flow rights, there will be stronger incentives for them to accept supervision (LaPorta, Lopez-de-Silances & Vishny, 2002; Fazlzadeh, Hendi & Mahboubi, 2011; Chen & Yu, 2012).

In Nigeria, Dabor and Ibadin (2013) using the Pearson Product Moment Correlation tests found a statistically positive relationship between directors' shareholding and bank performance for the eighteen (18) banks quoted on the NSE as at 2010. However in most comparisons, researchers tend to contrast two dichotomous models of Anglo-American and Continental European corporate governance (Becht & Roël, 1999; Hall & Soskice, 2001). As in the United Kingdom, firms in the United States are characterized by dispersed ownership where markets for corporate control, legal regulation, and contractual incentives are key governance mechanisms. However, in continental Europe and Japan, large shareholders such as banks and families retain greater capacity to exercise direct control and, thus, operate in a context with fewer market-oriented rules for disclosure, weaker managerial incentives and greater supply of debt.

2.4 Characteristics of Firm Value

The term value refers to the utility or the benefit that can be derived from a good or an object (Wild, 1992). In finance the term value refers to the price for which a good or object can be exchanged (Mousavi, Mousavi, Pourezza & Ahmadi, 2012). Firm value is derived from the market's expectations of firm performance, and accounting measures provide the necessary information for the market to form these expectations. Thus, the book value of equity represents past performance and current earnings are indicative of future performance. These measures are commonly used as the basis for firm valuation (Penman, 1980; Easton & Harris, 1991; Wild, 1992; Ohlson, 1995; Sveiby, 2010).

Though there are different concepts of firm value such as intrinsic value, social value and hedonic value, the common factor in all value relevance studies is that an accounting number is deemed value relevant if it has a significant association with equity market value (Barth, Beaver & Landsman, 2001; Larcker & Rusticus, 2010). Value relevance literature suggests that shareholders use accounting earnings to estimate future returns (Lev, 1988; Barth, Beaver & Landsman, 1996; Choi, Collins & Johnson, 1997; Kallunki & Martikainen, 1997; Beaver, 1998; Mehri, Umar, Saeidi, Hekmat & Rasekh, 2012). However, value relevance studies use equity market value as the valuation benchmark to assess how well particular accounting measures reflect information used by investors (Barth, Beaver & Landsman, 2001; Larcker & Rusticus, 2010). The economic consequences of corporate governance are therefore reflected in firm value; as such accounting information must reflect firm value on the basis of the financial statements.

However, for accounting information to reflect firm value, a financial statement must be value relevant. Ball and Brown (1968) who were the first to attempt a value relevance test were

motivated by their disagreement with a common opinion at the time that accounting income numbers cannot be defined substantively, and that they lack meaning and are therefore of doubtful utility. Thus, in their study they compared abnormal stock returns of firms with positive and negative unexpected incomes.

Their results clearly showed that stock returns are associated with earnings. Thus, empirical finance often requires proxies for variables of interest. However, proxies must bechosen carefully since inappropriate proxies can cause a hypothesis to be spuriously rejected or accepted. Indeed, proxies result in joint tests of the stated hypotheses and the validity of the chosen proxies. Ideally, empirical proxies would originate from a theoretical model that justifies their use under different assumptions.Tobin's Q is a widely used proxy for firm value in studies of corporate governance, as Gompers, Ishii and Metrick (2003) concluded that firms with more shareholder rights are better governed since they have a higher Tobin's Q.

A firm's financial performance is important, because its corporate governance components affect the functioning of the entire corporate body, which is why studies on corporate governance normally focus on policy systems which not only facilitates the operations of the firm but more importantly, enhance its value (Gompers, Ishii, & Metrick, 2003; Bebchuk, Cohen & Ferrel, 2009; Lee, Huang, Hsu & Hung, 2013). If reported earnings are considered by investors to be value relevant and useful in estimating future returns, share returns and earnings should be related. Therefore, the absence of value relevance may indicate a lack of relevance and reliability. As the conceptual framework predicates the relevance of accounting information to decision makers; then low value relevance may be attributed to low reliability (Kormendi & Lipe, 1987; Collins & Kothari, 1989; Easton & Harris, 1991; Renders, Gaeremynck & Sercu, 2010).

Bishop, Faff, Oliver and Twite (2004) and Bose (2004) suggested Tobin's Q is amongst a variety of methods widely used for firm valuation. Tobin's Q as defined by Bhagat and Jefferis (2002), Gompers, Ishii and Metric (2003) and Beiner and Schmid (2005) is the ratio of market value of assets (equity and debt) to the replacement value of assets. According to Sarkar and Sarkar (2000), debt as an important component in Tobin's Q can be accurately valued. As such Tobin's Q is widely used for firm valuation since the variables show the financial strength of the firm and thus serves as a proxy for firm value. A value of Tobin's Q greater than one shows that a firm had created value for its shareholders; on the contrary, a value of the variable lower than one shows that the firm had not performed creditably. Tobin's Q has been used as a dependent variable in several studies about corporate governance and firm value relationship (Agrawal & Knoeber, 1996; Loderer & Peyer, 2002; Beiner & Schmid, 2005; Tariq & Abbas, 2013).

Different researchers in literature calculate the proxy for Tobin's Q in different ways. Capulong, Edwards, Webb and Zhuang (2000) used the ratio between market value of equity and debt to the replacement cost of assets as the proxy for Tobin's Q. On the contrary, Klapper and Love (2004) calculated Tobin's Q by taking the ratio of market value of equity and total assets of a firm. Similarly, Gompers, Ishii and Metric (2003) used the proxy for Tobin's Q as a ratio between market value of assets to the book value of assets-the market value of assets was thus calculated by adding the market value of equity and book value of debt.

In their study, Millar, Eldomiaty, Choi and Hilton (2005) found a positive effect of corporate governance on firm value as measured by Tobin's Q. Another important finding is that corporate governance practices at firm level had meaning in emerging economies like Nigeria than in the developed countries. Different researchers in literature calculate the proxy for Tobin's Q in different ways. Tobin's Q as a variable used for measuring capital market-based performance is a forward-looking measure of firm value, and it is also comparable across firms. Tobin's Q provides

information about future potential profits. In this respect, it is influenced by current cash flow and current profitability. (Anderson, Fornell & Mazvancheryl, 2004; Rao, Agarwal & Dahlhoff, 2004; Matzler, Hunterhuber, Daxer & Huber, 2005; Mittal, Anderson, Sayrak & Tadikamalla, 2005; Gull. Saeed & Abid, 2013).

Tobin's Q is also capable of capturing the intangible effects as well as long-term performance of a firm, which is why it is used as a measure of capital-market based performance. This is consistent with the results of the study by Durnev and Kim (2005) who concluded that firms that practice good corporate governance will have increased firm value. Hence, in this study Tobin's Q was measured based on the modified simple approximation by Chung and Pruitt (1994) as adopted by Angulo and Rialp (2007) among others.

The results of these studies support the agency theory which suggests the importance of monitoring the relationship between agent and principal, and applying good corporate governance practices by the board is one of the implementation of the contract between agent and principal. Therefore, firms that implement good corporate governance practices would be in a better position to provide quality financial reports to investors thereby increasing the credibility of the financial statements. Increased credibility of the financial statements will boost investor confidence and going forward will increase stock prices. Therefore, it can be predicted that the better the corporate governance practices adopted by a firm the higher the firm value.

2.5 Review of Empirical Studies

Corporate governance is an important factor that affects firm value. Its mechanisms play an important role in affecting firm value by decreasing the agency cost (Yammeesri & Herath, 2010). The Organization for Economic Cooperation and Development (OECD) principles for

corporate governance (1999) emphasized achieving social and economic sustainability by creating ample job opportunities in the economy, therefore firms can improve shareholders value and provide benefits to society by following the principles of corporate governance. Further, the disclosure of transparent financial information, the maintaining occupational health and safety, and developing the social and economic culture in an organization can also generate value for the shareholders. As such a firm as a nexus of contracts among different parties, there is a need for a regulatory framework for corporate governance issues which arises due to the presence of incomplete contracts in the financial markets (Aghion & Tirole, 1997; Reddy, Locke & Scrimgeour, 2010).

This need is intensified by other factors such as market failure; under developed institutions together with incomplete contracts among different parties in the firm such as managers, shareholders, suppliers and other stakeholders. All these affect firm value in a negative manner (Aghion & Bolton, 1992; Nam & Nam, 2004; Haider,Hassan & Hussain, 2013). Therefore, the correct procedure of contracting among the different parties in a market can decrease the agency cost, thereby increasing the value to shareholders (Zingales, 1998; Ongore & Authority, 2011).

Board characteristics components stress that the control of the board is affected by several factors such as size, independence and gender diversity, while the ownership structure components include, ownership concentration and managerial shareholding. Consequently, corporate governance encompasses the board of directors and an ownership structure (Makhija & Patton, 2004; Shah, Butt & Saeed, 2011). Several empirical research studying the link between board characteristics and firm value have concentrated on particular aspects such as board size, board composition,audit committee independence, ownership concentration, institutional

shareholding, foreign ownership, investor protection, shareholder activism, executive compensation, and antitakeover provisions. Millstein and MacAvoy (1998) investigated the relationship between board characteristics and firm value, while Karpoff, Marr, and Danielson (2000) and Chua, Eun, and Lai (2007) linked firm value with shareholder activism. But Bhagat, Carey, and Elson (1999) looked at the relationship between outside director pay and firm value, as Gompers, Ishii and Metrick (2003) linked firm value to a corporate governance index based largely ontakeover defenses.

The majority of the prior literature on the relation between corporate governance mechanisms of board characteristics, ownership structure and firm value relationship documents that stronger governance mechanisms are associated with a higher firm valuation (Yermack, 1996; Core, Holthausen & Larcker, 1999; Gompers, Joy, Ishii & Metrick, 2003; Bebchuck, Cohen & Ferrell, 2009; Reddy, Locke Scrimgeour, 2010). While much of these literature dealt with specific aspects of corporate governance mechanisms, such as board characteristics and ownership structure, part of the literature aggregates individual corporate governance mechanisms to corporate governance indices. Studies such as by Gompers, Joy, Ishii and Metrick (2003), Bebchuck, Cohen and Ferrell (2009), Shen and Gentry (2014) demonstrated the value-relevance of such governance indices by aggregating a number of firm level governance components.

Other studies that had investigated the valuation impact of board characteristics and ownership structure components notably that of LaPorta, Lopez-de-Silanes, Shleifer and Vishny (2002), Klapper and Love (2004), Durnev and Kim (2005), and Francis, Khurana and Pereira (2005) used data compiled by LaPorta, Lopez-de-Silanes, Shleifer and Vishny (1998) on minority shareholder rights and protection from Credit Lyonnais Securities Asia (CLSA) scores,

but the usefulness of these scores was subsequently questioned by Khanna, Kogan and Palepu (2006) because the governance components were related to disclosures as measured only by Standard & Poor's rankings.

To overcome the problem of data availability, some studies used hand-collected and survey-based datasets on corporate governance mechanisms within one specific country, as such Drobetz, Schillhofer and Zimmermann (2004), Beiner, Drobetz, Schmid and Zimmermann (2006), Black, Kim and Jang (2006), and Balasubramaniam, Black and Khanna (2009) documented a positive relationship between corporate governance mechanisms and firm value for German, Swiss, Korean, and Indian public firms. Again Aggarwal, Erel, Stulz and Williamson (2009) using data from RiskMetrics and compared the governance of non-U.S. firms with a matched set of U.S. firms and found that the valuation of non-U.S. firms falls as their governance index value decreases, compared to the governance index of matched U.S. firms.

