

The Effects of Corporate Governance on Capital Structure of Listed Manufacturing Companies in Nigeria: A Bird's - Eye View.

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Abstract— This study investigates the effects of corporate governance on capital structure of listed manufacturing companies in Nigeria for the period of five years, from 2013-2017. Ex-post facto and causal research design were adopted for the study. The population of the study is made up of forty-one (41) manufacturing companies listed on the floor of the Nigerian Stock Exchange (NSE). Since the population is not too large, the study census sampling technique to take all the population. The data employed in this study were secondary data derived from annual reports of manufacturing companies that are listed on the NSE. The study utilized panel regression with respect to the use of Hausman specification test to determine whether to adopt fixed or random effect model. The fixed effect regression result revealed that board size has significant negative effects on capital structure of listed manufacturing companies in Nigeria. Board composition and institutional shareholding have positive insignificant effects on capital structure of listed manufacturing companies in Nigeria. The study indicates that audit committee composition and managerial shareholding have negative insignificant effects on capital structure of listed manufacturing companies in Nigeria. The study concludes that corporate governance is a significant determinant of capital structure in listed manufacturing companies in Nigeria. The study also recommends that manufacturing companies should have a high consideration for the number of board size when determining their capital mix because the size of board is an important determinant of capital structure. Likewise, manufacturing companies that are composed of high number of non-executive directors should consider external financing since they are seen to be transparent and independent which will be recognized by the market. Similarly, manufacturing companies should give priority to equity over debt as audit committee composition favours equity over debt. Equally, institutional shareholders of listed

manufacturing companies should seek for high return in order to hold the risk related to the bankruptcy and financial distress since they have less priority in the case of bankruptcy. Also, institutional shareholders should require such return to hold the risk of agency conflicts with management. Lastly, managerial shareholders of listed manufacturing companies should discourage lending to grow the firm.

Index Terms— Corporate Governace, Capital Structure.

I. INTRODUCTION

Public limited liability companies are usually characterized by numerous owners with no management function, and managers with no equity interest in the firm. Shareholders, or owners, are generally large in number, and an average shareholder controls a minute proportion of the shares of a firm. This gives rise to the tendency for such a shareholder to take no interest in the monitoring of managers, who, left to themselves, may pursue interest different from those of the owners of equity. For example, the managers might take steps to increase their pay, although that may not necessarily raise the firm's profit, which is the major concern of the owners. This has given rise to agency problem which has lingered on overtime.

Accountants, financial economists, and a number of scholars have long been concerned with ways to address this problem that arises from the incongruence of the interests of the owners and managers, and have made significant efforts towards resolving it (Muhammed.,2019). The outcomes emanating from such efforts have grown, and much of the econometric evidences have been built upon the theoretical works

of Ross (1973), Jensen and Meckling (1976) and Fama (1980). Despite the volume of empirical evidence on this agency problem, there has been no general consensus on how to resolve the problem. The lack of consensus has produced a variety of ideas (or mechanisms) on how to deal with the agency problem. Corporate governance exists to provide checks and balances between shareholders and management, and thus, to mitigate agency problems. Effective corporate governance reduces "control rights" that shareholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects. Hence, firms with better governance quality should suffer less agency conflicts (Shleifer & Vishny, 1997). Corporate governance is a philosophy and mechanism that entails processes and structure which facilitate the creation of shareholders' value through the management of corporate affairs in such a way that it ensures the protection of the individual and collective interest of all the stakeholders. Thus, the relationships between the board and management, according to Al-Faki (2006), should be characterized by transparency to shareholders, and fairness to other stakeholders. This will in effect mitigate the agency cost as predicted by Jensen and Meckling (1976).

It is generally believed that poor corporate governance has been the Achilles' heel of many corporations in both advanced and developing nations. This is particularly true of Nigeria, where corruption is endemic (Okike, 2007). Corporate governance has been identified in previous studies to influence the capital structure decisions of firms (especially large and listed firms). Berger et al. 1997; Wen et al., 2002; Abor, 2007). The extant literature identified the main characteristics of corporate governance to include board size, board composition, audit committee as well as managerial shareholding and institutional shareholding. Besides, empirical results on the relationship between corporate governance and capital structure appear to be varied and inconclusive.

This study seeks to examine the effect of corporate governance on capital structure of quoted manufacturing firms in Nigeria. The study specifically assesses how the adoption of corporate governance structure by listed manufacturing firms in Nigeria influence their financing (capital structure) decisions. The results of this study will enrich the literature in several ways. First, the study shows whether or not corporate governance mechanism is a significant

determinant of capital structure. Second, it provides empirical support for agency theory, because it shows the relationship that exists between leverage and governance mechanisms, consistent with the prediction of agency theory. In addition, it is hoped that shareholders and regulatory authorities, such as the Securities and Exchange Commission, and the Nigerian Stock Exchange, would find the outcome of the study beneficial, as it will give them clues, as to the existence, nature and extent of the effect of Corporate Governance on capital structure of firms. This will help them in the discharge of their various regulatory functions, policy formulations and implementation. Board of Directors would find the study useful as it would help them to appreciate the need to use Corporate Governance mechanisms as a tool for enhancing their financial decision-making activities.

This study is significant in terms of the methodology adopted. The use of panel regression is best suited for this study because panel regression takes care of the heterogeneous nature of the population likewise, it takes care of the time and cross-sectional attributes of the data. Theoretically, this study will validate and invalidate the theories of Stakeholder theory, Agency theory, Pecking order theory and the M&M theory.

The scope of this study comprises all the listed manufacturing firms in Nigeria as at December, 2017. The financial institution has been left out because of its peculiar nature. There is a separate code of corporate governance for firms that operate in the industry. The period covered by this study is 5 years (2013 to 2017). This period is considered because the period covers post IFRS adoption era in Nigeria, also the period gives a time frame of five years which is considered relatively sufficient to examine the effect of corporate governance on capital structure of listed manufacturing companies in Nigeria. The components of Corporate Governance to be considered are: board composition, board size, institutional shareholding, managerial shareholding and composition of audit committee.

II. LITERATURE REVIEW

2.1 Corporate Governance

2.1.1 Concepts

Corporate governance is a philosophy and mechanism that entails processes and structure which facilitate the

creation of shareholders' value through the management of corporate affairs in such a way that it ensures the protection of the individual and collective interest of all the stakeholders.

It therefore describes how companies ought to be ran, directed and controlled. It is about supervising and holding to account those who direct and control the management. It is also about the respective roles of the shareholders as owners and managers (the directors and other officers).

2.1.2 Theories of Corporate Governance

The term corporate governance has become a subject of discourse both in public and academia, although the issues it addresses have been around for much longer, at least since Berle and Means (1932) and the even earlier Smith (1776). According to Zingales (1998), allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, and pressure from institutional investors, product market competition, labour market competition, and organisational structure among others can all be thought of as institutions that affect the process through which quasi-rents are distributed. He therefore defines corporate governance as a complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm.

Viewing the corporation as a nexus of explicit and implicit contracts, Garvey and Swan (1994) assert that governance determines how the firm's top decision makers (executives) actually administer such contracts. They also observe that governance only matters when such contracts are incomplete, and that a consequence is that executives no longer resemble the Marshallian entrepreneur. Shleifer and Vishny (1997) define corporate governance as activities that deal with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

A similar concept is suggested by Caramanolis-Cötelli (1995), who regards corporate governance as being determined by the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors. John and Senbet (1998) propose the more comprehensive definition that corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders

and management such that their interests are protected. They include as stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers, and other interested parties. Hart (1995) closely shares this view as he suggests that corporate governance issues arise in an organisation whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organisation – these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract.

These definitions all share, explicitly or implicitly, some common elements. They all refer to the existence of conflicts of interest between insiders and outsiders, with an emphasis on those arising from the separation of ownership and control over the partition of wealth generated by a company (Jensen & Meckling, 1976). However, a degree of consensus exists regarding an acknowledgement that such corporate governance problem cannot be satisfactorily resolved by complete contracting because of significant uncertainty, information asymmetries and contracting costs in the relationship between capital providers and insiders (Grossman & Hart, 1986; Hart & Moore, 1990; Hart, 1995).

