BOWEN UNIVERSITY, IWO
INAUGURAL LECTURE

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BOWEN UNIVERSITY

(of the Nigerian Baptist Convention)

Iwo, Osun State

11TH INAUGURAL LECTURE

Topic:

'Act of God' or Looking Inwards:
Unravelling the drivers of Corporate Performance in Nigeria

By

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On Tuesday, 9 January, 2024

'Act of God' or Looking Inwards: Unravelling the Drivers of Corporate Performance in Nigeria

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Deputy Vice- Chancellor,
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Deputy Provosts,
Directors,
Distinguished Professors,
Members of Senate,
Programme Coordinators,
My Lords Spiritual and Temporal,
Scholars,
Staff, and Students of Bowen University,
Gentlemen of the Press,
Distinguished guests,
My esteemed family members,
Ladies and Gentlemen,

INTRODUCTION

It is with deep gratitude to God and great honour that I stand before you to present the 11th inaugural lecture of Bowen University. This is the first inaugural lecture delivered since the establishment of the Economics Programme in 2002 (when the University itself commenced academic activities) and it is also the first from the College of Management and Social Sciences. In this lecture, I intend to emphasise my contributions to research in the areas of capital structure, ownership structure, corporate governance, and what drives corporate performance of companies in Nigeria. I also highlights the main constrains to corporate performance, and make recommendations on how to enhance corporate performace of firms operating in Nigeria.

Mr Vice Chancellor, sir, let me start with my academic journey to what I am today. I got admission to the University of Ibadan (UI) in 1984 with the aim of studying Economics. I however had to study for one year in the Department of Religious Studies for my 100 level as the BSc Economics started only in the 200 level. I subsequently crossed to Economics in my second year. Thus, most of my classmates at 200 level were those who were admitted through GCE Advanced level or Direct Entry, and were much older than myself. I believe that only two of us were in the category of my age bracket at that time out of a class of about one hundred students. The Department of Religious Studies was very reluctant to release me but I pleaded that Economics was what I set

out to study. I later pursued the Accounting professional qualification under the guidance of my father. He felt that it was important to have a professional qualification in addition to the academic degree that Economics offered (he was a lawyer as well as a practising chartered accountant). The professional qualification was to serve as an insurance, if in event, Economics was unable to provide 'food on my table'. Hence, I started to write the Institute of Chartered Accountants of Nigeria (ICAN) professional examinations in my final year at UI. I also wrote some of the professional examinations of the Association of Chartered Certified Accountants (ACCA) while I was in the UK.

My academic career is a unique one having come from a background where my father was a Professor of Law and was also a chartered accountant of repute while my mother retired as a matron at the University College Hospital in Ibadan. My husband is a Professor of Energy Economics at the University of Ibadan. Thus, books have always been my companion at each point in my life. I am an economist, a chartered accountant (a fellow of the Institute of Chartered Accountants of Nigeria, ICAN), an associate member of the Chartered Institute of Taxation, a member International Association of Energy Economics (IAEE), and the Nigerian Association of Energy Economics (NAEE), Life member of the Nigerian Economic Society (NES) among others. My combination of degrees, certificates, and experience has earned me seats in various departments/programmes.

I have had interesting professional career, having started as a banker in the defunct Trans International Bank (TIB). I was a lecturer as the Department of Accounting, Obafemi Awolowo University, Ile Ife, for a brief period. I applied to the Department of Economics (Economics and Business Administration, EBA) when I joined Bowen University, however, within six months of my resumption I was asked to be in the Department of Accounting (Accounting, Banking, and Finance). During my tenure as the head of the Department of Accounting, the PhD program took off successfully (the department had the accreditation for PhD, but there was no qualified staff at the time to teach and supervise) and when I moved to the Economics Department/Programme, we applied for accreditation for the PhD and this was granted in the year 2020. During my term as the Head, Department of Economics, discussions were made towards our students writing the Chartered Institute of Stock Brokers examinations to enable them obtain the CIS qualification, upon graduation (the discussion is ongoing and the University should sign the MOU with the Institute). During my tenure as the Head of the Department of Accounting, the university secured the ACCA exemption certificate such that our students can write the professional examinations with exemptions in some subjects. Also, the Institute of Chartered of Nigeria (ICAN) signed the MCATI agreement with the university that allowed our students to write the final examinations of ICAN and become chartered accountants in their

fifth year.