Khaan, Kogan and Palepu (2006) also using RiskMetrics data found that firm value depends on both country-level shareholder protection laws and corporate governancemechanisms, though these relations are more pronounced in firms that depend on external financing. Chhaochharia and Grinstein (2007) also using the RiskMetrics database, distinguished between corporate governance mechanisms that are legally required and the mechanisms that are adopted voluntarily. Their study showed that firms that voluntarily adopted a more rigorous corporate governance structure are rewarded with a higher firm value.

Some scholars however had also examined monitoring mechanisms and transparency standards across firms in emerging markets. Thus, Klapper and Love (2004) and Black, Gledson-de-Carvalho and Gorga (2010) indicated that better corporate governance practices are significantly related to higher firm valuation and operating performance in emerging markets.

Hence, Black, Jang, and Kim (2006), Chong and Lopez-de-Silanes (2006), Black and Khanna (2007) and Black, Gledson-de-Carvalho and Gorga (2012)documented a positive relation between corporate governance and firm value in China, Brazil, Russia, Korea, and Mexico, respectively. Black, Jang and Kim (2006) and Chong and Lopez-de-Silanes (2006) in addition examined the relation between corporate governance and operating performance; while the former did not find a significant relation for Korean firms, the latter found that the association is statistically and economically significant for Mexican firms. Overall therefore, there is extensive literature that discussed corporate governance in relation to firm value (Schleifer & Vishny, 1997; LaPorta, Lopez-de-Silanes & Shleifer, 1999; Bae, Jon & Jin, 2002; Black & Khanna, 2007; Black & Kim, 2012; Black, Gledson-de-Carvalho, Khanna, Kim & Yurtoglu, 2013). In the following sub-sections, a review of relevant empirical studies on the relationship between corporate governance components and firm value is given.

2.5.1 Board Independenceand Firm Value

Literature on board composition and its relationship to firm value is mostly focused on board independence as measured by the proportion of non-executive directors on the board. On board composition, the Sarbanes-Oxley Act (2002) following agency theory principles proposed and set a requirement of a larger percentage of non-executive directors, because it was believed that a larger proportion of non-executive directors lead to greater board independence and better monitoring. This was supported by the belief that non-executive directors are less prone to be entrenched or allied with managers thus they are able to perform better monitoring and advising task (Dalton, Daily, Johnson & Ellstrand, 1998). Authors such as Weisbach (1988), Byrd and Hickman (1992), Brickley, Coles and Terry (1994) and Duchin, Matsusaka and Ozbas (2010)

supported this argument by mentioning that under special circumstances boards with a higher proportion of non-executive members add value to shareholders.

However, Coles, Daniel and Naveen (2008) presented conflicting evidence that contradicted the Sarbanes-Oxley Act (2002) by mentioning that complex firms such as ones with research and development (R&D) issues need more advising than monitoring, and therefore value is created when larger number of executive directors who provide advice are present in boards. This can lead to better business knowledge thereby leading to higher firm value. But Barnhart and Rosenstein (2006) on the other hand provided evidence on the lack of a positive relationship between board composition and firm value.

Many of the empirical studies that have examined the impact of the insider-outsider ratio onboards have found no consistent evidence to suggest that increasing the percentage of outsiders on the board will enhance firm value. If anything, the studies have suggested that pushing too far to remove inside and affiliated directors may harm firm value by depriving boards of the valuable firm and industry-specific knowledge they provide (Fama & Jensen, 1983; Pan & Sparks, 2012). A few studies however had identified a positive relationship between the percentage of outside directors and firm value (Daily & Dalton, 1993; Nguyen & Nielsen, 2010), while other studies found no significant relationship between board composition and firm value (Dulewicz & Herbert, 2004; Pathan & Faff, 2013). However, Wagner, Stimpert andFubara (1998) tried to explain these conflicting findingsby conductinga meta-analyses of the research on board composition and firm value.

Studies by Daily and Johnson (1997) in the analysis of 54 researches, found no evidence of a link between insider-outsider ratio and firm financial performance. This study established thatneither the size of the firm or the measures used for director type nor firm performance

affected the findings. Similarly, Wagner, Stimpert and Fubara (1998) analyzed 29 studies and found similar results, as their meta-analysis indicated that increasing the number of insiders or outsiders had a positive effect on firm value.This suggests that board size may be more important than composition as boards with a very high or low percentage of insiders performed better than those with a more even mix of insiders and outsiders.

In contrast, Barnhart, Marr and Rosentein (2006) found evidence of a reverse, curvilinear relationship between the percentage of independent directors, as classified by Institutional Shareholder Services (ISS), and some performance measures. They reported that firms where boards have a clear majority of independent directors or very few independent directors had lower stock market value. Similarly, in a sample of China's largest public companies Peng (2004) found thatincreasing the percentage of independent directors had no impact on either return on equity (ROE) or sales growth, however, an addition of affiliated outside directorswas linked to an higher subsequent sales growth but not ROE; and as part of the Chinese business networks, Peng (2004) attributed this result to the role these directors played in securing resources for the firm.Thus, the desired characteristics of the outside board members may depend on the priorities set bythe board of directors.

Boards that are primarily focused on monitoring can benefit adequately from outside board members who are experts at understanding financial statements, while boards that are focused on providing resources may benefit from having politicians or lawyers on their boards. Additionally, corporate governance codes have strongly focused on board independence as key element of good governance.

Studies by Fama and Jensen(1983) and Peni (2014) on board composition found that board composition is anintegral component that affects the ability of the board to control the

actions of management. This implies that a manager-dominated board has severe limitations when issues that concern the controlling of managerial actions that is contrary to shareholders' interests. Consequently, a manager-dominated board would not be an effective method to control managers' opportunistic actions. The reason being that where the CEO is also the chairman of the board, the powers within the firm is thus concentrated in an individual, which therefore allows the CEO to control information available to other board members. Hence, the board comes under the control of the managers, which thus prevents it from effectively accomplishing its tasks of hiring, firing, rewarding,ratifying and monitoring important decisions. As such, Jensen (1993) recommended that firms separate the titles of CEO and board chairman, in view of the exacerbated decrease in the effectiveness of the board, the potential agency costs resulting from the separation of ownership and decision making.

The results of studies by Brickley, Coles and Jarrell(1997) and Shan and Mclver (2011) using stock market measures have found no significant effects of board composition on firm value, just as Finegold, Benson and Hecht(2007) research on the effects of duality on firm value returned an ambiguous results. However, most studies as Kiel and Nicholson(2003), Varshney, Kaul and Vasal (2012)that had looked at financial measures have shown mixed results with some indicating that duality enhanced firm value, while others as Coles, McWilliams and Sen (2001) and Tsegba, Herbert and Ene (2014) showed negative impact.

A contingency model presented in a study by Finkelstein and D'Aveni (1994) suggested that with an increased potential for entrenchment,an independentboard structure is generally beneficial especially when the firm is experiencing strong financial performance. Similarly,Boyd (1995) found that in industries with higher in complexity or that were resource-constrained, having one person fill both roles of chairman and CEO was positively related to return on

investment (ROI),but overall duality was not significantly related to ROI. Furthermore, using a meta-analysis of 22 duality studies, Rhoades, Rechner and Sundaramurthy (2001) found additional empirical support. A study of Chinese firms making the difficult transition from state-owned enterprises to publicly-traded joint stock companies by Peng (2004) also found that firms with a unified chair-CEO had higher sales growth but not ROE. Therefore, from an agency perspective, a duality of the chair-CEO may substantially weaken the board's monitoring effectiveness, but this may bebeneficial from a resource provision perspective.Again, the presence of the CEO on the board will be beneficial if the board of directors is designed to assist management, because not only will his presence improve the information flow towards the board members, the interactions and discussions of the CEO with board members may lead to valuable advice that can improve firm value.

Previous researches as those by Dalton, Daily, Ellstrand and Johnson (1999) and Larmou and Vafeas (2010) that had studied the relationship between the number of directors sitting on the board and firm value present different and opposing theoretical arguments to support either large or small board size. A large board size is argued to benefit firm performance when it enhancesits ability to establish external links, secure rare resources and bring exceptional qualified counsel.In other words, the greater the need for effective external linkage, the larger the board should be (Pfeffer & Salancik, 1978). Furthermore, Lehn, Petro and Zhao(2009) believes that a large board size may improve the efficiency of the decision making process as a result of information sharing. While on the other hand, Jensen (1993) stated that keeping boards small can help improve their value. As such, when boards have beyond seven or eight people the board is less likely to function effectively, making it easy for the CEO to control. This establishes that in a large group of people communication, coordination and decision making is more difficult and

more expensive than it is in smaller groups. There is however been relatively little empirical research directly focused on the impact of board sizeon firm value that could help determine the validity of the above these two perspectives.

Thus, Yermack (1996) and Postma, Van Ees and Sterken (2003) found firms with smaller boards have higher firm value. While other authors as Kiel and Nicholson (2003) and Belkhir(2009)offered supportive evidence for the positive influence of large board size.In a meta-analysis of 27 studies conducted by Dalton, Daily, Ellstrand and Johnson (1999)that used board size as a variable, found that having more directors on the board was associated with higher levels of firm financial performance. This result held true for firms of all sizes, but the effect of board size on performance was greater for smaller firms. In contrast, in the analysis of ten developed markets including the United Statesby De Andres, Azofra and Lopez (2005), found a negative relationship between board size and firm value as measured by 12-month equity market-to-book value, although the convex patterns of the results suggested the negative impact decreased as board sizes were larger.

Hermalin and Weisbach (2003) found that the problem of research on the independence of directors remains that the degree of independence is unobservable. However, in a survey by Coles, Daniel and Naveen (2008) on board composition and performance, it was confirmed that this problem had no stringent impact on firm value. This builds on Raheja (2005) who argued that the optimal board structure is determined by the trade-off between maximizing the incentive for insiders to reveal their private information, minimizing coordination costs among outsiders and maximizing the ability of outsiders to reject inferior projects. Composition of the board of directors is measured by using the proportion of non-executive directors, which is defined as the number of non-executive directors out of the total number of directors. Non-executive directors

are often nominated for their beneficial impact on firm value, since their independence should minimize the inherent conflicts of interest between managers and shareholders (Linck, Netter & Yang, 2005).

Overall therefore, while board research finds mixed results on the effectiveness of firm boards in the U.S. as in Stoeberl and Sherony (1985), Morck, Shleifer and Vishny (1988), Millstein and MacAvoy (1998), Denis and McConnell (2003), Linck, Netter and Yang (2008) and Lehn, Patro and Zhao (2009),regulation distinguishes the petroleum industry from other industries (Belkhir, 2009). Thus, the study by Koh (2003) showed the importance of the institutional components of firm governance which leads us to believe that firms' boards in the petroleum industry play a major role in controlling and advising managers, though in Nigeria, a study by Sanda, Garba and Mikailu (2008) using data obtained from the NSEfor sample size ranging from 89 to 205 firms, revealed that ownership is highly concentrated, which engender certain aspects of board independence thus affecting firm value, and to close this gap, Kaplan (1994) showed that German boards are effective in replacing management board members when performance is poor. Although governance literature offers no conclusive results concerning the effect of appointing independent directors (John & Senbet, 2003; Black & Kim, 2012), a positive relation is expected with the presence of non-executive directors.

2.5.2 Board Size and Firm Value

Several studies had focused on board characteristics such as size, composition, diversity, CEO duality and frequency of meetings and their relationship to firm value, with size and composition being the aspects most studied. Studies on the relationship between board size and firm value offers mixed findings. Yermarck (1996) analyzed a sample of 452 large U.S.

industrial corporations between 1984 and 1991 and consistently found an inverse relationship between board size and firm value where regressions were carried out using numerous models such as fixed effects, random effects and OLS estimates. Even when firm value represented by Tobin's Q was substituted with other proxies such as return on assets (ROA) and return on sales (ROS), the negative relation persisted. Following Yermarck's analysis of large firms, Eisenberg, Sundgren and Wells (1998) tested the relationship between board size and profitability on small and mid-size Finnish firms. They presented evidence of a negative association between board size and profitability, thus supporting the theory put forward by Lipton and Lorch (1992) and Jensen (1993). Similarly, Vafeas (1999) reported that firms with the smallest boards with a minimum of five board members are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities.