On the whole, one can be led to the inference that, if such corporate governance problem exists, some mechanisms are needed to control the resulting conflicts. The precise way in which those monitoring devices are set up and how they fulfil their role in a particular firm (or organisation) defines the nature and characteristics of that firm's corporate governance. In addition, there are several basic reasons for the growing interest in corporate governance. First, the efficiency of the prevailing governance mechanisms has been questioned (Jensen, 1993; Miller, 1997; Porter, 1997). Second, this debate has been intensified following reports about spectacular, high-profile financial scandals and business failures (such as Polly Peck, BCCI), media allegations of excessive executive pay the adoption of anti-takeover devices by managers of publicly-owned companies and, more recently, a number of high visible accounting frauds allegedly perpetrated by managers of firms (like Enron and Worldcom). Third, there has been a surge of antitakeover legislation (particularly in the US) which

has limited the potential disciplining role of takeovers on managers (Bittlingmayer, 2000).

Finally, there has been a considerable amount of debate over comparative corporate governance structures, especially between the US, Germany and Japan models (Shleifer & Vishny, 1997) and a number of initiatives taken by stock market and other authorities with recommendations and disclosure requirements on corporate governance issues.

Going by the above analysis, one can conclude that Corporate Governance is a system of checks and balances designed to ensure that corporate managers are just as vigilant on behalf of long-term shareholder value as they would be if it was their own money at risk. It is also the process whereby shareholders-the actual owners of any publicly traded firm-assert their ownership rights, through an elected board of directors and other officers and managers they appoint and oversee. In the heels of corporate scandals including the Enron debacle in 2002, a series of sweeping changes are being sought, such as forcing boards to have a majority of independent directors, granting audit committees power to hire and fire accountants, banning sweetheart loans to officers and directors, and requiring shareholder's approval for stock option plans.

In order to avoid conflict of interest, a company's board of directors should include a substantial majority of independent directors (that is directors who do not have financial or close personal ties to the company or its executives); a company's audit, nominating, and compensation committees should consist entirely of independent directors; a board should obtain shareholders' approval for any actions that could significantly affect the relationship between the board and shareholders, including the adoption of anti-takeover measures; Companies should base executive compensation plans on pay for performance, and should provide full disclosure of these plans and in order to avoid abuse in the use of stock options (and executive perquisites), all employee stock option plans should be submitted to shareholders for approval.

Theories and approaches which explain corporate governance studies are well documented in the accounting and finance literature. In this regard, three contrasting approaches (namely exclusive and inclusive approach, conformance and performance approach and enterprise and regulatory approach) and four theories (namely the stewardship theory, the

theory of the firm, the stakeholder theory and the agency theory) are found to provide the theoretical framework for studies on corporate governance (Collier & Roberts, 2001; Goodpaster, 2004; & Rossouw, 2005). The theories and approaches are reviewed with a view to selecting the ones that most appropriately explain this study.

First, in the Exclusive Approach to corporate governance, the directors are regarded as the agents of shareholders, and in that capacity, they have to direct and control the company to the benefit of the shareholders alone. Thus, the responsibility of the directors does not extend to other stakeholders such as creditors, bankers, relevant tax authorities, employees, the general public, etc. (Collier & Roberts, 2001). In contrast, the Inclusive Approach focuses on the responsibility of directors to a coalition of stakeholders (Goodpaster, 1993; Collier & Roberts, 2001). From the above discussion, it can be seen that while the Exclusive Approach takes care of the interest of shareholders only, the Inclusive Approach takes care of the interest of all stakeholders.

Second, the conformance and performance approach views corporate governance as consisting of two dimensions, which are, direction and control. The direction dimension of corporate governance emphasizes the responsibility of the board to attend to strategic positioning and planning in order to enhance the performance and sustainability of the company. The control dimension, on the other hand, emphasizes the conformance responsibility of the board to oversee the executive management of the company in the execution of the plans and strategies of the company. This responsibility results in the board giving account of the performance of the company to stakeholders and regulatory bodies (Rossouw, 2005). Although the approach emphasizes the strategic positioning and overseeing function of corporate governance, what is needed is a sound balance between performance and conformance since BODs are usually expected to be involved in both direction and control functions

Third, the Enterprise and Regulatory Approach assumes that governance can either be made based on management policies or based on statutory provisions. There is, therefore, the need for a differentiation of the basis of governance. At the Enterprise level, governance refers to the way in which the company directs and controls its own affairs, while governance at the Regulatory level refers to the regulatory

environment within which corporations' function (Rossouw & Van-Vuuren, 2004). In Nigeria, for example, regulatory governance consists of the control over companies that are exerted from the outside by the Securities and Exchange Commission (SEC), Corporate Affairs Commission (CAC), Nigeria Stock Exchange (NSE) and other regulators, all of which combined to form the landscape of regulatory governance. The purpose of such control over the operations of companies is not only to lay down ground rules for key role players, but also to provide protection to all stakeholders.

However, an effective regulatory regime within which corporations operate can provide stakeholders with the peace of mind that their interests will not be taken for granted, and that their rights and interests will be protected through laws, regulations, listing requirements and professional codes. Stakeholders can be given the assurance that corporations will adhere to certain standards of behavior. In cases where corporations do not adhere to such standards, the regulatory regime provides stakeholders with the opportunity to seek recourse.

Though, finding the appropriate balance between governance at the enterprise level and governance at the regulatory level is vital for the survival of corporations. An over emphasis on regulatory governance can result in a situation where companies merely perform in accordance to letter of the corporate governance principle rather than the spirit thereof. When companies have to meet stringent mandatory governance demands issued by regulatory bodies, the danger always exists that they will merely conform formally to such demands without putting much substance in their conformance.

Nevertheless, when companies opt for self-regulation on the enterprise governance level, they are likely to do it based on the conviction that it is in the best interest of the company, as it will enhance its sustainability. A self-regulatory enterprise governance regime cannot take care and deal with those companies who fail to adhere, out of inner conviction, with the standards of good governance. An external regulatory governance regime is, therefore, required to deal with such failures.

From the three contrasting models reviewed (that is Exclusive and Inclusive Approach, Performance and Conformance Approach and Mandatory and Self-Regulatory Approach), it is believed that the inclusive

approach of corporate governance is the one that best explains this study. This is in view of the understanding that although governance can be done at the enterprise level, or at the regulatory level, or done by performance or conformance, if the concern is only with the shareholders, then directors may not enjoy the full support of other stakeholders and a company may not therefore succeed.

Literature also suggests four theories which can be used to examine corporate governance (Ross, 1973; Fama, 1980; Krieger, 1991; Roth & O'Donnell, 1996; Sanders & Carpenter, 1998; Hamilton & Kashlak, 1999). These theories are: Stewardship theory, Stakeholder theory, Theory of the firm and Agency theory.

According to the Stewardship theory, managers are good stewards of the company assets. Managers do not misappropriate corporate resources because they have a range of non-financial motives, such as the intrinsic satisfaction of successful performance and the need for achievement and recognition. This in essence will make them appreciate their fiduciary duty towards the owners of the companies (Roth & O'Donnell, 1996; Trickler, 1996; Sanders & Carpenter, 1998; Chang, 1999; Hamilton & Kashlak, 1999; O'Donnell, 2000). This theory therefore requires the directors of a company to be accountable to owners for their stewardship over the company's resources, subject to the report from an independent auditor to the members that the accounts show a true and fair view.

The Stewardship theory represents a consensus perspective which rejects the notion that the board is a disciplining mechanism to align conflicts of interests between shareholders and managers. The proponents of the Stewardship school of thought see the board of directors as an important strategic device, thus suggesting that the board of directors can serve the CEO and management with its expertise through active involvement in the strategic decision-making process, particularly by advising top management on the initiation, formulation and implementation of strategies (Carpenter & Westphal, 2001).

The Stakeholder theory holds that companies are accountable for their stewardship over the resources entrusted to them by a coalition of various stakeholders which include shareholders, employees, suppliers, bankers, regulatory authorities, relevant government agencies, pressure groups, debenture holders and members of the general public (Jensen &

Meckling, 1976; Chang, 1999; O'Donnell, 2000). The responsibility of directors is therefore to a numerous groups and individuals. In a nut-shell, the stakeholder theory is concerned with resolving problems that may occur in the relationship between two major groups, the stakeholders and managers (directors).