The foundation for my research in Economics is laid on my Ph.D. thesis titled “ Capital Structure and the Risk of Corporate Failure: The Case of Nigeria” which I completed in 2002 and subsequent research in the area of “Corporate Governance and Firm Performance” which was funded by grants from the African Economic Research Consortium (AERC, Nairobi, Kenya). My PhD thesis evaluated the debate on capital structure which states that the combination of debt and equity in a company's capital structure affects the firm's value, and in particular provides a developing country's perspective to the debate. Furthermore, the study examined the implication of capital structure on the risk of corporate failure in Nigeria. My work in the area of corporate governance have considered issues relating corporate governance to ownership structure, managerial characteristics, capital structure and performance (Adenikinju 2002). This was one of the earliest empirical studies on corporate governance in Nigeria.

Mr Vice Chancellor, Sir, financial performance is essential for the success and continuity of businesses and therefore a good understanding of the factors that influence performance is useful so that businesses can take better decisions and improve their financial objectives. In their lifetime, companies go through various phases of good fortunes and poor performance. Is it in their stars or is it as a result of factors internal to the firms or is it an 'act of God', caused by external factors, over which the company has no control over? The truth is that in spite of major external constraints, some companies have been able to do very well, delivering good returns to their owners and becoming sector leaders, while others have remained as laggards, and others dropping off, from official reckoning. Some companies have done very well while others have not. So what are the drivers of corporate performance? These issues have been central to my research over the years, and these are the issues I would like to discuss at this inaugural lecture. The internal factors that influence financial performance can be broadly classified into three;

1. Revenue growth (which include issues relating to market demand and market competition, products or service innovation and differentiation and sales/marketing strategies),
2. Profitability (which relates to management of cost and efficiency, strategies for pricing, and ability to adapt to dynamic market conditions), and
3. liquidity (matters such as management of financial risk, mix of the capital structure and generation of cash flow and management of the working capital).

Other internal factors that influence financial performance and these have to do with the leadership/ management (leadership skills/ quality, strategic/ long term decision making and resource allocation, and change management and organizational culture), human resources (acquisition and retention of talented staff, staff motivation and engagement and training programs and skills

development), corporate governance (issues of transparency and accountability, ethical conduct and corporate social responsibility and the composition of the board and the board structure) and innovation and research and development (comprises of putting money into research and development, protection of intellectual property and the enablement to turn innovation into success in the market).

While the external factors that influence performance can also be generally classified into three;

1. The macroeconomic environment (that is growth rate of the gross domestic product, GDP, interest rates and inflation and exchange rates and international trade),
2. factors that are specific to the industry where the company operates (that is competitive forces and market concentration, advancement in technology and the regulatory environment) and
3. social and environmental factors (the consumers' preferences and trends in the society, sustainability issues and corporate values and stakeholder interactions and reputation management.

Mr Vice- Chancellor, Sir, my studies have focused on internal factors (liquidity-mix of capital structure), and the interplay between internal and external factors that influence financial performance (corporate governance issues).

I have organized this lecture into 7 sections. Section 2 discusses the theories of performance and issues in corporate performance.

In section 3 are theoretical and empirical issues in corporate governance. Section 4 contains the analysis of capital structure and the risk of corporate failure. Section 5 highlights the importance of ownership structure as it relates to performance. My contributions to scholarship and other contributions to knowledge are next in section 6 and are followed by the constraints to performance and then the recommendations in section 7. Next I make some concluding remarks and express gratitude to everyone who have made this journey possible.

2.1 Theories of Corporate Performance

Several theories underlie the performance of firms. Organizational theory entails the analysis of the productivity and performance of organizations and the actions of the employees and groups within them. Economists, business analysts, and academic researchers who study organizational theory are interested in understanding the dynamics of a successful business.

Organizational theory is the study of the structures of organizations. Four major theories contribute to the study namely; classical organizational theory, human relations or neo-classical theory, contingency or decision-making theory, and modern systems theory.

Classical organization theory includes the scientific management approach, Weber's bureaucratic approach, and administrative theory. The scientific management approach is based on the

concept of planning work to achieve efficiency, standardization, specialization, and simplification.

The Neo-Classical theory is associated with Elton Mayo concerning the human relations movement. Mayo and his colleagues carried out the Hawthorne experiments which underlies the theory. The Neoclassical theory is also called the Behavioural Theory of Organizations or the Human Relations Approach. The Hawthorne experiments showed that an informal organization, as well as socio-psychological factors, exercise a much higher influence on human behavior than psychological variables. These findings focused their attention on human beings and their behavior in organizations.