Echoing the above findings, Mak and Yuanto (2003) reported that listed firm valuations of Singaporean and Malaysian firms are highest when the board consists of five members. Bennedsen, Kongsted and Nielsen (2004), in their analysis of small and medium-sized closely held Danish corporations reported that board size had no impact on firm value for a board size of below six members, but found a significant negative relation between the two when the board size increased to seven members or more. In investigating the changes in board size over time, Wectman (2003) discovered that on average, board sizes of corporations (Forbes 500) decreased over the 1991-1995 periods, as such Wectman (2003) argued that the cause of the decrease could partly be due to pressure from large active investors, which implies that the market generally is more confident if monitoring is carried out by smaller boards. Bhagat and Black (2002) found no evidence on the relationship between board size and firm value, although there were hints of an inverse correlation between the two. Thus, their results do not fully support Yermark (1996)

findings, however, they explained that board size is often taken to be endogenously related to other control variables that may correlate with firm value. Though, Yermark (1996) included other control variables in his analysis, the approach taken may have caused the difference in results.

In an attempt to compare the impact of board structure on firm value between Japanese and Australian firms, Bonn, Yokishawa and Phan (2004) found that board size and performance which was measured as market-to-book ratio and return on assets was negatively correlated for Japanese firms, but found no relationship between the two variables for its Australian counterpart. However, contrary to the Japanese firms, the ratios of outside directors and female directors to total board numbers had a positive impact in the Australian sample (Bonn, 2004). However, a positive impact on performance was recorded between larger board size and firm valueby Mak and Li (2011), Adams and Mehran (2002) and Boone, Field, Karpoff and Raheja (2007), and by examining 147 Singaporean firms from 1995 data, Mak and Li (2011) supported the argument that board characteristics is endogenously determined, as the results of their ordinary least square (OLS) regression indicated that board size, leadership structure and firm size had an positive impact on firm value; but their 2SLS regressions did not support this result. On the other hand, Adam and Mehran (2002) found a positive relationship between board size and firm value as measured by Tobin's Q in the U.S. banking industry, which is contrary to the findings of Yermack (1996) and Eisenberg, Sundgren and Wells (1998) in U.S. non-financial firms. Adam and Mehran's results suggests that such performance relationship may be industry specific, indicating that larger boards work well for certain type of firms depending on their organizational structures.

Other researchers such as Lehn, Patro and Zhao (2009) in their study of 88 U.S. firms between 1935 and 2000 found no significant relationship between size and firm value, though Ajala, Amuda and Arulogun (2012) in evaluating the effects of corporate governance on the performance of Nigerian banks using Pearson correlation and regression analysis, found negative but significant relationship between board size and firm value. Hence, some researchers have studied this problem with findings showing no relationship between board size and firm value, as Bonn (2004) and Brown and Gorgens (2009) found no relationship between board size and value for Australian and Italian firms. However, in studies that explored the relationships between board size and opportunistic accounting in developed economies, Jensen (1993), Xie, Davidson and DaDalt (2003), Zhou and Chen (2004) and Wang, Chuang and Lee (2010) revealed inconsistent results. This is because of the consistent conflicting arguments supported by equally inconclusive empirical results that characterize the discussions regarding an effective board size. Therefore relationship between board size and firm value varies from positive tonegative (Yermack, 1996;Eisenberg, Sundgren & Wells, 1998; Loderer & Peyer, 2002; Kyereboah-Coleman & Biekpe, 2005; Tsegba, Herbert & Ene, 2014).

However, a meta-analysis based on 131 studies by Dalton and Dalton (2005) revealed that larger boards are correlated with higher firm value, which is in contrast to the results of an earlier meta-analysis by Dalton, Daily, Ellstrand and Johnson (1998), hence, boards with a large number of directors can be disadvantageous and expensive for firms to maintain. Planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. The effectiveness of the board does not depend on how many directors sit on it, although a minimum number of directors with adequate experience and knowledge is vital to ensure tasks are carried out efficiently. While the board of directors consists of a composition of

outside (independent) directors and inside (executive) directors, discussions on board of directors are always centered on the advantages and disadvantages of outside directors. Inside directors are also expected to play their role as governance agent safeguarding between the firm and shareholders' interest and at the same time safeguarding the contractual relation between the firm and the board (Salterio, Conrod & Schmidt, 2013).

With regards to their monitoring role, inside directors are expected to provide first-hand information on the firm's operation to other board members (Booth &Deli, 1999). Since inside directors are active participants in the firm's overall decision making process, they have access to all pertinent information that facilitates decision making on the firms' activities. This is in contrast to outside directors who do not hold any executive powers and who usually sit on the boards of other firms too. Therefore, as suggested by Anderson and Reeb (2004) when outside directors ask questions on the firm's operation during board meetings, inside directors are expected to provide them with satisfactory explanation. Apart from channeling pertinent information to outside directors, inside or outside directors play a vital role of monitoring the CEO. While this monitoring role maybe indirect as inside directors themselves are under the evaluation of the CEO, inside directors may channel relevant information to outside directors if there are proof of CEO entrenchment, which may increase the corporate governance structure of the firm and will eventually lead to improved firm value.

Nevertheless, inside directors are usually aligned with the CEO. The CEO who is the highest-ranking executive in the organization has full powers in appointing executives that will remain loyal. Due to their implicit relationship with the CEO, such inside directors may not contribute towards effective monitoring of the CEO. Therefore boards with more executive directors do not necessarily lead to enhanced firm value.

2.5.3 Board Diversity and Firm Value

An increasing number of empirical studies which investigated the link between board diversity and firm value across different countries such as the United States (Erhardt, Werbel & Shrader, 2003), Denmark, Norway and Sweden (Randoy, Thomsen & Oxelheim, 2006) and Indonesia (Darmadi, 2011) strongly support more women on the board of directors. Oba (2013) found that female directors' presence had a positive statistical significance on financial performance using return on capital employed (ROCE) as a proxy for financial performance. Similarly in Nigeria, a study by Garba and Abubakar (2014) using ROA, ROE and Tobin's Q as measures of performance and applying the Feasible Generalized Least Square (FGLS) and random effects estimators found that gender diversity had a positive statistical significance on the performance of insurance firms in Nigeria. This was supported by the results of the findings by Burke (2000) and Man and Kong (2011) who suggested that the presence of women directors and firms' performance are correlated positively.

Also, Dang, Ngurjen and Vo (2012) found that firms with at least three (3) women on corporate boards have a better performance and value as measured byreturns on assets (ROA) and Tobin's Q, and they are significantly large in terms of sales. Several empirical studies showed a positive association between the proportion of female directors in the boardroom and firm value in the United States (Carter, Simkins & Simpson, 2003; Erhardt,Werbel &, Shrader, 2003; Hussein & Kiwia, 2009; Carter, D'Souza, Simkins & Simpson, 2010), Denmark (Smith, Smith&Verner, 2006) and Spain (Campbell & Minguez-Vera, 2008). Carter, Simkins and Simpson (2003) reported a significant positive relation of board representation by minorities and

females and the organizational value which is measured by the approximation of Tobin's Q on Fortune 1000 companies. Their findings also established the negative relation of the board diversity and the number of insiders.

Shukeril, Shinl and Shaaril (2012) however found no relation between board gender diversity and firm value. This means that increasing or decreasing females on the board would not give significant effect to firm value. Again, the participation of females on boards varies from country to country. For instance, almost all major companies' boards are dominated by males in Australia, France, Europe, Sweden, and Norway with women directors constituting only 8.3%, 7.6%, 9.7%, 26.9% and 44.2% respectively. On the contrary, 49% of the ASX200 companies are found to include females on boards. Similar studies of FTSE200 companies in the United Kingdom, FP500 companies in Canada and S&P500 companies in the United States of America show 77%, 52.8% and 91% of them with a female director respectively. In the United States (Zahra & Stanton, 1988; Shrader, Blackburn & Iles, 1997; Farrell & Hersch, 2005; Hussein & Kiwia, 2009; Carter, D'Souza, Simkins & Simpson, 2010) and Denmark (Smith, Smith & Verner, 2006) gender diversity was not found to be a significant determinant of firm value. Using the data of all listed Danish companies from 1998 to 2001, Smith, Smith and Verner (2006) tested whether there is a link between fraction of women board members and firm value indicator of Tobin's Q, with no significant relation, the findings revealed the circumstance that women are under-represented in boardrooms in accordance with the Danish evidence.

Again, Shrader, Blackburn and lles (1997) employed the data of 200 companies with the highest market value in the United States and found that there is no significant influence of the percentage of women representation on board in relation to financial performance which is measured by the profitability ratio. Farrell and Hersch (2005) indicated that there is no

persuasive evidence proving the likelihood of improving firm value after adding a women director in the boardroom. Zahra and Stanton (1988) concluded with similar result to that of Carter, D'Souza, Simkins and Simpson (2010) who documented a neither positive nor negative relationship between gender diversity and Tobin's Q as a proxy for firm value on firms in S&P 500 index from 1998 to 2002.

In contrast, Adams and Ferreir (2009) and Darmadi (2011) came out with a different result as compared with other studies. Adams and Ferreir (2009) analyzed the correlation between gender diversity and firm value with Tobin's Q as an indicator. The study suggested that imposing gender quota on board is not conducive to good corporate governance. For a sample of companies listed on the Indonesia Stock Exchange for the financial year of 2007, Darmadi (2011) documented the negative effect of the level of female board representation on firm value.

In accordance with a study by Campbell and Minguez-Vera (2008), the mixed results are attributed to several reasons. First, employing data from different countries results in different conclusions in the studies. The situation in developed countries may differ from the ones in developing countries. Second, time is another factor affecting the analysis. Further, various estimation methods were used by scholars as some researchers employed the measurements of the control variables in the analysis while some excluded the control variables. Owing to the difference in estimations, the outcomes definitely are different or even conflicting to each other. In addition, non-observable attributes of board diversity was not included in the analysesand these may affect firm value.

Despite the discrepancies in different countries, Adams and Ferreir (2009) highlighted an upward trend of female participation on boards owing to the proposals of corporate governance reforms.There appears to be conflicts in findings from empirical studies on the relationship

between board gender diversity and firm value, and we believe this may mean that the mere presence of females on corporate boards does not add to firm value; but more of how these females on the boards are able to use their different skills, experience and expertise to bring about positive improvements to the firm which may improve firm value.

2.5.4 Ownership Concentration and Firm Value

There are a number of studies thatdocumented the relation between firm value and ownership structure. Claessens and Djankov (1999) provided evidence that foreign ownership largely expropriated minority shareholders in Japan. In another study by Kroszner and Philip (2001) investigating how Tobin's Qis affected when a firm is largely owned by foreign investors in Japan, found minimal effect during the sample period.

However, Vafeas (1999) using Tobin's Qas a proxy for firm value while studying the relationship between foreign ownership and firm value found that domestic financial institutions are poor monitors, while foreign institutional investors serve valuable monitoring functions. In that same study, Tobin's Qwas positively correlated with the presence of foreign institutional ownership and negatively correlated with the presence of domestic institutional ownership. They further pointed out that when domestic financial institutions are less transparent, they are more likely to engage in questionable practices which may be detrimental to minority shareholders. In support of the views expressed in these empirical findings which are consistent with the theoretical framework of Coles, Daniel and Naveen (2008) that explained that an increase in the fraction of foreign ownership possibly indicates a general decline in equity ownership.