The Theory of the firm recognizes that for production to take place with a view to creating utility, four factors have to be involved. These factors are namely: land, labour, capital and entrepreneur. The entrepreneur (the board of directors in this case) is thus recognized as the most important of these factors, since it is in its hands that corporate governance as we know it today is vested (Donaldson & Davis, 1994). This theory shows the importance of the board in the creation of utilities, thus enabling all other factors of production to earn their rewards.

Lastly, the Agency theory sees the directors as the agents of the shareholders and therefore the need for them to act in their principal's best interest. Under this relationship, the agent may not always act in the best interest of the principal. An agency problem therefore arises from the separation of ownership (principal) and control (agent) in the organization. Agency theorists believe that managers (agents) may pursue opportunistic behaviour which may be in conflict with the goals of the owners (principal) and hence destroy shareholders' wealth. Advocates of the agency approach see the board of directors as an economic institution that helps to solve the agency problems inherent in managing any organization (Hermalin & Weisbach, 2001). Within this context, a board of directors is the guardian of shareholders' fund and fulfils the critical tasks of hiring, firing and compensating the CEO (top management) and to ratify and monitor important decisions (Fama & Jensen, 1983).

From the theories and approaches reviewed, it is believed that the theory which best explain the study is the Agency theory and exclusive approach of corporate governance, which see the board of directors as agents and a vehicle for co-opting important external organizations with which the company is interdependent. This substantially conforms to the aim of this study.

2.2 Corporate Governance Variables

There are many factors or variables that may constitute yardsticks by which corporate governance can be

measured in an organization. Some of these variables are briefly discussed below.

2.2.1: Board Size

Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups.

Empirical studies on board size seem to provide the same conclusion. A fairly clear negative relationship appears to exist between board size and firm value. When the board is too large, its likely to be less effective in substantive discussion of major issues among directors in their supervision of management. Lipton and Lorsch (1992) argue that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to coordinate, and for it to process and tackle strategic problems of the organisation. Yermack (1996) using data from Finland and Lins (1999), with Chinese data, both find negative correlation between board size and profitability.

Eisenberg et al., (1998) and Mak and Kusnadi (2005) also report that small size boards are positively related to high firm performance. In a Nigerian study, Sanda et al., (2004) report that firm performance is positively correlated with small, as opposed to large boards.

2.2.2 Board Composition

Enhanced director independence, according to Young (2003) is intuitively appealing because a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring.

The proponents of Agency theory say that corporate governance should lead to higher stock prices or better long-term performance, because under it, managers are better supervised and agency costs are decreased. However, Gompers and Metrick (2003) submit that the evidence of a positive association between corporate governance and firm performance may have little to do with the agency explanation.

Empirical studies of the effect of board membership and structure on firm value or performance generally show results either mixed or opposite to what would be expected from the agency cost argument. Some studies find better performances for firms with boards of directors dominated by outsiders (Weisbach, 1988;

Rosenstein & Wyatt, 1990; Mehran, 1995; John & Senbet, 1998), while Weir and Laing (2001) and Pinteris (2002) find no such relationship in terms of accounting profit or firm value. Also, Forsberg (1989) find no relationship between the proportion of outside directors and various performance measures.

In the same vein, Hermalin and Weisbach (1991) and Bhagat and Black (2002) find no correlation between the degree of board independence and four measures of firm performance, controlling over a variety of other governance variables, including ownership characteristics, firm and board size and industry. They find that poorly performing firms were more likely to increase the independence of their board. Baysinger and Butler (1985) and Klein (1998) find that firm performance is insignificantly related to a higher proportion of outsiders on the board. Thus, the relation between the proportion of outside directors and firm performance is mixed.

2.2.3 Audit Committee

The role of the audit committee in corporate governance is a subject of increasing regulatory interest. In an effort to restore investor confidence in the wake of recent financial reporting scandals, the Sarbanes-Oxley Act of 2002 mandates that audit committees be fully independent and have at least one financial expert. In addition, the Sarbanes-Oxley Act of 2002 makes the audit committee directly responsible for appointing, compensating, and overseeing the external auditor. The SEC adopted rules implementing these Sarbanes-Oxley provisions. Klein (2002) reports a negative correlation between earnings management and audit committee independence. Anderson, Mansi and Reeb (2004) find that entirely independent audit committees have lower debt financing costs.

2.2.4 Managerial Shareholding

Jensen and Meckling (1976) argue that managerial shareholding reduces managerial incentives to consume perquisites and expropriate shareholders' wealth and results in alignment of the interests of management and shareholders. It also reduces the propensity to involve in non-maximizing behaviour. Fama and Jensen (1983) and Demsetz (1983) argue that managerial shareholding may still have adverse effects on agency conflicts and it may entrench the present management leading to an increase in

managerial opportunism. Jensen (1986) addresses the issue of agency theory and finds that managers of a firm may make efforts to expand the firm beyond its optimal size for their personal gains and this may result in increase in gearing levels. These efforts may lead to greater power and status for managers but it will have a negative impact on firm efficiency. Friend, Irwin and Lang (1988) discuss role of managerial self-interest in making capital structure decisions. They find that there exists negative relationship between leverage ratio and management's shareholding. This indicates that in the absence of any outsider principal stockholder the tendency of low debt to equity ratio will continue which will lead to higher non diversifiable risk of debt to management. Berger, Philip, Eli and Yermack (1997) investigate the relationship between managerial entrenchment and firms' capital structures. Results indicate that entrenched CEOs make efforts to remain away from debt and gearing ratios remain lower in the absence of demand from owners. A critical examination of changes in leverage levels reveals that gearing levels moves upward when steps to reduce entrenchment are taken. These steps may include threats to managerial security through involuntary CEO replacements and the replacement in the board of directors. Short, Keasey and Duxbury (2002) examine the influence of ownership structure on the financial structure of UK firms. Results reveal that there exists positive relationship between management ownership and leverage ratio whereas negative relationship is observed between large external equity holder's ownership and financial leverage. However, relationship between management ownership and leverage ratio is not significant in the presence of a large outside equity holders.

2.2.5 Institutional Shareholding

Presence of institutional shareholding in a company helps it to raise long term finance at an advantageous cost. In the first place, these institutional investors themselves act as a source of long-term debt as they are willing to provide debt to a company over whose board they enjoy an influence. Secondly, these institutional investors serve as an effective monitoring device over the company's strategic decisions. They bring down the company's agency costs and also reduce managerial opportunism. This gives confidence to general public and other lenders –

resulting in favourable terms of borrowing by the company. It is therefore hypothesized that firms with higher Institutional Shareholding are likely to have a higher debt to equity ratio.

The role that the institutional investors can play in the corporate governance system of a company is a controversial question. While some believe that the institutional investors must interfere in the corporate governance system of a company, others believe that these investors have other investment objectives to follow.

Those who believe that institutional investors need not play a role in the corporate governance system of a company, argue that the investment objectives and the compensation system in the institutional investing companies often discourage their active participation in the corporate governance system of the companies. Some scholars are of the opinion that institutional investors need not take active interest in the corporate governance of a company because the institutional investors have their primary fiduciary responsibility to their own investors and beneficiaries, which can lead to a conflict of interest with their acting as owners.

Similarly, Drucker (1976) has once commented that it is their job to invest the beneficiaries' money in the most profitable investment. They have no business trying to manage. If they do not like a company or its management, their duty is to sell the stock. (Emphasis added). Admati, Pfleiderer and Zechner (1994), Black (1998), Coffee (1999), and Monks (1995) have argued that absence of appropriate incentives and free rider problems hinder institutional activism efforts. The free rider problem comes because even when one institutional investor interferes, the other investors get the benefits. Hence, the costs associated with active monitoring are borne by only one investor and this discourages active intervention. Gillan and Starks (2003), Karpoff, Malatesta and Walkling (1996) have observed that institutional activism has negligible impact on the performance of the companies. Marsh (1997) has argued the short-term performance measurement does work against the active monitoring by the institutional investors. Charkham (1994) divides the institutional investors into two categories, which he calls Type A and Type B. Type A institutions have a portfolio of a very small number of companies. Their stake in each individual company is very large. These institutions also keep a close relationship with the companies. Type B institutions, on the other hand,

manage a widely diversified portfolio. These companies treat the shares as commodities with no intrinsic qualities other than that of being tradable commodities.