The contingency theory propounds that there is no best way to organize a company,lead a corporation, or make decisions. Rather, the best course of action is contingent upon the internal and external situation. The theory emphasizes that there is not a single optimum way to handle a task or lead a team. According to Lex Donaldson (2015), structural contingency theory holds that the effect on organizational performance of organizational structure depends upon how far the structure fits the contingencies, such as uncertainty, strategy, and size. Organizations facing low uncertainty are fitted by specialized and centralized hierarchical structures, whereas organizations facing high uncertainty are fitted by lower specialization and decentralization (that is decisions being taken at lower levels of the hierarchy). Undiversified strategy is fitted by a functional structure, whereas diversified strategy is fitted by a multidivisional structure. The larger size is fitted by a more specialized and decentralized structure. Various changes over time in focus are identified, such as from differentiation to interdependence.

The modern systems theory focuses on the internal dynamics of an organization's structure and behavior whereas the contingency theory emphasizes the external determinants of the organization's behavior and structure. The theory views the organization as an open social system that interacts with the environment to survive and this is known as the Systems theory approach. The systems approach to management indicates the fourth major theory of management known as modern theory. Modern theory views organizations as an adaptive system that has to adjust to changes in its environment.

Agency theory is a popular theory that explains the relationship between the owners of a business and their agents. It is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Generally, the business principals are the shareholders while the company executives are the agents. The relationship between corporate governance and performance is based on the principal –agent approach (Adenikinju, 2012). This theory underlies many of the studies on corporate governance.

2.1. What is Corporate Performance?

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. The financial performance tells investors about the general well-being of a firm. It is a snapshot of the economic health and the job that the management is doing- providing insight into the future: whether its operations and profits are on track to grow and the outlook for its stock. It can also be viewed also from various perspectives depending on the objectives and expectations of the users of the information. What is common to all the perspectives is that, it is a relationship between input and output with an objective to be achieved (Owolabi, 2018). Richard et al. (2009), opined that organizational performance entails three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment); product market performance (sales, market share) and shareholder return (total shareholder return, economic value added).

Corporate performance has been widely discussed due to the implications it has for the health, survival and continued existence of organizations. Companies that perform well reflect management's effectiveness and efficiency in use of company resources. Making a profit is a business's primary goal. A profitable and productive sector of the economy is better able to withstand adverse effects and contribute to the stability of the whole economy (Emmanuel, Adenikinju, Doorasamy, Ayoola, Oladejo, Kwarbai, and Otekunrin (2023) .Ultimately the performance of these companies have an impact on the larger economy hence the need to give attention to what informs the performance of companies (Adenikinju, 2011).

Financial statements used in evaluating overall financial performance include the balance sheet/ statement of financial position, the profit and loss statement/ income statement, and the statement of cash flows. The financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders and stockholders. Financial performance indicators are quantifiable metrics used to measure how well a company is doing. The five primary types of financial performance indicators are profitability, leverage, valuation, liquidity and efficiency ratios. No single measure should be used to define the financial performance of a firm. There are many stakeholders in a company, including trade creditors, bondholders, investors, employees, and management. Each group has an interest in tracking the financial performance of the company.

2.2. What is corporate governance?

Mr. Vice- Chancellor, sir, over the last couple of years, the corporate world has experienced significant challenges following the Asian financial crisis and other accounting scandals which have brought to light the importance of an effective institutional framework that would help corporate management increase shareholder value while protecting the interests of other stakeholders (Dar, Naseem, Ur Rehman and Niazi, 2011). The case of failure of large corporations like Enron, Worldcom, Tyco, Adelphia, Arthur Anderson, Lehman Brothers, Freddy Mae, and Fanny Mae and in more recent times; Wells Fargo and Equifax in the United States of America(USA) were largely attributable to poor corporate governance practices (Bhagat and Bolton, 2019). Similarly, organizations such as Goldman Sachs (USA); Marconi and Northern Rock (in UK), Parmalat (in Italy), Yukos (in Russia); and Intercontinental Bank, Oceanic Bank, Union Bank, Bank PHB, Spring Bank (in Nigeria) were discovered to be on the verge of failure before their national governments bailed them out of imminent collapse (DukeII and Kankpang, 2011).

Thus to forestall future problems, corporate governance frameworks have been established by several regulatory agencies and national governments across different countries such as the Sarbanes-Oxley Act (2002) in the UK, the UK Companies Act (2006) and similar guidelines issued by the Financial Reporting Council and the Financial Services Authorities; the UN's Bank of International Settlement's Basel Committee guidelines on

Corporate Governance (1999 & 2004); and Nigeria's Securities and Exchange Commission (SEC) Code of Best Practices for Public Companies (2003), Code of Corporate Governance for Banks and Code of Corporate Governance for Licensed Pension Operators (Nwadioke, 2009). I have considered issues of corporate governance in relation to capital structure, ownership structure, managerial characteristics and corporate performance in my research.