Foreign institutional investors can be considered as major outside investors up to a certain level of ownership. This view is consistent with the theoretical prediction by Shleifer and

Vishny (1997) where they argued that large shareholders are expected to effectively monitor management using enough voting control to reduce the agency problems. On the other hand, at high levels of foreign ownership, we may consider a foreign management's entrenchment hypothesis which is an extension of the work of Chhaochharia and Grinstein (2007). At very concentrated foreign ownership levels, it is assumed that both ownership and managerial control are closely associated. It may therefore be possible to predict that significantly increased foreign ownership may allow foreign owner-managers to become entrenched and pursue non-value maximizing managerial behaviors.

2.5.5 Managerial Shareholding and Firm Value

In the pioneering work about the relationship between managerial ownership and firm value, Morck, Shleifer and Vishny (1988) used piecewise linear regressions to estimate the relationship between Tobin's Q and the shareholdings of the board of directors for 371 Fortune firms in 1980. The study found a positive relation between ownership and Tobin's Q in the 0% to 5% board ownership range which was dominated by the convergence of interest effect of management; while there was a negative and less pronounced relation in the 5% to 25% range in which the entrenchment effect overpasses the convergence of interest effect.

Demsetz and Lehn (1985) and Belghitar, Clark and Kassimatis (2011) argued that managerial equity ownership will provide managers incentives to maximize firm value. Using U.S. data, Morck, Shleifer, and Vishny (1988) empirically showed a non-linear relation between firm value and managerial ownership where firm value increases up to a certain level of managerial ownership of about 5% and then decreases as management holdings further rises. Similar results was also found in McConnell and Servaes (1990), were they found that firm value

was positively related to managerial ownership in Japan which is consistent with the prediction by Jensen and Mecking (1976).

In an empirical research in contrast to that from studies using U.S. data, Kroszner and Strahan (2001) attributed the less pronounced entrenchment effect to the large inter-firm shareholdings and firm ownership structure in Japan. They also found that at low to moderate levels of firm equity ownership, Tobin's Qfalls as firm equity ownership rises, and at higher levels of firm ownership this relation is reversed at some specifications. Cho (1998) found that managerial ownership impacts upon firm value because shareholding motivates management to make investment decisions on their own or for the shareholders' benefit which consequently affects firm value.

Short and Keasey (1999) and Miguel, Pindido and Torre (2004) in studying the association of management ownership and firm value using United Kingdom (UK) and Spanish data found similar conclusion respectively. Davies, Hillier and McColgan (2005) echoed the above conclusions but extended the specification of management holdings from cubic to quintic and found similar nonlinear relationship between managerial ownership and firm value. Ruan, Tian and Ma (2009) employing a data set that comprised of firms identified as S&P 500 observed that capital structure can also act as an intermediate variable, which is affected by managerial ownership but eventually influences firm value. Berger, Ofek and Yermack (1997) used cross-sectional analysis to find evidence that firm leverage is affected by the degree of managerial entrenchment, and that entrenched managers seek to avoid debt. While Brailsford, Oliver and Pua (2002) used evidence from Australia to get a nonlinear relation between the level of equity stake owned by insiders and capital structure measured by debt-equity ratio, and supported the effects of convergence-of-interests and management entrenchment.

Leech and Leahy (1991) and Kim, Krinsky and Lee (1997) based on the convergence of interests hypothesis, proposed that managerial shareholding is positively correlated with firm value. Just as studies by Morck, Shleifer and Vishny (1988), McConnell and Servaes (1990) and Shah, Butt and Saeed (2011) found a correlation between managerial shareholding and firm value thus indicating that the relationship is possibly nonlinear. However, the literature previously cited largely focused on the relationship between managerial shareholding, financial policies and firm value in developed economies, but debate on whether such a relationship has universal relevance in firms within emerging markets is not yet resolved (Wei, Xie & Zhang, 2005; Cheng & Zhu, 2012). All of these studies found that there is a nonlinear relationship between managerial ownership and firm value in a large number of firms in emerging economies, thus revealing that management and insiders have the ability to engage in expropriation of shareholders' benefit.

2.6 Theoretical Framework

Firm governance developed significantly over the last two decades as new governance codes were developed in response to public concerns. Current discussions and debates seem to focus on the importance of stakeholders in designing and structuring firm governance. Presently, there is no consensus on the theoretical basis on the concept of corporate governance. However, there are a number of major theoretical frameworks which had evolved from many disciplines such as finance, economics, accounting, law, management and organizational behavior and had been identified from the corporate governance literature as agency theory, stewardship theory, stakeholder theory, managerial-hegemony theory and resource dependence theory (Abd-Hahid, 2011).

Several characteristics of these governance theories are embedded in the agency theory because it prescribes the mechanisms to reduce agency conflicts and align the interests of the agent with those of the principal. The agency theory which is attributable to Achian and Demsetz (1972) and was further developed by Ross (1973) and Jensen and Meckling (1976) underpins this study on the association between corporate governance and firm value relation. Jensen and Meckling (1976) suggested that agency cost in the firm arises because of the principal-agent problem. Daily, Dalton and Camella (2003) argued that the theory is influenced by two factors; first, the theory conceptually reduced the firm to two participants; that is, managers and shareholders, and second, the theory suggests that managers can be self-interested.

The theory posits that as the representatives of the shareholders, managers are expected to act in such a manner that conforms to the shareholders' interest. However, that is not always the case as the existence of information asymmetry in modern firms, where share ownership is widely held, is known to induce managers to pursue their own personal interest which may hurt the principal or shareholder (Ross, 1973; Fama, 1980). This gave rise to the agency problem which entailed a lack of harmony between the owners and managers goals, and it therefore gives rise to cost associated with resolving these conflicts.

Conflicts exist in a variety of forms that can be traced to managerial decision making. Holmstrom and Milgrom (2004) noted that instead of providing fluctuating incentive payments, the agents or managers may only be focused on projects that have a high return and a fixed wage without any incentive component. They further argued that although this will provide a fair assessment, it does not eradicate or even minimize corporate misconduct. However, Eisenhardt (1989) argued that agency conflict commences when the goals of the principal and agent conflicts, and it is difficult and costly for the principal to verify what the agent is actually doing.

As such the primary function of firm governance is to mitigate the divergent conflicts of interest between the two parties of the firm. Therefore, corporate governance becomes necessary because not all managerial actions are fully observable and corporate information are not common knowledge.

Heath and Norman (2004) noted that two situations had been the focus in literature which concerns agency theory; moral hazard and adverse selection. Moral hazard issues arise when the agent's action, or the outcome of that action is only imperfectly observable to the principal, as such a manager for example can exercise a low level of effort, waste firm resources, or take inappropriate risks. While adverse selection issues may arise when an agent has some private information prior to entering into relations with the principal; such as individuals with poor skills presenting themselves as having superior skills or people with low motivation applying for the positions that involves the least supervision; in both cases, shareholders' wealth maximization objectives are tempered with.

Agency theory prescribes mechanisms which reduce agency cost, and these include moral suasion and incentive schemes that reward the managers for acting in such manner which financially maximizes shareholders' wealth. Moral suasion on the other hand entails changing the agent's intentions to make him act towards the selfless achievement of organizational goals. While incentives may include bonus, stock options or the sale of equity shares to the managers at a discounted cost in order to align the interest of the agent with that of the principal. Farooq and Eljai (2012) noted that as managers acquire the equity holding of a firm, the interest of the shareholders and that of the managers begins to converge.

Another strategy which can harm firm value that is employed to reduce the agency cost is tying down executive compensation by deferring it to the future to reward long-run value

maximization of the firm (Cespedes, Gonzalez & Molina, 2010; Carney & Child, 2013). From the foregoing, it can be deduced that the objective of corporate governance is not only to better firm value but also to mitigate the agency problem by monitoring managerial behavior. If corporate governance components are effective, it means that managers' interest will align with that of the shareholders because managers will prepare financial information that reflect true economic conditions of the firm regardless of what the managers stand to benefit or loss from divulging such information.

Agency theory is preferred in this study because both theoretical and empirical support of the stewardship theory is sparse. Two major arguments proffered by Heath and Norman (2004) underscored the efficacy of the stewardship theory as the theoretical framework of firm governance. Firstly, it is conspicuous that due to the complexity of modern firms, managers will not always align their interests with that of the shareholders. Thus, it can be argued that the arguments of the theory are simplistic and do not conform to today's corporate realities, and secondly, they further argued that psychologically, a board's lack of non-executive directors may encourage managers to commit fraud which may not necessarily be true.

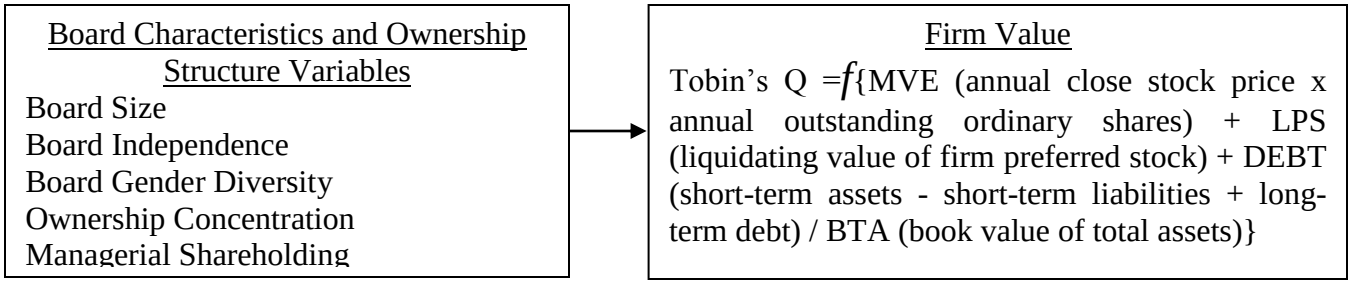
In addition,although stakeholder's theory has caught the attention of researchers in the last two decades, it suffers two major criticisms. Firstly, the difficulties of how to align stakeholders conflicting interest together with the possibility to treat all stakeholders equally (Habbash, 2010). Moreso, John and Senbet (2003) contended that it is not feasible that all stakeholders' interests will be satisfied by corporate governance recommendations because this may undermine the welfare of the firm; secondly, Habbash (2010) further noted that the stakeholders approach is incompatible with firm's fundamental objectives, thus it is unable to

provide better firm governance. He therefore concluded that balancing stakeholders' interests is not likely to be successful, hence, this objective is unjustified.

From the above discussions, it is worthy to note that although both stewardship and stakeholders' theory have attracted the attention of modern researchers, gaps still exist between theory and practice. The theories have failed to come to terms with the reality of modern organizations, as such they lag behind the agency theory. In view of the foregoing, the agency theory is preferred in this study.

Table 2.1 presents the conceptual relationship between board characteristics, ownership structure and firm value.

Fig. 2.1 Relationship between Board Characteristics, Ownership Structure and Firm Value



Source: Researcher (2015)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter covered the methodology chosen for the study. The chapter discusses the research design, population, sample size and sampling technique used in the study. It further specified the variables of the study and their measurement and discusses the source of data, method of data collection and technique of analysis used in the study.

3.2 Research Design

This study adopted correlational research design in order to establish the relationship between board characteristics, ownership structure components and firm value. Habbash (2010) concluded that a correlational research design is used for measuring and establishing statistical relationships, association or the variability between two or more variables, and this is most appropriate for our study because it allowed for the testing of expected relationships between variables, and for the making of predictions regarding these relationships. It is also associated with scientific, experimental, quantitative and deductive frameworks where researchers seek specific quantifiable observations, by the use of statistics and experiments to test the hypotheses (Habbash, 2010).

The correlational research design enables the researcher to test the sampled observations in order to make the findings more generalized to the study's population as a whole. Since the study assessed the relationship between board characteristics and ownership structure on firm value, the correlational research design is deemed to be most appropriate.

3.3 Population and Sample of the Study

The population of this study consists of all fifteen (15) petroleum firms listed on the Nigerian Stock Exchange (NSE) and operating in Nigeria for the period 1st January, 2008 to 31st December, 2015. The sample size of the study are six (6) firms, and attached as appendix-I. This number is arrived at as a result of employing the following filters;

(i) The firms must have its annual financial statements of accounts and reports audited and published for the study period 1st January, 2008 to 31st December, 2015.