According to Charkham (1994), corporate governance system fails because most institutions fall in the Type B category. Here only the Type A institutional investors have got an incentive for active monitoring for it directly affects the portfolio value. Another reason often cited by these people is that the institutional investors are not competent enough to interfere in the activities of the companies. There are others, however, who strongly believe that if the corporate governance system in the companies has to succeed then the institutional investors must play an active role in the entire process. Shleifer and Vishny (1986) observe that institutional investors by virtue of their large stockholdings would have greater incentives to monitor corporate performance since they have greater benefits of monitoring. Most of the reports on corporate governance have emphasized the role that the institutional investors have to play in the entire system. The Cadbury committee (1992), for example, states that because of their collective stake, we look to the institutions in particular, with the backing of the Institutional Shareholders' Committee, to use their influence as owners to ensure that the companies in which they have invested comply with the code.

Institutional investors are answerable to their investors the way the companies (in which they have invested) are answerable to their shareholders. And the shareholders do invest their funds with the institutional investors expecting higher returns. The primary responsibility of the institutional investors is therefore to invest the money of the investors in companies, which are expected to generate maximum return rather than in companies with good corporate governance records. Most of the Corporate Governance reports ignore this aspect when they expect the institutional investors to play the role of an active investor.

2.3 Capital Structure

2.3.1 Concepts

Capital Structure also referred to as financial structure of a firm is a combination of debt and equity capital maintained by a firm. The capital structure of a firm is very important since it is related to the ability of the firm to meet the needs of its stakeholders.

Capital structure is an important decision for firms that are interested in maximizing returns to their various stakeholders. Moreover, an appropriate capital structure helps in dealing with the competitive environment within which the firm operates. Modigliani and Miller (1958) argued that an 'optimal' capital structure exists when the risks of going bankrupt is offset by the tax savings of debt. Once this optimal capital structure is established, a firm would be able to maximise returns to its stakeholders and these returns would be higher than returns obtained from a firm whose capital is made up of equity only (all equity firm). It can be argued that leverage is used to discipline managers, but it can lead to the demise of the firm.

Modigliani and Miller (1963) argue that the capital structure of a firm should compose entirely of debt due to tax deductions on interest payments. Brigham and Gapenski (1996) argue that, in theory, the Modigliani-Miller (MM) model is valid. But, in practice, bankruptcy costs exist and these costs are directly proportional to the debt level of the firm. An increase in debt level causes an increase in bankruptcy costs. Therefore, they argue that an optimal capital structure can only be attained if the tax sheltering benefits provide an increase in debt level that is equal to the bankruptcy costs. In this case, managers of the firms should be able to identify when this optimal capital structure is attained and try to maintain it at the same level. This is the only way that the financing costs and the weighted average cost of capital (WACC) are minimized thereby increasing firm value and corporate performance. Using theoretical models, top management of firms are able to calculate the optimal capital structure but in real world situations, many researchers found that most firms do not have an optimal capital structure (Simerly & Li, 2000).

The reason underlying this argument is that, in general, the performance of a firm is not related to the compensation of the managers of the firm. Accordingly, managers prefer to surround themselves with all sorts of luxury and amenities rather than sharing the firm's profits (paying out dividend) to the shareholders. Hence, the problem that shareholders face is how to make sure that managers work with the objective of increasing the firm's value instead of wasting its resources. In other words, shareholders have to find a way to deal with the principal-agent problem.

The capital structure decisions of firms have important consequences at both the micro and macro-level. At the micro-level, considerable research effort has gone into examining the determinants of capital structure (Harris & Raviv, 1991). Moreover, within firms themselves, substantial resources have gone into setting capital structure policies. At the macro-level, several authors have maintained that corporate debt increases the vulnerability of an economy to a downturn, with interest in this area having been further heightened by marked increases in corporate indebtedness in the late-1990s.

2.3.2 Theories of Capital Structure

Over the years, numerous studies on capital structure theory have appeared. Modigliani and Miller (1958) (hereafter referred to as M&M) were the first who theorized the issue by posing their capital structure irrelevance proposition. By stating the circumstances under which capital structure does not influence firm value, the authors isolate factors that can explain why daily observations of reality prove the opposite. In a comment that followed five years later, M&M (1963) showed how the relaxation of one of their crucial initial assumptions, the absence of corporate taxation, could be attributed to the understanding of empirical findings, which typically exhibit negative price reactions on equity offering announcements. These two classical publications triggered a stream of studies and hypotheses over time, which contributed to the clarification of the puzzle of the capital structure.

Howe and Shilling (1988) were the first to study the capital structure issue for listed property by analyzing price reactions to the news of security issues of Real Estate Investment Trans. They attributed the resulting negative price reactions to seasoned equity offerings' (SEOs) announcements to the negative signal content of equity offerings. Jaffe (1991) disputed this reasoning and argued that under a general model, based on M&M (1958), the value of a partnership and related entity is invariant to leverage. The most recent contribution to this debate comes from Ghosh, et al. (1999, 2000), who re-examined the issue by investigating a sample of equity offerings in the U.S. market that occurred in the period 1991 -1996. In accordance with Howe and Shilling (1988) they document negative price reactions on equity offering announcements, and find evidence for the dominance of alternative hypotheses over the tax-based model.

The most popular capital structure model is the static trade-off theory, which claims that tax shield benefits of debt financing need to be adjusted for financial distress costs that rise with increasing debt levels, creating an optimal capital structure that balances both forces (Ross, 1977). Issuing equity means moving away from that optimum and should therefore be interpreted as bad news. The magnitude of this effect should be related to the size of the tax burden. Given the diversity of corporate tax rates, Leland and Pyle (1977), test whether the size of the price reaction is related to the corporate tax regime.

One of their alternative hypotheses tests is the so-called implied cash flow change hypothesis, which claims that by raising additional resources a company signals that the net operating cash flows of current operations are disappointing. In the opinion of investors, changing the financing policy may indicate that the future looks less bright than expected. Since relatively large issues imply more severe cash flow changes, they expect equity offerings of relatively large size to be associated with more severe price reactions than issues of more modest magnitudes.

Myers and Majluf (1984) assumed that firm managers have superior information about the true value of the company. Managers will therefore time a new equity issue if the market price exceeds their own assessment of the stock value – if the stocks are overvalued by the market. Since investors are aware of the existence of the information asymmetry, they will interpret the announcement of an equity issue as a signal that the listed stocks are overvalued, which subsequently will cause a negative price reaction. Although information asymmetry is difficult to measure, Ling and Ryngaert (1992) showed that the transparency of property companies varies among the different property types. These variations are partly due to differences in lease contract structures. Offices, for instance, are typically managed using long-term lease contracts, in which the future rent is known in advance. Retail properties, however, are often managed using percentage rent contracts in which future rents are linked to the sales of the store, which make future rental inflows harder to predict, thus increasing information asymmetry.

An alternative hypothesis derived from Bayless and Chaplinsky (1991) is the debt market accessibility hypothesis. The rationale of this theory is based upon the consideration of investors for the decision of managers to issue equity. If a company is already

highly levered, it will be regarded as being relatively risky by capital suppliers. Hence accessing the debt market will be less attractive, and issuing additional equity instead becomes a sound decision. Assuming investors reasoned in this manner, we expect highly levered equity issuers to be associated with better post-issue stock performance than issuers with relatively low debt-to-equity ratios.

A more recent stream of literature focuses on the slump in operational profitability that tends to occur in the year following a security issue. This phenomenon has been documented by studies like McLaughlin, Safieddine and Vasudevan (1996, 1998) and Loughran, Ritter (1997). A general explanation for this post-issue slump in earnings originates from Jensen's (1986) free cash flow theory, which claims that managers have incentives to invest issue proceeds in unprofitable projects due to agency problems causing earnings to decrease. A second explanation for the post-issue operational slump is the slow start of new projects that are initiated with the proceeds of the issues. Both these explanations indicate that equity offerings are likely to be followed by a year in which earnings slow down which can drive the negative price reaction.