Corporate governance has been variously defined. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as "both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment". This implies that corporate governance has an impact on a firm's ability to access the capital market. Metrick and Ishii (2002) argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms. Shleifer and Vishny (1986) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Cadbury (1992) defines corporate governance as "the system by which companies are directed and controlled". It is the set of processes, customs, laws, and institutions that guide the way companies are directed, administered, and controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the

corporation is governed. Thus, a corporate governance system specifies who owns the company and dictates the rules by which economic returns are distributed among shareholders, employees, managers, and other stakeholders. Therefore, sound corporate governance practices help companies to improve their performance and attract investment while enabling them to realize their corporate objectives, protect shareholder rights, meet legal requirements, and demonstrate to a wider public how they are conducting their business (Dar, Naseem, UrRehman and Niazi, 2011). Zingales (1998) defines a governance system as "the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by the firm".

2.2.1 Corporate Governance and Performance

The relationship between corporate governance and performance is based on the principal-agent approach as mentioned earlier. The agency relationship is defined as a contract under which one or more persons (the principal(s)) engage another person- the agent- to perform a service on their behalf which involves delegating some decision-making authority to the agent. The separation of ownership and control, which occurs as a result of the introduction of external investors, brings the agency problem to the fore: managers are expected to represent the interests of the external owners of the enterprise; however, it is difficult for owners to ensure that managers do so. Shleifer and Vishny (1986) argue that managers and equity investors should be capable of entering into a binding contract that would ensure that investors' interests are fully represented. However, it is unlikely that it will be possible to specify contracts ex-ante that accommodate all possible future contingencies. If unforeseen circumstances arise, managers assume contingent control rights that provide them with the potential to operate against investors' best interests, by, for example, expropriating investors' funds or engaging in asset stripping.

The discretionary control rights of managers are further increased by the existence of asymmetric information between themselves and external investors. Although it is precisely this insider knowledge that encourages investors to permit managers to operate as their agents. It also allows managers the freedom to conceal information from external investors. Such an action increases the cost of monitoring and, therefore, enables managers to pursue their own goals rather than those of the shareholders, by entrenching their position or engaging in behavior that is sub-optimal for the shareholder. The possibility of higher monitoring costs is particularly strong if there are a large number of dispersed external investors because a free-rider problem emerges if there are large costs to monitoring while the benefits accruing to each individual are relatively small. Metrick and Ishii (2002) identify four dimensions of corporate governance at the level of the firm that can help minimize the agency problem: Board of Directors, Ownership Structure, Executive Incentive Contracts, and Charter

and Bylaw provisions.

Corporate governance features are statutory requirements that secure outdoor financiers from opportunistic conduct associated with supervisors, insiders or even managing investors. In the absence of this mechanism, outside investors tend to find difficulties in monitoring their investment while individuals close to management are opportune to misuse organizational assets, usually at the expense of minor shareholders and firm performance (Gull, Saeed and Abid, 2013). Thus, it is expected that effective and strong corporate governance practices pave the way for success whilst the organization, with weak governance practices, gets less financial benefits. Organizations with poor governance systems deliver less value to their shareholders while those with efficient governance systems gave better value to their investors (Nandelstadh and Rosenberg, 2003). Shaheen and Nishat (2005) suggested firms that do not have good governance do not have higher profits.

Ayogu (2001) in Soetan (2014) opined that, 'The so called invisible hands of the market are in fact visible. The managers are humans who run the corporation and sundry enterprises that populate the domain of 'free' markets. And “like the rest of us, corporate managers have so many personal goals and ambitions, only one of which is to get rich.” Disciplining errant managers has become a difficult problem when they are missing markets such as the market for corporate control. And even when no markets are missing, it seems that management have become adept at entrenching themselves'.

3.0 Capital Structure

The term capital relates to the proportion of different types of securities- both debt and equity issued by a company. An optimal capital structure is defined by an optimal mix of debt and equity for a firm, that maximizes the shareholders' value or minimizes the weighted average cost of capital (Owualah, 1998). The existence of an optimal capital structure suggests that the firm's choice of financing mix between debt and equity matters. Mr Vice-Chancellor, sir, in the real world, every firm tries to maintain an acceptable balance between debt and equity through a process referred to as capital structuring.