(ii) The sampled firms must be listed on the NSE for the period of the study 1st January, 2008 to 31st December, 2015.

As a result of employing the first filter, the number of firms reduced from fifteen (15) to Eleven (11) firms, and after employing the second filter a total of six (6) firms were found to have satisfied the criterion. The analysis therefore is based on these six firms. The research adopted census approach by studying all the six firms (attached as appendix I) as they constitute the sample of the study.

3.4 Sources and Method of Data Collection

This study used secondary data which was collected from MachameSTAT database and the annual financial statements of the sampled petroleum firms for the period of 2008-2015. The data constituted a balanced longitudinal panel data, because it combines both time series and cross sectional observations as extracted from the published sources (Clark, 2004).

3.5 Technique of Data Analysis

The Robust Pooled-OLS multiple regression technique was used to analyze the data which revealed the relationship between board characteristics, ownership structure and firm value. The regression specified the relationship among Tobin's Q (dependent variable) and board independence, board size, board gender diversity, ownership concentration and managerial shareholding (independent variables). The technique is considered relevant and appropriate due to the nature of the data and the relationship the study examined.

3.6 Model Specification

The study examined the relationship between board characteristics, ownership structure and firm value for listed petroleum firms in Nigeria. To establish the linear relationship between the dependent and independent variables and in line with Bohren and Odegaard (2001), Bhagat and Jefferis (2002) and Boone, Field, Karpoff and Raheja (2007), the general multi-factor valuation model is:

$$FV = f(BCOS, \varepsilon) \quad (1)$$

Where:

FV = Firm value

BCOS = Board characteristics and ownership structure variables

ε = Error term.

The model shows that the dependent variable, firm value (regressand) can be affected by the set of independent variables (regressors) that are carefully selected from the elements of board characteristics and ownership structure.Firm value is represented by Tobin's Q, while BCOS(board characteristics and ownership structure) components are board size, board

independence, gender diversity, ownership concentration and managerial shareholding. The modified functional relationship between the variables is given in the following regression equation as:

$$Y_{it} = a + \beta_1 X_{it} + \beta_2 X_{it} + \beta_3 X_{it} + \beta_4 X_{it} + \beta_5 X_{it} + \varepsilon_{it} \quad (2)$$

By incorporating the dependent and independent variables into the equation, the model of the study is as follows:

$$\text{Tobin's } Q_{it} = \alpha + \beta_1 BIND_{it} + \beta_2 BOSZ_{it} + \beta_3 BOGD_{it} + \beta_4 OWNC_{it} + \beta_5 MSHD_{it} + \varepsilon_{it} \quad (3)$$

Where:

Tobin's Q	Value of firm *i* at time *t*
BIND	Board independence of firm *i* at time *t*
BOSZ	Board size of firm *i* at time *t*
BOGD	Board gender diversity of firm *i* at time *t*
OWNC	Ownership concentration of firm *i* at time *t*
MSHD	Managerial shareholding of firm *i* at time *t*
α, β	Parameters to be estimated
ε	Error term

It was expected that the sign of $\beta_1$would be positive as literature suggest a positive relationship between firm value and boardindependence(Schellenger, Wood & Tashakori, 1989; Pearce & Zahra, 1992; Daily & Dalton, 1993; Nguyen & Nielsen, 2010). β_2 being the coefficient of board size was expected to have a negative relationship with firm value(Lipton &Lorch, 1992; Jensen, 1993). The sign β_3 would be negative as literature suggests a negative relationship for females on the board and firm value (Shukeril, Shinl & Shararil, 2012). β_4,and β_5, would be positive as ownership concentration and managerial shareholding do not harm firm value (Leech & Leahy,

1991; Kim, Krinsky & Lee, 1997; Shleifer & Vishny, 1997; Cho, 1998; Tian & Ma, 20). The outcome of the multiple regression analysis based on the modified model would reveal the relationship of firm value on board characteristics and ownership structure of listed petroleum firms in Nigeria.

3.7 Variables Measurement

The dependent and independent variables of the study (from appendix IV) are measured as follows:

Table 3.1 Variables Measurement

Variable	Type	Measurement
Firm Value (Tobin's Q)	Dependent	Tobin's Q measured as modified by Chung and Pruitt (1994) and adopted by Angulo and Rialp (2007) among others. Hence, MVE (annual close stock price x annual outstanding ordinary shares) + LPS (liquidating value of firm preferred stock) + DEBT (short-term assets - short-term liabilities + long-term debt) / BTA (book value of total assets)
Board Independence(BIND)	Independent	The percentage of non-executive directors to total board size (Linck, Netter & Yang, 2008).
Board Size(BOSZ)	Independent	Number of directors on the board (Pfeffer, 1972; Chaganti, Mahajan &Sharma, 1985).
Board Gender Diversity(BOGD)	Independent	Number of females on the board (Daily, and Dalton, 1997; Hillman, Cannella &Paetzold, 2000).
Ownership Concentration(OWNC)	Independent	The proportion of shares owned by the largest shareholders to total number of shares issued expressed as a percentage (Shleifer &Vishny, 1997).
Managerial Shareholding(MSHD)	Independent	Total number of shares owned by management staff to total number of shares issued expressed as a percentage (Ali-shah, Ali-butt &Hasan, 2009).

Source:Researcher (2015)

3.8 Diagnostic Tests

Some diagnostic tests were carried out to improve the robustness of the regression result. The tests included:

(a) Multicollinearity Test - According to Cuthbertson (1996), multicollinearity takes place in a model when theindependent variables are related to each other. Multicollinearity test is meant to check whether there is a high level of correlation between the independent variables themselves. To substantiate the presence or lack of multicollinearity between the independent variables, collinearity diagnostics was conducted using the Variance Inflation Factors (VIF)and Tolerance (TV).The VIFandTVare two measures of assessing multicollinearity between independent values. The rule is that if the values of VIF and TV are found to be consistently smaller than ten and larger than one respectively, multicollinearity is absent and vice versa (Neter, Kutner, Nachtsheim & Wasserman, 1996; Casey & Anderson, 1999).

(b) Normality Test - The normality of the observations within each of the study variables was tested using Shapiro-Wilk test. The test is used to reveal the distribution pattern of the data. It is generally believed that it is rare for every variable within a panel-data-based study to be normally distributed due to firms' variability. Though it is common for researchers to prefer using normally distributed data, it is worthy to state that non-normality of data does not affect estimation.s

(c) Heteroskedasticity - The variance of the error term of the model was also observed. The variablevariance often leads to the problem of heteroskedasticity. The estimators of the modelin this case will be inefficient but will remain unbiased and will consistently make theresults of the study unreliable, as suchthis test was conducted to check whether the variability of the error term

is constant or not. The presence of heteroskedasticity signifies that the variation of the residuals or error term is not consistent and this will affect inferences in respect of the beta coefficient, the coefficient of determination (R^2) and the F-statistic. The test was carried out using Breusch-Pagan/Cook-Weisberg test for heteroskedasticity.

(d) Hausman Specification Test - In line with the procedure for treating panel data, the study used the Hausman Specification test to determine the choice between fixed effect (least square dummy variable) and random effect (generalized least square) regressions. This is in recognition of the fact that there is a trade-off between the efficiency of the random effect approach and the consistency of the fixed effect approach (Habbash, 2010). The fixed effect regression represents a common unbiased control for omitted variables in a panel set (Yermack, 1996). An important assumption of the fixed effect model is that those time-invariant characteristics are unique to the individual firms and should not be correlated with other firms' characteristics. It removes the effect of those time-invariant characteristics from the predictor variables so that we are able to assess the predictors' net effect.

The rationale behind random effects model is that, unlike the fixed effects model the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model, hence the role of the Hausman Specification test is to check for strict exogeneity. Thus, an essential assumption for selecting the random-effect estimation is that the unobserved heterogeneity should not be correlated with the independent variable. It is argued that if the researcher has a reason to believe that differences across the entities have some influence on the explained variable, the random effect regression should be used. Therefore, if no correlation is found, random effects is employed but if correlation exists, fixed-effects is employed.

(e) Lagrange Multiplier Test for Random Effect - Owing to the nature of the data, both fixed effect and random effect models were tested. Based on the result of the Hausman Specification test that turned out to be in favor of the random effects, the Lagrange Multiplier test for random effect was carried out to confirm the presence or absence of panel effect. The test was conducted in order to decide between random effect and the pooled-OLS regression.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, data was presented (attached as appendix IV), analyzed and interpreted through an examination of board characteristics, ownership structure and firm value relationship of listed petroleum firms in Nigeria. The chapter began with an analysis of descriptive statistics and correlation matrix of the variables. It further analyzed the results of the regression output and tested the hypotheses of the study. The chapter concluded with discussion of findings and policy implications of the findings.

4.2 Descriptive Statistics

An analysis of the descriptive statistics carried out in respect of both the dependent and independent variables as data from appendix IV is presented. Table 4.1 presents the summary of the descriptive statistics of the variables. The full result is attached as appendix II(a)

Table 4.1: Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max	S. Wilk
Tobin's Q	2.807083	2.386506	0.28	10.01	0.00001
BIND	0.53125	0.2008982	0.25	0.9	0.01404
BOSZ	9	3.457954	5	16	0.02694
BOGD	0.8125	0.6069193	0	2	0.48444
OWNC	55.29792	18.52407	18.58	74.4	0.00007
MSHD	0.3708333	0.274411	0.1	0.9	0.00039
No. of Cross Sections	6				
Observations	48				

Source: STATA Output

The result from Table 4.1 shows that the mean value of Tobin's Q is 2.81 with a standard deviation of 2.39. This implies that there is no much variation in firm value across the firms. This is further attested to the minimum of 0.28 and maximum of 10.01.

Regarding the independent variables, board independence (BIND) has a mean value of 0.53 with standard deviation of 0.20. This implies that BIND deviates significantly across the firms. The minimum values of 0.25 and maximum of 0.9 show an insignificant variability in the data. The average mean is greater than the standard deviation and indicates no great difference in the data. Board size (BOSZ) has an average mean value of 9 and standard deviation of 3.46. Board gender (BOGD) reveals an average of 0.81and a standard deviation of 0.61 with a range of

values from 0 to 2. Ownership concentration (OWNC) and Managerial shareholding (MSHD) exhibit averages of 55.30 and 0.37 respectively, while their respective standard deviations are 18.52 and 0.27 indicating that there is some disparity regarding the behavior of the variables across the firms under study.

The observations of OWNC range from 18.58 to 74.40, while that of MSHD range from 0.1 to 0.9. Overall, the standard deviations of all the variables vary slightly from the respective means of the data. This indicates only slight variations regarding the firms' behavior to these phenomena. In addition, the Shapiro-Wilk test for normality of data as per appendix II(b) indicates that only BOSZis normally distributed.

4.3 Correlation Analysis

In examining the association among the variables, the Pearson Correlation Coefficient (Correlation Analysis) was employed. The correlation matrix shows the relationship between the explanatory variables and also the relationship among all pairs of independent variables themselves. It is useful in discerning the degree or extent of relationship among all independent variables as excessive correlation could lead to multicollinearity, which could consequently lead to misleading findings and conclusions. The correlation matrix does not lend itself to statistical inference but it is relevant in deducing the direction and extent of association between the variables. The summary is presented in Table 4.2 while the full result is attached as appendix II(c)

Table 4.2: Correlation Matrix

Variable	Tobin's Q	BIND	BOSZ	BOGD	OWNC	MSHD
Tobin's Q	1.0000					
BIND	-0.2956	1.0000				
BOSZ	-0.3016	-0.4661	1.0000			
BOGD	0.1894	-0.5791	0.7097	1.0000		
OWNC	0.3200	0.2953	-0.5972	-0.4567	1.0000	
MSHD	-0.3153	0.4121	-0.3924	-0.5062	-0.1455	1.0000

Source: STATA Output

Table 4.2 shows the correlation between the dependent variable, Tobin's Q and the independent variables,BIND, BOSZ, BOGD, OWNC and MSHD on one hand, and among the independent variable themselves on the other. Generally, high correlation is expected between dependent and independent variables while low correlation is expected among independent variables. According to Gujarati (2004), a correlation coefficient between two independent variables above 0.80 is considered excessive and thus certain measures are required to correct that anomaly in the data. From Table 4.2, it can be seen that all the correlation coefficients among the independent variables are below 0.80. This points to the absence of possible multicollinearity though the value inflation factor (VIF) and tolerance value (TV) test is still required to confirm the assumption. It also suggests that the variables are well selected and can fit in the same regression model. The full result is attached as appendix III(b&c).