III. RESEARCH METHODOLOGY

3.1 Scope of the Study

The population of the study comprised of the total number of listed manufacturing companies in the Nigerian Stock Exchange (NSE). The population of this study is made up of 41 manufacturing companies listed on the floor of the Nigerian Stock Exchange from year 2013 to 2017. This period is considered important due to the fact that the period covered post Securities and Exchange Commission code of corporate governance enactment. As at 2017, 41 manufacturing companies were listed on the exchange. In this study statistical sampling is not used due to the small size of the population, all the population elements are census as the sample size. The details of these companies will be presented in the appendix A. The number of manufacturing companies that are used as the sample size of the study are not too many. Census sampling technique is used because the population of the study is not too large, since only 41 manufacturing companies are used as the sample size.

3.2 Research Design

This study adopts ex-post facto and causal research design. This study made use of ex-post facto and causal research design since the study relied heavily on secondary data that are quantitative in nature and these data had already been collected by the study population, also, the use of causal research design is because the study examines the cause-effect relationship between corporate governance and capital structure of listed manufacturing companies in Nigeria.

3.3 Data Analysis Techniques

The data that are used for this study are secondary in nature. They are obtained from annual audited account and financial report of listed manufacturing companies published in the Nigerian Stock Exchange fact book for the period of five years covering 2013 to 2017. This study utilized panel regression to examine the effect of the independent variables on the dependent variable of capital structure of listed manufacturing companies in Nigeria, Panel regression techniques are used to analyze this study because the study involves the combination of time series and cross-sectional data. Hausman specification test was utilized to test whether the fixed or random effect model is appropriate.

Thus, the technique is consistent with the research design employed in the study and the objective of this study. The next sub sections that follow present some explanations of the techniques used.

3.3.1 Panel Regression Techniques

The study uses multiple panel regression analysis in order to establish whether the set of independent variables (Corporate Governance variables, on one hand) explain a proportion of the variance in the dependent variable (Capital Structure variables, on the other hand) and also establishes the relative predictive importance of the independent variables (by comparing beta weights). The panel regression is computed using E-View version 10.

A model is employed to estimate the effects of Corporate Governance proxies on the leverage of the sampled firms. The quality of CG is estimated as a function of the firm's agency characteristics, which have been defined in this study as Board Size (BS), Board Composition (BC), and the Composition of Audit Committee (CAC). This study also considers additional components which are Managerial

Shareholding (MS) and Institutional Shareholding (IS). This is expressed as $CG = f(BS, BC, AC, MS, IS)$. On the other hand, Capital Structure is represented by leverage (LEV).

Leverage (LEV) = Total debts/shareholders' fund

Thus, $LEV = f(CG)$, which by expansion becomes:

$LEV = f(BS, BC, CAC, MS, IS)$

The panel regression that is used to estimate the relationship is as follows:

$LEV_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BC_{it} + \beta_3 AC_{it} + \beta_4 IS_{it} + \beta_5 MS_{it} + \mu_{it}$

Where:

LEV= Leverage (a proxy for Capital Structure)

BS= Board Size

BC= Board Composition

AC= Composition of Audit Committee

MS=Management Shareholding

IS= Institutional Shareholding

β_0 = Constant

β_1 to β_5 = Regression Coefficient

μ = error term.

3.4 Estimation of Capital Structure and Corporate Governance Variables

3.4.1 Capital Structure

Capital Structure will be the dependent variable and it is quantified by using debt-to-equity ratio. Debt-to-equity ratio can be calculated either by using market value or by using book value. The use of book value measure of leverage will be used in this study. The reason is that the optimal level of leverage is determined by the trade-off between the benefits and costs of debt financing.

3.4.2 Board Size

Board size as a variable is measured as total number of board members.

3.4.3 Board Composition

Board composition represents the proportion of non-executive directors on board, and is calculated as the number of non-executive directors divided by total number of directors.

3.4.4 Composition of Audit Committee

Audit committee composition is the percentage of shareholders on the Audit committee. The CAMA stipulates that the committee should be made up of at

least six members, three of which must be representative of the shareholders.

3.4.5 Managerial Shareholding

Managerial shareholding is measured as percentage of shares held by members of board (directors) disclosed in annual financial reports.

3.4.6 Institutional Shareholding

Institutional shareholding is measured as the proportion of the equity the various institutions hold on behalf of their shareholder.

IV. DATA ANALYSIS

4.1 Data Presentation

This section presents the result of data analysis and tests of hypotheses formulated earlier. First,

descriptive statistics, followed by the correlation matrix table and then the summary of panel regression result are presented and analyzed, and then discussion of findings. The data used for this study are presented in appendix A. These data are leverage (LEV), board size (BS), board composition (BC), audit committee composition (AC), institutional shareholding (IS), and managerial shareholding (MS).

4.2 Data Analysis and Results

4.2.1 Descriptive Statistics of Variables

Table 4.1 below shows the descriptive statistics, the descriptive statistics of data provides information about sample statistics such as mean, median, maximum value and minimum value and the distribution of the sample measured by the skewness, kurtosis and the Jarque-Bera statistics.

Table 4.1: Descriptive Statistics

Statistics	LEV	BS	BC	AC	IS	MS
Mean	0.585722	10.63415	0.541171	2.531707	0.422054	0.478483
Max	0.958707	17.00000	0.710000	3.000000	0.956000	0.782000
Min	0.089271	7.000000	0.210000	2.000000	0.071000	0.012000
Sd	0.233896	2.392350	0.105916	0.500215	0.258218	0.185160
Skewness	-0.330389	0.606701	-0.366643	-0.127085	0.306255	-0.436325
Kurtosis	2.039366	2.653270	2.857870	1.016151	2.009038	2.390365
JB	11.61193	13.60317	4.765482	34.16889	11.59253	9.679187
Prob	0.003010	0.001112	0.092297	0.000000	0.003039	0.007910
Observation	205	205	205	205	205	205

Source: Eview Output, 2018

The skewness and kurtosis statistics provide useful information about the symmetry of the probability distribution of various data series as well as the thickness of the tails of these distributions respectively. These two statistics are particularly of great importance since they are used in the computation of Jarque-Bera statistic, which is used in testing for the normality or asymptotic property of a particular series. The Table above reports some descriptive statistics for the forty-one sampled manufacturing companies for the period of five years covering 2013 - 2017 totaling 205 observations. Table 4.1 above presents the descriptive statistics of all the variables used in an attempt to examine the effects of corporate governance on capital structure of listed manufacturing companies in Nigeria.

The table shows the average value of capital structure proxy with leverage (LEV) to be 0.585722. The minimum value of LEV is 0.089271 with maximum value of 0.958707 and standard deviation of 0.233896. The standard deviation value of 0.233896 is less than the mean value of 0.585722, it means that the data are not widely dispersed from the mean value as the mean value of the variable is more than the standard deviation value. The skewness value of LEV is -0.330389 which is close to 0 and is negatively skewed which is considered to be symmetrical above its mean and the distribution has long left tail. Similarly, kurtosis measures how fat the tails of the distribution are. The kurtosis statistics obtained for a maximum value of 3 for kurtosis is expected to guarantee the normal distribution (Blundell & Bond, 2000). The kurtosis value of LEV is 2.039366 which is below 3, it

shows that the variable is normally distributed in nature and which indicated the extent of flatness (platy- kurtic) of the distribution of the data series relative to normal.

Also, the table reveals that the average value of board size (BS) is 10.63415, the maximum value of 17, minimum value of 7, standard deviation value of 2.392350. The standard deviation of the BS is less than the average value, it indicates that the data are not widely dispersed from the mean. The skewness value of the variable is 0.606701 which is close to zero and positive, it means that the distribution of the variables is symmetric and has long right tail. The Kurtosis values of BS is 2.653270 which is close to 3, it indicates that the distribution series is normally distributed in nature and which indicated the extent of flatness (platy- kurtic) of the distribution of the data series relative to normal.