The point of departure for virtually all modern research on the capital structure is the Modigliani and Miller (1958, 1963) proposition. M&M demonstrate that under certain assumptions, the market value of a firm is independent of its capital structure. In other words, there is no optimal capital structure and that the financing mix does not affect the average cost of capital. These assumptions include the absence of taxes, transaction costs and bankruptcy costs. The inclusion of these costs has led some other authors to conclude that capital structure will affect the value of the firm (Baxter, 1967; Chen, 1978). In this case, value maximising firms may choose optimal capital structures consisting of both debt

and equity. The basic M&M proposition is a direct challenge on the traditional view that had contended that capital structure influences the worth of the firm. The theory argues that an optimum level of capital exists at that level where the firm's weighted average cost of capital is minimised. It holds that as long as the level of borrowing are below a certain critical level, the risks to shareholders are negligible, and consequently they do not require a risk premium in the return.

Over time, the debate on optimal capital structure has shifted from whether it exists or not to determining the optimum for any particular company as well as understanding the underlying influences. The Nigerian stock market (now known as NGX) hitherto has been underperforming (see Tables 1 and 2). Table 1 provides an overview of the the NGX between 1993 and 2018. A number of the indicators of performances, for example the number of companies quoted on the market has remained almost unchanged in close to three decades, so also is the number of listed securities traded on the market, which remained below 300 stocks between 1993 and 2018.

In terms of market capitalization in Table 2, the South African Stock Exchange leads all the countries in the table. The general economic condition in the country has affected people's perception about holding shares. At the same time the interest rate has been rising significantly. Thus many investors prefer to operate in the money market rather than invest in the capital market. This has implications for the financing mix facing the firm. The difficulty of raising fresh issues will then force the firm to seek a more expensive bank loan to finance expansion or other investment opportunities. The high interest rate, currently close to 30 per cent, not only reduces the number of profitable investment portfolio available to the firm, but also raises the risk of default, especially in a time like this in Nigeria where firms are faced with high rates of inflation and rising cost of inputs for production (Adenikinju,2005).

Table 1: NGX Performance Summary 1993 – 2018

Parameters	1993	1994	1995	1996	1997	2018
No. of quoted companies	174	177	181	183	184	164
No. of listed securities	272	276	276	276	276	286
Total Market Capitalization (N'b)	47	66	171	86	394	21,904
Vol. of securities traded	473	524	397	882	557	101
Value of securities traded (N'million)	662	986	1839	7063	3938	12020
Value of new shares (N'b)	2.6	2.2	4.4	21.5	0.6	56
New Issues / GFCF Ratio (%)	5.6	3.2	2.6	1.6	Na	
NSE/NGX All Share Index	1546	2205	5092	6992	8730	31,430
Daily avg.vol. of shares (mill)	2.7	3.9	7.4	28.4	48.6	406.7
Price/earnings ratio	8.4	5.5	9.2	12.2	14.5	
No. of stockbroking firms	140	140	162	162	162	190

Note: 1 is as at 30/4/97 , source: Vision 2010 Document and NSE Factbook, 2019

Table 2 : Sub-Saharan Africa Stock Market Status

Country	Market Capitalization $mill 1999	No. of listed Companies	Market Capitalization to GDP (%) 1999	Value Traded $ mill	Turnover $	Market Capitalization to GDP (%) 2022
Botswana	724	14	14.3	70	10.5	16.3
Cote d'Ivoire	1818	35	17.7	39	1.5	17.3
Ghana	1384	21	20.1	60	4.8	14.0
Kenya	2024	58	19.8	79	4.1	21.40
Mauritius	1849	40	42.0	102	5.8	45.2
Namibia	429	15	12.5	13	2.3	17.64
Nigeria	2887	186	7.2	161	4.9	14.0
S. Africa	170252	668	131.9	58444	29.1	321.40
Swaziland	85	5	5.8	0	0	6.18
Zambia	293	8	8.3	9	Na	25.6
Zimbabwe	1310	67	14.7	166	10.1	35.9

Source : Stock Market Fact Book,1999, Nigeria in Figures 2023

3.1 Capital Structure and the Risk of Corporate Failure

Mr Vice-Chancellor, Sir, literature shows that a firm's capital structure matters for its operational performance, Adenikinju (2002). A firm's capital structure decisions has implications on its expected earnings by altering its tax liability and probability of failure. The choice of capital structure has direct implications on the risk of bankruptcy. The Tax Shelter- Bankruptcy Cost (TS-BC) theory of optimal capital structure defines a firm's optimal leverage as a function of the distribution of future earnings, business risks, default costs, and taxes. A feasible implication of the TS-BC is the existence of an inverse cross-sectional relationship between profitability of bankruptcy and current leverage levels.