The table reveals an inverse correlation between the independent variable of firm value and the explanatory variables ofboard independence, board size and managerial shareholding with coefficients of -0.29, -0.30 and -0.32 respectively. This implies that the three explanatory variables move in opposite direction with firm value, which suggest that the lower their values

the higher the value of the firms, and when these explanatory variables increase its individual levels,firm value declines. The table also reveals that board gender diversity and ownership concentration exhibit positive correlations with firm value, with coefficients of 0.19 and 0.32 respectively. This means that the two explanatory variables and the outcome variable move in the same direction, which implies that as both variables increase, firm value also increases. In addition, the table reveals that all the five explanatory variables have significant level of relationship with the dependent variable.

With respect to the association among the independent variables themselves, board independence is found to be inversely correlated with board size and board gender diversity based on the values of -0.47 and -0.58 respectively, while it moves in the same direction with ownership concentration and managerial shareholding as per the values of 0.30 and 0.41 respectively. Board size positively correlates with board gender diversity with a value of 0.71 and is negatively associated with ownership concentration and managerial shareholding with values of -0.60 and -0.39. More so, board gender diversity has a negative association with ownership concentration and managerial shareholding with values of -0.46 and -0.51. Lastly, the association between ownership concentration and managerial shareholding is negative with a value of -0.15. It is noteworthy that the highest absolute correlation coefficient among the explanatory variables is between board size and board gender diversity which is approximately 0.71, while the lowest degree of association is between ownership concentration and managerial shareholding at -0.15. This means that the level of correlation between and among all the independent variables is of harmless effect.

4.4 Presentation and Analysis of Robustness Test

The data was subjected to a Pooled-OLS regression. The output generated using the STATA software is attached as appendix III(a).Some checks were carried out on the result to test for multicollinearity and heteroskedasticity in order to improve the robustness of the result. These tests are important for the regression estimation to satisfy the assumptions of the ordinary least square (OLS) test of homoscedasticity, and of the absence of high correlations among the independent variables.

Table 4.3 shows the results of the value inflation factor (VIF) and tolerance value (TV). The VIF and TVare two important measures used in addition to the Pearson correlation matrix to assess the presence or absence of multicollinearity between the explanatory variables. The output generated using STATA is attached as appendix III(c).

Table 4.3: VIF/TV Test for Multicollinearity

Variables	VIF	TV (1/VIF)
BIND	1.58	0.631683
BOSZ	2.82	0.354914
BOGD	2.76	0.362838
OWNC	2.35	0.424888
MSHD	2.09	0.478040
Mean VIF	2.32	

Source: STATA Output

From table 4.3, the VIF and TV are found to be consistently smaller than 10 and above 0.10 respectively indicating the absence of multicollinearity as suggested by Neter, Kutner, Nachtsheirn and Wasserman (1996), Tobachnick and Fidell (1996) and Cassey and Anderson (1999). The low mean VIF is also a pointer to the mild correlation among the regressors. This

shows the appropriateness and fitness of the explanatory variables as used in the model. In addition, the Breusch-Pagan/Cook-Weisberg test was used to test for the existence of heteroskedasticity. The null hypothesis in this test assumes that the variance of the residuals is constant. If the p-value is significant at 5%, then there is substantial evidence to reject the null hypothesis indicating the presence of heteroskedasticity. The result as per appendix III(b) reveals that the chi^2 value is 12.04 and the p-value is 0.0005 which is statistically significant at 5% level of significance.This indicates presence of heteroskedasticity.

Since the data is in panel form, fixed and random effect models were run and Hausman Specification test was used to decide between the results of the two models. The results of the Hausman test reveals a chi^2 value of 2.43 and p-value of 0.79 as per appendix III(f). The implication of the insignificant p-value is that the random effect model is preferred to the fixed effect model. The full results of the fixed and random effect models is attached as appendix III(d) and III(e) respectively.

In order to test for heterogeneity of the data to ascertain the presence or absence of panel effect in the dataset due to size variation among the firms used in the study, the result of the random effect was subjected to Breusch and Pagan Lagrangian multiplier test. The rule for the test is that a p-value of greater than 0.05 level of significance implies absence of panel effect in a dataset. Absence of panel effect in a data set means that the Pooled-OLS regression model will suffice (Park, 2011). The result reveals a chi^2 of 0.00 and p-value of 1.00 suggesting that the panel data used for the study is free from cross-sectional effect and heterogeneity. The full result of the Breusch and Pagan Lagrangian multiplier test is attached as appendix III(g).It is noteworthy that unlike pooled OLS regression, GLS random effect has the ability to automatically correct for heteroskedasticity in case of its presence in a dataset, and where

pooled-OLS regression is opted for due to the absence of cross-sectional effect, heteroskedasticity has to be checked and if presentit has to be corrected through robust pooled-OLS option. Having established the absence of panel effect in the data, a robust pooled-OLS result was obtained and the result used for analysis and testing of hypotheses. The result is thus attached as appendix III(i).

4.5 Test of Hypotheses and Discussion of Findings

The Table 4.4 presents the summary results based on thefour models; pooled-OLS, fixed effect, random effect and robust pooled-OLS extracted from the regression output,while the STATA generated output is attached as appendix III(h).From the summary, the robust pooled-OLS result turned out to be the most appropriate and followed by the random effect result.

Table 4.4: Summary of Results obtained from the Four Models

Variable	Pooled-OLS	Fixed Effect	Random Effect	Robust Pooled-OLS
bind	-3.7739705**	-3.2238801	-3.7739705**	-3.7739705**
bosz	-0.59313604***	-0.32991222	-0.59313604***	-0.59313604***
bogd	2.2082061**	1.806558**	2.2082061***	2.2082061**
ownc	0.01612766	0.02014093	0.01612766	0.01612766
mshd	-1.9054698	-0.37919355	-1.9054698	-1.9054698*
cons	8.1708482**	5.0480174	8.1708482***	8.1708482**
Chi^2			55.363302	
N	48	48	48	48
R^2	0.56	0.53		0.57

Legend: * p<.1; ** p<.05; *** p<.001
Source: STATA Output

Table 4.5 contains the summary of the robust pooled-OLS regression output. The information was analysed and discussed in the light of previous studies. The information was also used for testing the hypotheses of the study. The full result is attached as appendix III(i).

Table 4.5: Summary of Robust Pooled-OLS Regression Result

	Expected Relationship	Tobin's Q
C		8.170848
		(3.20)
		[0.003]**
BIND	+	-3.773971
		(-2.76)
		[0.009]**
BOSZ	-	-0.593136
		(-4.66)
		[0.000]***
BOGD	-	2.208206
		(3.48)
		[0.001]**
OWNC	+	0.016128
		(0.83)
		[0.409]
MSHD	+	-1.905470
		(-0.79)
		[0.080]*
R-Squared		0.57
Adj-R-Squared		0.52
F-Statistic		10.95
		[0.0000]***
Number of Observations		48

Note: (1) Parentheses ( ) are t-values while Brackets [ ] are p-values. (2) *** 1%, ** 5%,* 10% level of significance.
Source: STATA Output

Table 4.5 indicates that the aggregate influence of the explanatory variables included in the model are able to explain the dependent variable up to 52% as indicated by the adjusted R^2, while the remaining 48% are controlled by other factors that are not included in the model. The F-statistical value of 10.95 which is significant at 1% shows that the model is fit and therefore provides substantial evidence that board characteristics and ownership structure have significant

relationship with firm value of listed petroleum firms in Nigeria. Substituting the coefficients of the variables in the regression equation gives the following:

Tobin's Q = 8.17 - 3.77BIND– 0.59BOSZ + 2.21BOGD + 0.02OWNC – 1.91MSHD+ Ɛ

Table 4.5 shows that board independence (BIND)has an inverse relationship with firm value. This is based on coefficient value of -3.77 and t-value of -2.76. The p-value of 0.009 shows that the relationship is significant. This implies that a 1% increase in BIND will lead to a decline in firm value of listed petroleum firms in Nigeria by 3.77% and vice versa. This supports the findings of Daily and Ellstrand (1996), Weir, Laing and McKnight (2001), Bhagat and Bolton (2005) and Pathan and Faff (2013) who concluded in their studies that there exist no positive significant relationship in terms of accounting profits between board independence and firm value. The finding contradicts the studies of Pfeffer and Salancik (1978), Byrd and Hickman (1992), Rosenstein and Wyatt (1997), Vafeas(1999), Gupta, Otley and Young (2008) and Arosa, Iturralde and Maseda (2010) which showed that firms with high proportion of independent directors will perform better.

The explanation for this finding could be that the degree of the director's independence is unobservable, and the directors' compensation of petroleum firms operating in Nigeria is high, therefore an increase in the number of independent directors would translate to increased director' compensation which could lead to a decrease in firm value (Hermalin & Weisbach, 2003). Based on this finding, the study rejects the first hypothesis ($H0_1$) that BINDhas no significant relationship with firm value of listed petroleum firms in Nigeria.

The result also shows that board size (BOSZ) has a t-value of -4.66 and a coefficient of -0.59 with a p-value of 0.00 which is significant at 1% level of significance. This means that BOSZhas a negative but significant relationship with firm value of listed petroleum firms in

Nigeria. It also shows that when there is an increase of an additional director, the firm value declines. This supports the findingsby Bennedsen, Kongsted and Nielsen (2004) who reported that board size had a significant negative relation with firm value when the board size is increased to seven or moremembers. On the contrary, the finding of this study contrast with the argument of Coles, Daniel and Naveen (2008) and Dewi (2012)whose studies indicated that size is not related to firm value. Theyargued that size is dependent on each individual firm's need of advising, monitoring and age. It however, negates the presumption of absolute positive relationship based on the premise that the larger the board size the better the chances that more quality ideas and better decisions would be made for the benefit of the shareholders. It is argued from the finding of this study that large boards are not useful in increasing firm value in view of the high costs associated with a large number of board members. The finding provides sufficient evidence to reject the second hypothesis ($H0_2$) that BOSZ has no significant relationship with firm value of listed petroleum firms in Nigeria.

The table further reveals that board gender diversity (BOGD)has a positive coefficient of 2.21 and t-value of 3.48 that is significant at 1% level of significance. This means that BOGD has a positive and significant relationship onfirm value of listed petroleum firms in Nigeria. It similarly suggest that an increase of one female member on the board will lead to a 2.21% increase in firm value. This implies that the inclusion of women on the board of listed petroleum firms in Nigeria has a positive and significant impact on improving firm value for shareholders. This finding agrees with the work of Burke (2000), Man and Kong (2011), Nuryaman (2012) and Catalyst (2014) who suggested that the presence of women directors and firm value arepositively andsignificantly related. The possible explanation for this is that the presence of females on the board can guarantee a higher firm value with reference to skills, education and experience as

contributions. However, the finding does not supportthe study of Shukeril, Shinl and Shararil (2012) who documented significantly negative relationship between the number of females on the board and firm value. The above finding provides sufficient evidence to reject the third hypothesis ($H0_3$) that BOGDhas no significant relationship with firm value of listed petroleum firms in Nigeria.