The descriptive statistics reveals that board composition (BC) mean value is 0.541171, maximum value is 0.71, minimum value of 0.21 and standard deviation of 0.105916. The standard deviation of 0.105916 is less than the mean value of 0.541171, it shows that the data are not widely dispersed from the mean. The skewness value of the variable is -0.366643, the variable is negatively skewed which implied that the data sets have long left-tails. The Kurtosis values of BC is 2.857870 which is below 3, it indicates that the shape is platy-tokurtic in nature.

The descriptive statistics exhibits the mean value of audit composition (AC) to be 2.51707, maximum value of 3, the minimum value of 2, and standard deviation value of 0.500215, the standard deviation value of is less than the mean value of which indicates that the data are not widely dispersed from the mean. The skewness value of the variable is -0.127085 which is close to zero, it means that the distribution of the

variables is symmetric in nature. The Kurtosis values of the variable is 1.016151 which is less than 3, it indicates that the data is normally distributed in nature. The table also indicates that the average value of institutional shareholding (IS) to be 0.422054, the minimum value of IS is 0.071 with maximum value of 0.956 and standard deviation of 0.258218. The standard deviation value is less than the mean value, it means that the data are not widely dispersed from the mean value. The skewness value of IS is 0.306255 which is close to 0 and is considered to be non-symmetric. Similarly, a maximum value of 3 for kurtosis is expected to guarantee the normal distribution (Blundell & Bond, 2000). The kurtosis value of IS is 2.009038 which is below 3, it shows that the variable shape is platy-kurtic in nature.

Likewise, managerial shareholding (MS) mean value is 0.478483, maximum value is 0.782, minimum value of 0.012 and standard deviation of 0.18516. The standard deviation is less than the mean value of 0.478483, it shows that the data are not widely dispersed from the mean. The skewness value of the variable is -0.436325 which is close to zero, it means that the distribution of the variables is non-symmetric in nature. The Kurtosis values of MS is 2.390365 which is close to 3, it indicates that the shape is leptokurtic in nature.

This study uses the Jarque - Bera test for normality, the results of the test indicate that the data are not normally distributed because their P-value is less than 0.05. Except managerial shareholding that has a P-value above 0.05, it means MS is normally distributed. However, the Guasian theorem (1929) and Shao (2003) suggest that normality of data does not in any way affect the inferential statistics estimate to the BLUE.

4.2.2 Correlation Matrix

The table below shows the correlation values between the independent variables. Table 5.2

VARIABLES	BS	BC	AC	IS	MS
BS	1				
BC	-0.13159277	1			
AC	-0.08242488	0.098295780	1		
IS	-0.10284021	-0.24048465	0.070936716	1	
MS	0.218903133	-0.02998605	-0.08206868	-0.12785183	1

Source: Eview Output, 2018

The correlation matrix is used to determine the correlation between independent variables of the study. It is observed that the variables correlate fairly well (between -0.24 and 0.21).

There is no correlation coefficient greater than 0.8, hence there is no problem of multicollinearity of data.

4.2.3 Variance Inflation Factor

The tolerance values and the variance inflation factor are two good measures of assessing multicollinearity between the independent variables in a study.

Table 4.3

Variable	VIF	1/VIF
C	NA	0.023257
BS	1.083987	4.66E-05
BC	1.103611	0.024180
AC	1.026203	0.001008
IS	1.103944	0.004069
MS	1.067243	0.007651

Source: Eview Output, 2018

The result shows that variance inflation factor were consistently smaller than ten (10) indicating complete absence of multicollinearity. This shows the suitability of the study model been fit with the six independent variables. Also, the tolerance values were consistently smaller than 1.00, therefore extend the fact that there is complete absence of multicollinearity between the independent variables.

4.2.4 Fixed Effect Model Regression Results

The table below shows the fixed effect model regression results.

Table 4.4

Variable	Coefficient	Standard Error	t-statistics	Prob
C	1.181421	0.265536	4.449191	0.0000
BS	-0.048750	0.020472	-2.381260	0.0184
BC	0.037017	0.193926	0.190880	0.8489
AC	-0.026516	0.034963	-0.758409	0.4493
IS	0.099700	0.139245	0.716003	0.4750
MS	-0.151022	0.128746	-1.173021	0.2425
R ²	0.59			
Adj. R ²	0.47			
F-Statistics	5.155			
Prob(F-Statistics)	0.000			
Hausman Chi-Sq. Stat.	15.606			
Hausman Prob. Value	0.0081			
Heteroskedasticity F-Statistics	1.686			
Heteroskedasticity Observed R-square	0.138			
Br-Godfrey LM Stat	1.315			
Br-Godfrey LM Ob. R	0.643			

Source: Eview Output, 2018

Dependent variable: Leverage (LEV)

Board Size and Capital Structure

The regression line shows that $LEV = 1.181421 - 0.048750BS + 0.037017BC - 0.026516AC + 0.099700IS - 0.151022MS$, this means that LEV will reduce by 4% for every 1% increase in board size (BS). The significant value or P-value of BS is 0.0184, this significant value or P-value is less than the t-value of 0.05, which indicates that BS has significant

negative effects on LEV of listed manufacturing companies in Nigeria. The study finds that board size contributes significantly in determining capital structure as larger board sizes lead to lower debt to equity ratio.

Board Composition and Capital Structure

The regression line indicates that LEV will increase by 3% for every 1% increase in board composition (BC).

The significant value of BC is 0.8489, this value is more than the t-value of 0.05, likewise, the coefficient value of BC is positive which indicates that BC has positive insignificant effects on LEV of listed manufacturing companies in Nigeria. The study reveals that board composition is not a determinant of capital structure as board composition does not influence debt to equity ratio.

Audit Committee Composition and Capital Structure

The regression line reveals that LEV will decrease by 2% for every 1% increase in audit committee (AC). The significant value or P-value of AC is 0.4493, this significant value or P-value is more than the t-value of 0.05, which indicates that audit committee composition has negative insignificant effects on LEV of listed manufacturing companies in Nigeria. It shows that audit committee composition is not a determinant of capital structure of listed manufacturing companies in Nigeria.

Institutional Shareholding and Capital Structure

The regression line portrays that LEV will increase by 9% for every 1% increase in institutional shareholding (IS). The significant value or P-value of IS is 0.4750, this significant value or P-value is more than the t-value of 0.05, which indicates that IS has positive insignificant effects on capital structure of listed manufacturing companies in Nigeria. It also indicates that institutional shareholding is not a determinant of capital structure of listed manufacturing companies in Nigeria.

Managerial Shareholding and Capital Structure

The regression line exhibits that LEV will decrease by 15% for every 1% increase in managerial shareholding (MS). The significant value or P-value of MS is 0.2425, this significant value or P-value is the more than the t-value of 0.05, which indicates that managerial shareholding has negative insignificant effects on capital structure of listed manufacturing companies in Nigeria. It means that managerial shareholding is not a determinant of capital structure of listed manufacturing companies in Nigeria.

The F-Statistic of 5.155 and its corresponding P-value of 0.000 indicates that the model is fit and the independent variables are properly selected, combined and used. The Coefficient of Determination (R^2) of 0.59 indicates that about 59% of variation in capital structure can be explained by BS, BC, AC, IS and MS

or the ability of the regression line to predict capital structure is about 59%. The remaining 41% are attributed to other independent variables that are not captured in the regression. The study therefore, accepts alternate Hypothesis which states that BS, BC, AC, IS and MS are determinants of capital structure and they have significant effect on capital structure of listed manufacturing companies in Nigeria.

The Breusch Pagan-Godfrey Test of Heteroskedasticity indicates that the probability chi-square value of 0.138 indicates that the data are homoscedasticity. Thus, the p-value of 0.138 which is greater than 0.05 makes the study to accept the null hypothesis that the residuals are not heteroskedasticity but homoscedasticity and is desirable.

The Brush--Godfrey serial correlation LM test for serial correlation was performed on the residuals and the results showed observed R-squared of 0.643, which is in excess of 0.05, which lead us to reject the presence of serial correlation in the residual.