Cross-sectional evidence on the relationship between leverage levels and the risk of failure are based on the assumption that bankruptcy costs may tend to induce firms with greater "business-risk" to include less debt in their capital structure (Ferri and Jones, 1979). Flath and Knoeber (1980) assert that there is an inverse relationship between business risk (measured by variance of earnings) and leverage. Castanias (1983) also reports a negative and significant relationship between leverage measures and failure rates. He found that firms in lines of business that tend to have 'high' failure rates also tend to have less debt in their capital structures. However, there are other studies that have challenged these findings. Scott (1976) observes that the relationship between changes in earnings variance and leverage is ambiguous.

Castanias and DeAngelo (1981) also confirm the findings of Scott. The descriptive literature ably summarised by Argenti (1976) identifies the causes of corporate failures. He categorised these factors into two broad groups: internal factors and external factors. Internal factors arose from bad or poor management transmitted through, first, lack of responsiveness to changes in technology, second, bad communication and finally, malfeasance and fraud. He identified the following external factors, first, the pressure of labour unions, which may result in too high a wage settlement causing the firm to pay its employees in excess of their marginal product. Second, pervasive government regulations sometimes hinder the proper functioning of the market system, distorting in the process, its signals to corporate decision makers. Finally, influence of natural causes like natural disasters, demographic changes etc also has implications on the performance of the corporate sector.

Aside the factors mentioned above other possible causes are (i) overtrading (ii) under- capitalization and/or inappropriate gearing (iii) growing corporate overhead (iv) strategic inconsistency (v) declining cash flow (vi) rising sales without comparable profit margins (vii) neglect of periodic evaluation of enterprise operations and position. The general macro- economic causes of corporate failure reveal that failure is significantly linked to the prevailing monetary policy (i.e a tight monetary policy as in the Nigerian case increases the probability of failure), the investors' expectations about economic conditions (the more negative the expectations, the more likely failures are to occur), and the state of the economy.

On the micro level, however, the age of the firm is said to have an important effect on the possibility of failure. Also industry specific slumps or internal inefficiencies may also lead to corporate failure. Other authors such as Burns and Becker (1989) found that many of the firms that file for bankruptcy in their study were too highly leveraged and were often in financial trouble before they knew it. That is many of these companies had excessive debt in their capital structure.

Ayodele (1990) in a related study used a set of financial ratios as predictors of corporate bankruptcy among Nigerian quoted companies. The study used discriminant score to classify companies quoted on the stock exchange in a bankruptcy predictive model. The data consisted of 36 firms and 18 firms were classified as being potentially bankrupt on the basis of three indicators: (i) deficit or negative net income; (ii) market prices which at that time were below their par value; and (iii) negative working capital. The study concluded that the leverage and liquidity ratios represent historical reasons for corporate failure, reasons that are directly related to the excessive or unwise use of leverage. Therefore showing support for the fact that gearing/ leverage does matter for the value of a firm as well as the possibility of corporate failure. It is also of interest to note that

some of these 18 potentially bankrupt firms have actually failed, although others managed to stay afloat, albeit they still exhibit the signs of distress. However, other firms can also be classified as being potentially bankrupt based on similar set of indicators especially that of the market value of the firm being below N1.00. on the basis of this classification, Adenikinju (2009) identified 33 companies out of the 184 listed on the NSE.

4.0 Ownership Structure and Corporate Governance

Corporate ownership and governance practices have been identified as critical predictors of corporate activity and firm performance, Mertzanis, Basuony, and Mohamed (2019), Oyerogba, Olaleye and Solomon (2014).The notion that the general characteristics of a firm's ownership structure can affect performance has received considerable attention in the literature (Hermalen and Weisbach,1991; Cho, 1998, Hussain, Ahmad, and Hassan 2019). In particular, developments in agency theory suggest that the structure of corporate ownership can affect firm performance by mitigating agency conflicts between management and shareholders (Putterman, 1993; Javid, and Iqbal, 2008). A firm's ownership structure can be said to determine its profitability. In particular, ownership structure is an incentive device for reducing the agency costs associated with the separation of ownership and management, which can be used to protect property rights of the firm (Javid et.al, 2008).

Ownership structure covers both the ownership mix and ownership concentration. Broad spectrum of ownership includes state, institutions, management, individuals and foreigners. Firms are different in terms of ownership mix and also in terms of the degree to which ownership is concentrated among corporate insiders and external investors. The resultant distribution of ownership among different groups can impact on managerial opportunism, which subsequently has implications for managerial behaviour and corporate performance.