The tablefurther shows that ownership concentration (OWNC)has a positive relationship with firm value for the listed petroleum firms in Nigeria. The coefficient and t-value of OWNC are 0.02 and 0.83 respectively with a p-value of 0.41. This suggests that a 1% increase in ownership concentration will lead to an increase in firm value by only 0.02%. It also means that based on the findings of this study, when there is an increase in the level of ownership concentration the firm value of listed petroleum firms will increase, though not significantly, thus indicating that concentrated ownership maybe a determinant for investment decision. However, it is not necessarily a determinant given its insignificant effect in our study. The finding supports that of Shleifer and Vishny (1997) and Alimehmeti and Paletta (2012) which focused on the agency problem arising from the separation of ownership and control, who argued for the desirability of concentrated ownership because according to them it results in better monitoring of managers, maximization of shareholder's value as well as providing external finance for firms. However, in contrast Morck, Shleifer and Vishny (1988), Shleifer and Vishny (1997), Gorton and Schmid (2000) and Adjaoud and Ben-Amar (2010) argued that concentrated ownership are value-maximizing provided it did not exceed a certain level. These authors concluded that at low levels, ownership concentrationis associated with an increase in firm value, but beyond a certain level of concentration the relationship might be negative. The justification for our finding is based on the fact that a concentration of shareholding tends to create more

pressure on managersto behave in ways that are not likely to satisfy the interest of the shareholders.Based on this finding, the study fails to reject the fourth hypothesis ($H0_4$) that OWNC has no significant relationship withfirm value of listed petroleum firms in Nigeria.

In addition, managerial shareholding(MSHD) reports a t-value of -1.79 and a beta coefficient of -1.91 with a p-value of 0.08 that is significant at 10% level of significance. This means that MSHD has an inverse but significantrelationship with firm value of listed petroleum firms in Nigeria. It also connotes that when there is an increase in the level of MSHD by 1%, the firm values of listed petroleum firms in Nigeria is likely to be negatively affected by 1.91%. This negates the study of Morck, Shleifer and Vishny (1988) who found a significant positive relation between managerial ownership and firm value.

The findings of this study supports the argument that managerial shareholding has a non-linear relationship with firm value in emerging marketslike Nigeria (Cheng & Zhu, 2012). The finding of this study can be related to the findings of Wei, Xie and Zhang (2005), Lee, Ku, Chen and Chen (2012) who found a nonlinear relationship between managerial ownership and firm value in a large number of firms in emerging markets. The justification for this finding is that managerial shareholding can motivate management to make decisions for their own benefit, because as insiders they can engage in the expropriation of shareholders' benefits for their own gains.The finding of this study with respect to managerial shareholding provided sufficient evidence for the rejection of the fifth hypothesis ($H0_5$) that MSHDhas no significant relationship with firm value of listed petroleum firms in Nigeria.

Overall, the table reveals that the outcome of all the explanatory variables used in this study has a significant relationship on the firm value of listed petroleum firms in Nigeria as evident from the model's F-statistics which is significant at 1% level of significance. At the

individual level, the results indicates that BIND, BOSZ, BOGDand MSHD have significant impact on firm value, while OWNC has no significant impact on firm value of listed petroleum firms operating in Nigeria.

4.6 Policy Implications of Findings

Corporate decision makers naturally need to satisfy existing shareholders and attract potential investors. Measuring the relationship between board characteristics and ownership structure with an improved decision making process allows decision makers to evaluate a firm's value, while enhancing shareholders' perception of the reliability of reported audited annual financial statements and as they are able to obtain reliable information about the value of the firm. Thus, the findings of this study indicates that investment decisions by stakeholders in the petroleum industry of Nigeria's energy sector rely on board characteristics and ownership structure relationship. Furthermore, the findings would have implications for investors, accounting standard setters, auditors, financial analysts, and capital market regulators. Therefore, the results from this studyshould provide stakeholders with guidance on which components of board characteristics and ownership structure that affect firm value to take into consideration when evaluating the audited annual financial statements of listed petroleum firms operating in Nigeria, as well as encourage equity market participantsto improve their decision-making process.

Regulatory authorities such as the SECcan use this study as a basis for future improvements of regulations and recommendations on the Code of Corporate Governance for firms operating in Nigeria, becausethrough their monitoring activities, these regulatory bodies protect market participants and other stakeholders. The results of this study provides evidence to

support the ongoing regulatory activities aimed at assessing the corporate governance practices of listed firms in Nigeria.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of findings from the study, conclusions, limitations, recommendations and suggestions for further research in areas bordering on board characteristics and ownership structure relationship with firm value.

5.2 Summary of Findings

The effectiveness of firms is to guarantee the satisfaction of the needs of stakeholders whose main interest is that of maximizing the value of the resources they have invested in the firms. In achieving optimal firm value therefore, one dominant issue is the effectiveness of the firm corporate governance mechanisms to guarantee the satisfaction ofthe needs of shareholders and other stakeholders whose main interest is that ofmaximizing the firm value. However, in Nigeria it was observed that corporate governance has become an important policy concern especially given a number of events that have raised the profile of corporate governance reforms in the country.

The concern is predicated upon the fact that the ROSC,2008 had examined the set of rules and incentives by which management of firms listed on the NSE were directed and controlled, as well as the relationship among the board of directors, controlling shareholders, minority shareholders and other stakeholders with the aim of improving corporate governance practices.The ROSC, 2008 found a number of corporate governance problems that affect board performance, execution of certain shareholders rights, the disclosure of ownership of listed firms on the NSE and problematic implementation of firm audit committee. This in addition to the

reviewed SEC Code of Corporate Governance of 2008for firms listed on the NSEwhich similarly identified weak corporate governance as a constraint to good corporate governance practices among firms.

The review of the extant literature indicated that previous studies were inconclusive on the nature and extent of relationship between corporate governance mechanisms of board characteristics and ownership structure components on one hand and firm value on the other. It was observed that while there are many studies on the relationship between board characteristics, ownership structure and firm value in Nigeria, the petroleum sector of the country has attracted very little research effort despite its strategic importance to the country's economy. It was also observed that generally, board size, board independence, board gender diversity, ownership concentration and managerial ownership are key components in explaining firm value based on the empirical studies reviewed.

This study therefore examined the relationship between board characteristics and ownership structure components of board independence, board size, board gender diversity, ownership concentration and managerial shareholding on the firm value of listed petroleum firms operating in Nigeria. The population of the study consists of all the fifteen (15) petroleum firms listed on the Nigerian Stock Exchange (NSE) which were carrying on with operations in Nigeria during the period 1st January, 2008 to 31st December, 2015. As a result of employing certain filters, the number of firms that satisfied the criterion reduced to a total of six (6) firms, and these were used as the basis for analysis.

Thestudy employed correlational research design to examine the relationship between the explanatory variables on the outcome variable of the six listed petroleum firms that have consistently published their annual audited financial statements over the period of the study. The

data was statistically described, presented, analyzed and interpreted using STATA 13 software.Four sets of regression were run starting with the pooled-OLS. This was followed by fixed effect (FE) model at one time, random effect (RE) model and the robust pooled-OLS model at the other time. Other relevant tests that include Hausman specification, and Breusch-Pagan Lagrange Multiplier (LM) were conducted. In view of the absence of cross-section effect in the dataset, the robust pooled-OLS regression was chosen for analysis and interpretation. The result of the robust pooled-OLS regression revealed that while the combined outcome of all the explanatory variables used in this study has significant relationship on the firm value of listed petroleum firms in Nigeria, at the individual level, only ownership concentration has no significant relationship on the value of the firms.

5.3 Conclusions

The analysis carried out in this study clearly shows that overall, board characteristics and ownership structure variables have significant relationship with firm value of listed petroleum firms in Nigeria. Although, literature suggested a positive relationship between board independence, ownership concentration and managerial shareholding and a negative relationship between board size and board gender diversity,but, of the five board characteristics and ownership structure variables used in the study, board independence, board size, board gender diversity and managerial shareholding havesignificant relationship with firm value,while ownership concentration haveno significant relationship with firm value, though the direction and extent of the association vary from one component of board characteristics and ownership structure.

5.4 Limitations of the Study

This study has some limitations that needed to be taken into consideration in the course of using its findings for policy making. Firstly, the indicators of board characteristics, ownership structure and firm value may have some limitations. However, this limitation has been minimized through the clear operational definitions and measurements of all the variables used in the study. Secondly, the exclusion of some petroleum firms due to the filters employed in order to have a balanced panel data has in some ways reduced the generalizability of the results to the petroleum sector.

The data used for the study was derived from six listed petroleum firms on the NSE, a larger data set may have resulted in a different model of the relationship between board characteristics, ownerships structure and firm value. Though different corporate governance mechanisms could reveal a new relationship in the corporate governance structure. Hence, the inclusion of new board characteristics and ownership structure components could result in additional combinations of the board characteristics, ownership structure and firm value relationship.

Similarly, business cycles in boom times tend to propel investors who may over invest thereby improving firm value within this period, this process is generally reversed in a period of slump. This is of significance, as this aspect of the relationship has not been studied in this thesis because the data necessary for covering the empirical evidence over a number of business cycles is not available for the study.

5.5 Recommendations

In view of the foregoing, this study recommends as follows:

(i) Improvement in board independence: The negative but significant relationship between board independence and firm value may be attributed to costs associated with an additional independent director, because a 1% increase in board independencewill lead to a decline in firm value by about 3.77%. The study therefore recommends a size of 53% of the board appointed asnon-executive directors who are independent of management and the activities of the firm, and who at the same time will bring in experience and expertise that can positively improve its relationship on firm value.

(ii) Optimal board size**:** The negative but significant impact of board size on firm value clearly shows that when there is an increase in the number of directors the size of the board is affected negatively and consequently firm value. Therefore, petroleum firms should optimize its board size, but at the same time avoid a board size beyond which an additional member will create additional cost greater than the benefit of the added board member, because too large boards will create higher costs in communication, co-ordination and remuneration for directors, which will thereby decrease firm value. In view of the high costs associated with a large board size, the study recommends an optimal board size of 9 directors.

(iii) Improvement on board gender diversity:The positive and significant impact of board gender diversity on firm value clearly shows thatthe increase of one female on the board of listed petroleum firms operating in Nigeria has the capacity to increase firm value by about 2.21%. Thisstudy therefore recommends at least 2 females on the boards of listed petroleum firms in Nigeria to improve firm value.

(iv) Use ofownership concentration: The use of ownership structures such as concentrated ownership shows evidence of a positive though insignificant relationship with firm value, this suggests that an increase of 1% will lead to a 0.02% increase in firm value. This association though positive but insignificant suggests that firms with concentrated block shareholders may likely not purse activities that meet the interest of the shareholders, and this may affect firm value. As such the study recommends that concentrated shareholding should be encouraged at the level of 19%, but should not be above 74% of the firm's shareholding.

(v) Moderated managerial shareholding: The study finds that the relationship between managerial ownership and firm value is negative but statistically significant. The negative relationship of managerial shareholding on firm value provides some insights into how managers with controlling shares are likely to engage in activities that destroy shareholders' value in order to meet their personal interests. While this may not be true for our sampled firms, the study recommends that Nigerian listed petroleum firms with large managerial ownership structure should be moderated to about 37% as this will reduce the abuse of shareholders resources.

5.6 Suggestions for Further Research

This study is believed to have created a path for further research in the following areas:

(i) The study made usedof only three (3) board characteristics and two (2)ownership structure variables as explanatory variables. Other components of board characteristics such as audit committee and components of ownership structure that dominate previous studies as foreign and institutional ownership have been left out due largely to the peculiarity of the domain of the study. It is therefore suggested that future studies should consider other components of board characteristics and ownership structure as at least control variables in order to observe

their role in explaining the relationship between board characteristics, ownership structure and firm value.