The Hausman Specification Test indicates that Fixed Effect Model is most appropriate to Random Effect Model given the Chi-Square value of 51.606 and its corresponding P-value of 0.00817 which is less than the critical value of 0.5.

V. DISCUSSION OF FINDINGS

5.1 Research Findings

The issue of corporate governance and capital structure has become an essential matter in the literature of finance. Attempt has been made in this study to examine the effects of five corporate governance variables such as board size, board composition, audit committee composition, institutional shareholding and managerial shareholding on capital structure of listed manufacturing companies in Nigeria. On a general note, the the finding concludes that corporate governance is a significant determinant of capital structure in listed manufacturing companies in Nigeria. The following are the specific findings:

In the regression result, board size has significant negative effects on capital structure of listed manufacturing companies in Nigeria. This indicates that higher board size lower debt structure of listed manufacturing companies in Nigeria. The coefficient of board size is negative which may be as a result of the fact that larger board size generally translates into

strong pressure from the corporate board to make managers pursue lower leverage to increase firm performance.

In the case of board composition and capital structure, an insignificant positive effect was found. This indicates that debt will increase when there is an increase in board composition. This means that increase in board composition will increase gearing. The study shows that the relationship between board composition and the ratio of debt to equity is positive; this is partly because a higher percentage of external directors on the board lead to higher leverage, due to their superior control, monitoring and also due to the fact most listed companies have a higher percentage of external directors. This means that debt providers are ready and willing to grant loan to companies with sound board composition. This finding is in support of static trade-off theory of the corporate capital structure. Static trade-off theory asserts that optimal debt-to-equity ratio is determined by the trade-off between costs and benefits of borrowings, with the firm's assets and investment plan fixed (Chen & Hammes, 2005).

Interest tax shields are considered to be benefits of the borrowings while increased probability of bankruptcy or financial distress is borrowings' costs. Thus, according to the static trade-off theory of the corporate capital structure the firm management chooses the firm's leverage comparing the interest tax shields and the probability of bankruptcy. And when there are no adjustment costs to new debt-to-equity ratio the chosen firm leverage is considered to be optimal that is such that maximizes firm's value (Myers, 1984). Consequently, the static trade-off theory implies that firms with higher board composition borrow more as they experience high reputation from credit providers. Based on the regression result, audit composition has an insignificant negative effect on capital structure. It shows that audit committee composition is not a determinant of capital structure of listed manufacturing companies in Nigeria. This finding supports the pecking order theory and agency costs theory of the corporate capital structure; agency theory is an assumption that the interests of shareholders and managers completely align and managers act in the interests of shareholders. Consequently, the agency costs arise because of the separation of ownership and control over the company and different objectives considered by manager. As a solution, the interests of

shareholders and managers can be aligned by different mechanisms of control and monitoring implemented by the shareholders or special design of the compensation packages for managers. This means that the shareholders of listed manufacturing companies in Nigeria prefer that they issue equity capital rather than going outside the firm to borrow funds. Therefore, higher audit committee composition lowers debt. This is in contradiction with the findings of Ahmed, Anis and Imam (2015) that found positive relationship between audit committee composition and capital structure of listed manufacturing companies in Nigeria.

The regression result indicates that institutional shareholding has positive insignificant effect on capital structure of listed manufacturing companies in Nigeria. It also indicates that institutional shareholding is not a determinant of capital structure of listed manufacturing companies in Nigeria. The reason for such relationship in the listed manufacturing companies in Nigeria is due the theoretical prediction of the agency theory; the required rate return from investors should be suitable to their risk in the firm. Shareholders will require high return in order to hold the risk related to the bankruptcy and financial distress since the debt holders have the priority in the case of bankruptcy. Also, the debt holders will require such return to hold the risk of agency conflicts with shareholders and management.

The study found that managerial shareholding has insignificant negative effect on capital structure of listed manufacturing companies in Nigeria. This means that managerial shareholding is not a determinant of capital structure of listed manufacturing companies in Nigeria. The negative coefficient of managerial shareholding indicates that shareholders that are part of the management prefer equity over debt to secure their investment. This finding is in line with pecking order theory of capital structure.

VI. RESULTS, CONCLUSIONS AND RECOMMENDATIONS

6.1 Results

This study assessed the effects of corporate governance on capital structure of listed manufacturing companies in Nigeria within the periods of 2013 to 2017.

Related theoretical and empirical literatures were reviewed. Experiential review reveals that earlier studies in this area of research were marred by conflicting and faltering result as a consequence of difference in period and timing of study, the specific industrial differences, methodological approaches regarding measurement of the independent variables, disparity in research domains and differences in economic systems where these studies were conducted.

The review of previous studies also revealed dearth of studies on the subject in the Nigerian context. In line with the pecking order theory and agency theory that underpins the study, a panel regression model was used with the aim of explaining and predicting empirically changes in capital structure as a result of changes in board size, board composition, audit committee composition, institutional shareholding and managerial shareholding. The model used for the study examined the association between five (5) independent variables and one dependent variable, which is capital structure.

The cross-sectional panel data were extracted from the financial statements of forty-one (41) listed manufacturing companies in Nigeria for the period of 2013-2017. The Fixed effect regression result revealed that board size has significant negative effects on capital structure of listed manufacturing companies in Nigeria. Board composition has positive insignificant effects on capital structure of listed manufacturing companies in Nigeria. The study reveals that board composition is not a determinant of capital structure as board composition does not influence debt to equity ratio; the study indicates that audit committee composition has negative insignificant effects on capital structure of listed manufacturing companies in Nigeria. It shows that audit committee composition is not a determinant of capital structure of listed manufacturing companies in Nigeria. The study reveals that institutional shareholding has positive insignificant effects on capital structure of listed manufacturing companies in Nigeria. It also indicates that institutional shareholding is not a determinant of capital structure of listed manufacturing companies in Nigeria. Lastly, managerial shareholding has negative insignificant effects on capital structure of listed manufacturing companies in Nigeria. It means that managerial shareholding is not a determinant of capital

structure of listed manufacturing companies in Nigeria.

6.2 Conclusions

The issue of corporate governance and capital structure has become an essential matter in the literature of finance. Attempt has been made in this study to examine the effects of five corporate governance variables such as board size, board composition, audit committee composition, institutional shareholding and managerial shareholding on capital structure of listed manufacturing companies in Nigeria. On a general note, the study concludes that corporate governance is a significant determinant of capital structure in listed manufacturing companies in Nigeria.

Based on the result that board size has significant negative effects on capital structure of listed manufacturing companies in Nigeria, the study concludes that large board size avoids taking large amount of debt because of strong monitoring mechanisms of the board.

In line with insignificant positive effect of board composition on capital structure of listed manufacturing companies in Nigeria, the study concludes that debt of manufacturing companies' increases when there is an increase in non-executive directors in the board.

In the case of insignificant but negative effect of audit committee composition on capital structure of listed manufacturing companies in Nigeria, the study concludes that an increase in audit committee composition leads to a reduction in the debt level of listed manufacturing companies in Nigeria.

The regression result of institutional shareholding and capital structure shows that institutional shareholding has positive insignificant effects on capital structure of listed manufacturing companies in Nigeria. The study concludes that institutional shareholding is not a determinant of capital structure of listed manufacturing companies in Nigeria.

According to the result that managerial shareholding has negative insignificant effects on capital structure of listed manufacturing companies in Nigeria. This study concludes that an increase in managerial shareholders reduces debt level of listed manufacturing companies in Nigeria.

6.3 Recommendations

The study offers the following recommendations based on the findings from the study:

- i. Based on the research results, manufacturing companies should have a high consideration for the number of board size when determining their capital mix because the size of board is an important factor that has a negative effect on capital structure.
- ii. Manufacturing companies that are composed of high number of non-executive directors should consider external financing since they are seen to be transparent and independent which will be recognized by the market.
- iii. Manufacturing companies should give priority to equity over debt as audit committee composition favours equity over debt.
- iv. Institutional shareholders of listed manufacturing companies should seek for high return in order to hold the risk related to the bankruptcy and financial distress since they have less priority in the case of bankruptcy. Also, institutional shareholders should require such return to hold the risk of agency conflicts with management.
- v. Managerial shareholders of listed manufacturing companies should discourage lending to grow the firm. Managerial shareholders should encourage the use of more equity and less debt.