Hussain, Ahmad and Hassan (2019) in their study explain that the structure of ownership either weakens or strengthens the relationship between shareholders and management. In the case of scattered ownership, management has serious threat of insecurity from outside shareholders. This situation gives rises to agency problem (Jensen and Meckling, 1976.). Nevertheless, concentrated ownership minimizes the conflict between principal and agent. Agency theory suggests that majority shareholders have the will and competency to oversee managerial function and keep the management motivated to serve best interests of shareholders. Thus, the disputes of principal and agent is shifted towards conflict between majority shareholder and minority shareholder (Classens and Yurtoglu, 2013; Hussainey and Al-Najjar, 2012). Claessens and Djankov (1999), Nguyen (2011) argue that concentrated ownership has a positive association with firm performance while McConnell and Servaes (1990) discovered that institutional

investment increases firm performance.

There are two contending schools of thought on the impact of ownership structure on performance. The first school argues that ownership structure does not matter for performance. The school attributes the failure of state owned enterprises (SOEs) not strictly to ownership but the absence of an enabling environment for them to operate efficiently. The proponents of this school contend that if the markets for products, factors of production, and for corporate control are created and function well, SOEs would perform just like their privately owned counterparts (Xu and Wang, 1997).

However, on the other school are those who argue that ownership structure is critical to performance. To this school, for instance, private ownership is a necessary condition for enterprises efficiency. SOEs by their ownership structure are not imbued with the essential factors needed for efficiency and there is no strong motivation to hold management accountable since it appears that no one clearly benefits from SOEs efficient operation.

The privatization programme of the Federal government raised a number of pertinent questions. For instance, is the divestment of government shares to strategic investors more fulfilling than a more widespread sale of shares? Or would government be better off selling its shares to a greater number of the general public rather than a core investor? These are issues addressed in Adenikinju (2001).

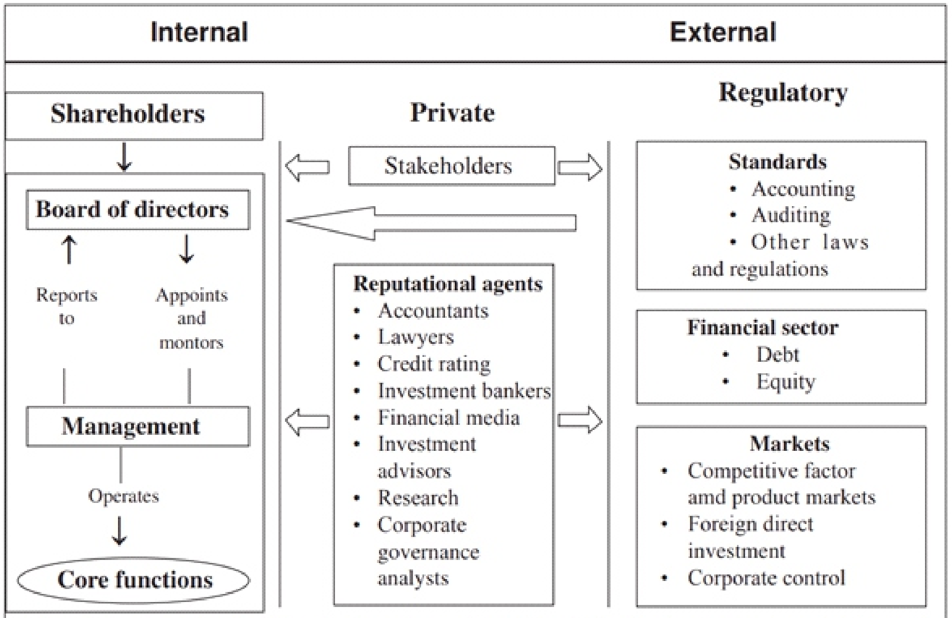
4.1 Managerial Characteristics, Governance and Performance

Mr Vice – Chancellor, Sir, as explained earlier, in general terms, it is possible to identify three levels of determinants of firms' performance. The first relates to external factors that are beyond the control of the firms, and are generally economy wide. Second, factors that are internal and under the direct purview of the firms. These factors, which include managerial efficiency, governance structure, ownership structure affect the ability of the firms to cope with external factors.