(ii) The study focused on petroleum firms. In view of this, the generalizability of its findings is restricted to this domain. Accordingly, it is suggested that future studies should consider evaluating the relationship of board characteristics and ownership structure components on the value of firms across sectors and industries of the Nigerianeconomy.

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Appendix I

Listed Petroleum Firms in Nigeria (2008-2015)

S/NO.	YEARS	NAMES OF FIRMS	INDUSTRY	SECTOR
1.	2008	Conoil	Downstream	Oil & Gas
	2009	Conoil	Downstream	Oil & Gas
	2010	Conoil	Downstream	Oil & Gas
	2011	Conoil	Downstream	Oil & Gas
	2012	Conoil	Downstream	Oil & Gas
	2013	Conoil	Downstream	Oil & Gas
	2014	Conoil	Downstream	Oil & Gas
	2015	Conoil	Downstream	Oil & Gas
2.	2008	Forte Oil (AP)	Downstream	Oil & Gas
	2009	Forte Oil (AP)	Downstream	Oil & Gas
	2010	Forte Oil (AP)	Downstream	Oil & Gas
	2011	Forte Oil (AP)	Downstream	Oil & Gas
	2012	Forte Oil (AP)	Integrated oil & Gas	Oil & Gas
	2013	Forte Oil (AP)	Integrated oil & Gas	Oil & Gas
	2014	Forte Oil (AP)	Integrated oil & Gas	Oil & Gas
	2015	Forte Oil (AP)	Integrated oil & Gas	Oil & Gas
3.	2008	Mobil Nig. Plc	Downstream	Oil & Gas
	2009	Mobil Nig. Plc	Downstream	Oil & Gas
	2010	Mobil Nig. Plc	Downstream	Oil & Gas
	2011	Mobil Nig. Plc	Downstream	Oil & Gas
	2012	Mobil Nig. Plc	Downstream	Oil & Gas
	2013	Mobil Nig. Plc	Downstream	Oil & Gas
	2014	Mobil Nig. Plc	Downstream	Oil & Gas
	2015	Mobil Nig. Plc	Downstream	Oil & Gas
4.	2008	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2009	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2010	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2011	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2012	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2013	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2014	MRS (Texaco Chevron)	Downstream	Oil & Gas
	2015	MRS (Texaco Chevron)	Downstream	Oil & Gas
5.	2008	Oando Plc	Integrated oil & Gas	Oil & Gas
	2009	Oando Plc	Integrated oil & Gas	Oil & Gas
	2010	Oando Plc	Integrated oil & Gas	Oil & Gas
	2011	Oando Plc	Integrated oil & Gas	Oil & Gas
	2012	Oando Plc	Integrated oil & Gas	Oil & Gas
	2013	Oando Plc	Integrated oil & Gas	Oil & Gas
	2014	Oando Plc	Integrated oil & Gas	Oil & Gas
	2015	Oando Plc	Integrated oil & Gas	Oil & Gas

6.	2008	Total Nigeria Plc	Downstream	Oil & Gas
	2009	Total Nigeria Plc	Downstream	Oil & Gas
	2010	Total Nigeria Plc	Downstream	Oil & Gas
	2011	Total Nigeria Plc	Downstream	Oil & Gas
	2012	Total Nigeria Plc	Downstream	Oil & Gas
	2013	Total Nigeria Plc	Downstream	Oil & Gas
	2014	Total Nigeria Plc	Downstream	Oil & Gas
	2015	Total Nigeria Plc	Downstream	Oil & Gas

Appendix II(a&b)
Descriptive Statistics and Shapiro-Wilk Test for Normal Data

```
. edit

. *(8 variables, 48 observations pasted into data editor)

. xtset id year, yearly
      panel variable:  id (strongly balanced)
       time variable:  year, 2008 to 2015
               delta:  1 year

.
. summarize tobin_q bind bosz bogd ownc mshd
```

Variable	Obs	Mean	Std. Dev.	Min	Max
tobin_q	48	2.807083	2.386506	.28	10.01
bind	48	.53125	.2008982	.25	.9
bosz	48	9	3.457954	5	16
bogd	48	.8125	.6069193	0	2
ownc	48	55.29792	18.52407	18.58	74.4
mshd	48	.3708333	.274411	.1	.9

```
. swilk  tobin_q bind bosz bogd ownc mshd
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
tobin_q	48	0.83342	7.587	4.311	0.00001
bind	48	0.93836	2.808	2.196	0.01404
bosz	48	0.94566	2.475	1.928	0.02694
bogd	48	0.97764	1.019	0.039	0.48444
ownc	48	0.86863	5.983	3.806	0.00007
mshd	48	0.89350	4.850	3.359	0.00039

Appendix II(c)
Correlation Matrix

```
. correlate  tobin_q bind bosz bogd ownc mshd
(obs=48)
```

	tobin_q	bind	bosz	bogd	ownc	mshd
tobin_q	1.0000					
bind	-0.2956	1.0000				
bosz	-0.3016	-0.4661	1.0000			
bogd	0.1894	-0.5791	0.7097	1.0000		
ownc	0.3200	0.2953	-0.5972	-0.4567	1.0000	
mshd	-0.3153	0.4121	-0.3924	-0.5062	-0.1455	1.0000

Appendix III(a)
Regression Result Tobin's Q, Bind, Bosz, Bogd, Ownc, Mshd

```
. regress  tobin_q bind bosz bogd ownc mshd
```

Source	SS	df	MS		
Model	152.212299	5	30.4424597	Number of obs	= 48
Residual	115.472096	42	2.74933561	F(5, 42)	= 11.07
				Prob > F	= 0.0000
Total	267.684394	47	5.69541264	R-squared	= 0.5686
				Adj R-squared	= 0.5173
				Root MSE	= 1.6581

tobin_q	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
bind	-3.773971	1.514743	-2.49	0.017	-6.830846	-.7170947
bosz	-.593136	.1174043	-5.05	0.000	-.8300676	-.3562045
bogd	2.208206	.6615727	3.34	0.002	.8730984	3.543314
ownc	.0161277	.0200305	0.81	0.425	-.0242955	.0565508
mshd	-1.90547	1.274769	-1.49	0.142	-4.478058	.667118
_cons	8.170848	2.394164	3.41	0.001	3.33923	13.00247

```
. estimates store OLS
```

Appendix III(b&c)

Multicollinearity Test and Breusch-Pagan/Cook-Weisberg Test for Heteroskediasticity

```
. estat hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of tobin_q

         chi2(1)      =    12.04
         Prob > chi2  =   0.0005

. estat vif
```

Variable	VIF	1/VIF
bosz	2.82	0.354914
bogd	2.76	0.362838
ownc	2.35	0.424888
mshd	2.09	0.478040
bind	1.58	0.631683
Mean VIF	2.32	

Appendix III(d)
Fixed-Effects Regression Result

```
. xtreg tobin_q bind bosz bogd ownc mshd, fe

Fixed-effects (within) regression               Number of obs      =        48
Group variable: id                              Number of groups   =         6

R-sq:  within  = 0.2032                         Obs per group: min =         8
       between = 0.9241                                        avg =       8.0
       overall = 0.5300                                        max =         8

                                                F(5,37)            =      1.89
corr(u_i, Xb)  = 0.6375                         Prob > F           =    0.1202

------------------------------------------------------------------------------
     tobin_q |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        bind |   -3.22388   3.130801    -1.03   0.310    -9.567486    3.119726
        bosz |  -.3299122   .3068137    -1.08   0.289    -.9515757    .2917513
        bogd |   1.806558   .7865936     2.30   0.027     .212768    3.400348
        ownc |   .0201409   .1098043     0.18   0.855    -.2023438    .2426256
        mshd |  -.3791936   2.062141    -0.18   0.855    -4.557488    3.799101
       _cons |   5.048017   7.540182     0.67   0.507    -10.22984    20.32588
-------------+----------------------------------------------------------------
     sigma_u |  .86297902
     sigma_e |  1.7094496
         rho |   .2030932   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(5, 37) =     0.50              Prob > F = 0.7720

. estimates store Fixed_effects
```

Appendix III(e)
Random-Effects Regression Result

```
. xtreg tobin_q bind bosz bogd ownc mshd, re

Random-effects GLS regression                   Number of obs      =        48
Group variable: id                              Number of groups   =         6

R-sq:  within  = 0.1908                         Obs per group: min =         8
       between = 0.9916                                        avg =       8.0
       overall = 0.5686                                        max =         8

                                                Wald chi2(5)       =     55.36
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

------------------------------------------------------------------------------
     tobin_q |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        bind |  -3.773971   1.514743    -2.49   0.013    -6.742813   -.8051281
        bosz |   -.593136   .1174043    -5.05   0.000    -.8232443   -.3630278
        bogd |   2.208206   .6615727     3.34   0.001     .9115475    3.504865
        ownc |   .0161277   .0200305     0.81   0.421    -.0231314    .0553867
        mshd |   -1.90547   1.274769    -1.49   0.135    -4.403971    .5930313
       _cons |   8.170848   2.394164     3.41   0.001     3.478373    12.86332
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |  1.7094496
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. stimates store Random_effects
unrecognized command:  stimates
r(199);

. estimates store Random_effects
```

Appendix III(f&g)

Hausman Specification Test Result and Breuch/Pagan Lagrangian Multiplier Test forRandom-Effects

```
. hausman Fixed_effects Random_effects
```

	Coefficients (b) Fixed_effe~s	(B) Random_eff~s	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
bind	-3.22388	-3.773971	.5500905	2.739976
bosz	-.3299122	-.593136	.2632238	.2834622
bogd	1.806558	2.208206	-.401648	.425501
ownc	.0201409	.0161277	.0040133	.1079619
mshd	-.3791936	-1.90547	1.526276	1.620922

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 2.43
Prob>chi2 = 0.7867

Breusch and Pagan Lagrangian multiplier test for random effects

tobin_q[id,t] = Xb + u[id] + e[id,t]

Estimated results:

	Var	sd = sqrt(Var)
tobin_q	5.695413	2.386506
e	2.922218	1.70945
u	0	0

Test: Var(u) = 0
chibar2(01) = 0.00
Prob > chibar2 = 1.0000

Appendix III(h)
Summary of Pooled-OLS, Fixed-Effects, Random-Effects and Robust Pooled-OLS Results

```
. estimates table OLS Fixed_effects Random_effects OLS_robust, stats(chi2 df N) star(.10 .05 .001) style(oneline)
```

Variable	OLS	Fixed_effects	Random_effe~s	OLS_robust
bind	-3.7739705**	-3.2238801	-3.7739705**	-3.7739705**
bosz	-.59313604***	-.32991222	-.59313604***	-.59313604***
bogd	2.2082061**	1.806558**	2.2082061***	2.2082061**
ownc	.01612766	.02014093	.01612766	.01612766
mshd	-1.9054698	-.37919355	-1.9054698	-1.9054698*
_cons	8.1708482**	5.0480174	8.1708482***	8.1708482**
chi2			55.363302	
df				
N	48	48	48	48

legend: * p<.1; ** p<.05; *** p<.001

Appendix III(i)
Robust Pooled-OLS Linear Regression Results

```
. regress tobin_q bind bosz bogd ownc mshd, vce(robust)

Linear regression                               Number of obs =      48
                                                F(  5,    42) =   10.95
                                                Prob > F      =  0.0000
                                                R-squared     =  0.5686
                                                Root MSE      =  1.6581
```

tobin_q	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
bind	-3.773971	1.367777	-2.76	0.009	-6.534256	-1.013685
bosz	-.593136	.1272852	-4.66	0.000	-.850008	-.3362641
bogd	2.208206	.6344593	3.48	0.001	.9278153	3.488597
ownc	.0161277	.0193226	0.83	0.409	-.0228669	.0551222
mshd	-1.90547	1.061764	-1.79	0.080	-4.048196	.2372567
_cons	8.170848	2.550464	3.20	0.003	3.023804	13.31789

```
. estimates store OLS_robust
```