List Of Tables

4.1 Descriptive Statistics of Variables

	LEV	BS	BC	AC	IS	MS
Mean	0.585722	10.63415	0.541171	2.531707	0.422054	0.478483
Median	0.615064	10.00000	0.550000	3.000000	0.416000	0.501000
Maximum	0.958707	17.00000	0.710000	3.000000	0.956000	0.782000
Minimum	0.089271	7.000000	0.210000	2.000000	0.071000	0.012000
Std. Dev.	0.233896	2.392350	0.105916	0.500215	0.258218	0.185160
Skewness	-0.330389	0.606701	-0.366643	-0.127085	0.306255	-0.436325
Kurtosis	2.039366	2.653270	2.857870	1.016151	2.009038	2.390365
Jarque-Bera	11.61193	13.60317	4.765482	34.16889	11.59253	9.679187
Probability	0.003010	0.001112	0.092297	0.000000	0.003039	0.007910
Sum	120.0730	2180.000	110.9400	519.0000	86.52100	98.08900
Sum Sq. Dev.	11.16027	1167.561	2.288519	51.04390	13.60200	6.993951
Observations	205	205	205	205	205	205

4.2 Correlation Matrix

	LEV	BS	BC	AC	IS	MS
LEV	1					
BS	-0.08077619	1				
BC	0.283948507	-0.13159277	1			
AC	-0.00319256	-0.08242488	0.098295780	1		
IS	-0.20113779	-0.10284021	-0.24048465	0.070936716	1	
MS	0.043076101	0.218903133	-0.02998605	-0.08206868	-0.12785183	1

4.3 Variance Inflation Factors

Date: 09/05/18 Time: 15:42

Sample: 1 205

Included observations: 205

Variable	Coefficient Variance	Uncentered VIF	Centered VIF

C	0.023257	95.08694	NA
BS	4.66E-05	22.60702	1.083987
BC	0.024180	30.05596	1.103611
AC	0.001008	27.44239	1.026203
IS	0.004069	4.067640	1.103944
MS	0.007651	8.229128	1.067243

4.4 Dependent Variable: LEV

Method: Panel Least Squares

Date: 09/05/18 Time: 15:49

Sample: 2013 2017

Periods included: 5

Cross-sections included: 41

Total panel (balanced) observations: 205

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.181421	0.265536	4.449191	0.0000
BS	-0.048750	0.020472	-2.381260	0.0184
BC	0.037017	0.193926	0.190880	0.8489
AC	-0.026516	0.034963	-0.758409	0.4493
IS	0.099700	0.139245	0.716003	0.4750
MS	-0.151022	0.128746	-1.173021	0.2425

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.593341	Mean dependent var	0.585722
Adjusted R-squared	78248	S.D. dependent var	0.233896
S.E. of regression	0.168948	Akaike info criterion	-0.523772
Sum squared resid	4.538428	Schwarz criterion	0.221879
Log likelihood	99.68661	Hannan-Quinn criter.	-0.222174
F-statistic	5.155346	Durbin-Watson stat	1.585468
Prob(F-statistic)	0.000000		

4.5 Dependent Variable: LEV

Method: Panel EGLS (Cross-section random effects)

Date: 09/05/18 Time: 16:07

Sample: 2013 2017

Periods included: 5

Cross-sections included: 41

Total panel (balanced) observations: 205

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	0.725271	0.174095	4.165942	0.0000
BS	-0.014504	0.009888	-1.466855	0.1440
BC	0.250503	0.162940	1.537400	0.1258
AC	-0.019451	0.031217	-0.623097	0.5339
IS	-0.089559	0.085003	-1.053599	0.2933
MS	-0.070700	0.100647	-0.702459	0.4832
Effects Specification				
			S.D.	Rho
Cross-section random			0.143365	0.4186
Idiosyncratic random			0.168948	0.5814
Weighted Statistics				
R-squared	0.034111	Mean dependent var		0.273083
Adjusted R-squared	0.009843	S.D. dependent var		0.174252
S.E. of regression	0.173392	Sum squared resid		5.982916
F-statistic	1.405582	Durbin-Watson stat		1.275707
Prob(F-statistic)	0.223752			
Unweighted Statistics				
R-squared	0.066426	Mean dependent var		0.585722
Sum squared resid	10.41894	Durbin-Watson stat		0.732555

Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		15.606415	5	0.0081
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var (Diff.)	Prob.
BS	-0.048750	-0.014504	0.000321	0.0561
BC	0.037017	0.250503	0.011058	0.0423
AC	-0.026516	-0.019451	0.000248	0.6536
IS	0.099700	-0.089559	0.012164	0.0862
MS	-0.151022	-0.070700	0.006446	0.3171
Cross-section random effects test equation:				

4.5 Dependent Variable: LEV

Method: Panel Least Squares

Date: 09/05/18 Time: 16:09

Sample: 2013 2017

Periods included: 5

Cross-sections included: 41

Total panel (balanced) observations: 205

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.181421	0.265536	4.449191	0.0000
BS	-0.048750	0.020472	-2.381260	0.0184
BC	0.037017	0.193926	0.190880	0.8489
AC	-0.026516	0.034963	-0.758409	0.4493
IS	0.099700	0.139245	0.716003	0.4750
MS	-0.151022	0.128746	-1.173021	0.2425
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.593341	Mean dependent var	0.585722	
Adjusted R-squared	0.478248	S.D. dependent var	0.233896	
S.E. of regression	0.168948	Akaike info criterion	-0.523772	
Sum squared resid	4.538428	Schwarz criterion	0.221879	
Log likelihood	99.68661	Hannan-Quinn criter.	-0.222174	
F-statistic	5.155346	Durbin-Watson stat	1.585468	
Prob(F-statistic)	0.000000			

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.686380	Prob. F (5,199)	0.1395
Obs*R-squared	8.333046	Prob. Chi-Square (5)	0.1388
Scaled explained SS	5.837966	Prob. Chi-Square (5)	0.3223

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 09/03/18 Time: 01:22

Sample: 1 205

Included observations: 205

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	-0.007936	0.038843	-0.204308	0.8383
BS	0.003812	0.001743	2.187418	0.0299
BC	-0.013651	0.040959	-0.333291	0.7393
AC	0.011882	0.008250	1.440284	0.1514
IS	-0.016351	0.016532	-0.989035	0.3238
MS	-9.77E-05	0.000146	-0.669674	0.5038
R-squared	0.040649	Mean dependent var	0.048071	
Adjusted R-squared	0.016545	S.D. dependent var	0.058760	
S.E. of regression	0.058272	Akaike info criterion	-2.818547	
Sum squared resid	0.675738	Schwarz criterion	-2.721288	
Log likelihood	294.9011	Hannan-Quinn criter.	-2.779208	
F-statistic	1.686380	Durbin-Watson stat	1.006119	
Prob(F-statistic)	0.139459			

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.315775	Prob. F (2,197)	0.4120
Obs*R-squared	0.587778	Prob. Chi-Square (2)	0.6430

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 09/03/18 Time: 01:24

Sample: 1 205

Included observations: 205

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004215	0.126182	0.033407	0.9734
BS	0.002020	0.005629	0.358828	0.7201
BC	-0.131768	0.133993	-0.983391	0.3266
AC	0.015431	0.026641	0.579208	0.5631
IS	0.011023	0.053285	0.206869	0.8363
MS	0.000554	0.000478	1.160105	0.2474
RESID (-1)	0.545112	0.072152	7.555062	0.0000
RESID (-2)	0.017969	0.071847	0.250097	0.8028
R-squared	0.295501	Mean dependent var	5.95E-17	
Adjusted R-squared	0.270468	S.D. dependent var	0.219787	
S.E. of regression	0.187725	Akaike info criterion	-0.469430	
Sum squared resid	6.942448	Schwarz criterion	-0.339751	
Log likelihood	56.11654	Hannan-Quinn criter.	-0.416978	
F-statistic	1.803450	Durbin-Watson stat	1.962646	
Prob(F-statistic)	0.643000			

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