Figure 1 provides a framework for understanding the structure of the relationships among various components of the organization. This is the corporate governance structure of most modern corporations. It shows the interlinkages among internal and external factors in the organization. It reflects the interplay between internal incentives (which define the relationships among the key players in the corporation) and external forces (notably policy, legal, regulatory and market) that together govern the behaviour and performance of the firm (Iskander and Chamlou, 2000)

The board of directors is at the center of the system. The board is responsible for oversight of the management and ensuring long term- term viability of the firm. The board is answerable to the shareholders and in some systems to employees and creditors (Iskander and Chamlou, 2000).

Figure 1: Interlinkages among internal and external factors in an organization



1. Reputational agents refer to the private sector agents, self-regulating bodies, the media, and civic society that reduce information asymmetry, improve the monitoring of firms, and light on opportunities behaviour.
Source: Muir and Saba, 1995.

The governance problems that need to be addressed vary according to the ownership structure of the organization. At one end of the spectrum is the publicly traded company with widely dispersed shareholdings. At the other is a closely held company with a controlling shareholder and a minority of outside shareholders, where the manager acts at the dictate of the controlling shareholder. In this case, the governance issue is how the outside minority shareholder can prevent the majority shareholder from extracting excess benefit.

Figure 2 shows how ownership structure, corporate governance and managerial characteristics interact with other firm level characteristics to determine firm performance. The governance structure is influenced by ownership, laws and charters. The governance structure has an impact on CEO characteristics since the board the selection, terms of compensation and firing of the CEO. Similarly, the CEO can also influence the board of directors. The CEO has significant influence in the selection and retention of outside directors, as well as limiting the outside directors' influence. In general the outside directors owe their promotions to the influence of the CEO and are also likely to be more subservient to him. Thus the CEO and the governance structure are interrelated.

The interactions between the CEO characteristics and the corporate governance will have an impact on performance (Adenikinju, 2012). If the CEO has ownership interests in the firm, he will tend to focus more on long- term strategic growth than on short- term financial measures. If the CEO has little ownership interests in the firm then it is job security that the CEO is focused upon.

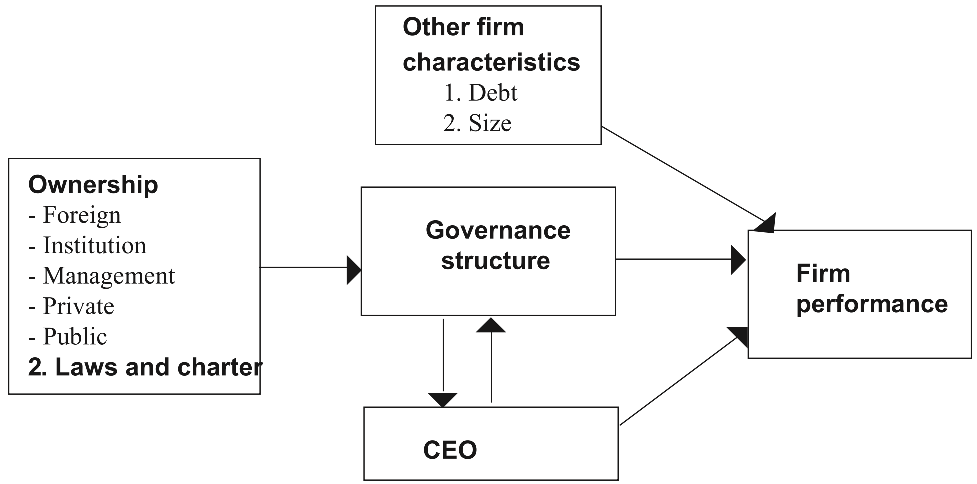


Figure 2: Ownership structure, corporate governance and managerial characteristics

5.0 My Contributions to Scholarship

Mr Vice- Chancellor, Sir, my contributions to knowledge with respect to corporate performance can be categorized into three broad areas, capital structure, ownership structure, managerial characteristics and corporate governance as they relate to corporate performance. I will discuss my contributions in these three areas in seriatim.

5.1 My Contribution to Capital Structure

My work in the area of capital structure reveal in Adenikinju (2005) many interesting insights on the capital structure of

Nigerian companies.

The capital structure of the companies testifies to the soundness of the financing decisions of the companies and how the company is managed. Thus internal factors go a long way in determining performance of firms. The study provided an opportunity of joining the debate, using the Nigerian data, on the famed hypothesis of Modigliani and miller (MM) (1958) which had suggested that the capital structure of the firm has no implications on the value of the firm.

Some of these findings were observed from a descriptive analysis of the capital structure of these companies, while others were obtained from the model results. A review of the characteristics of capital structure of Nigerian quoted companies yielded a number of insights (Adenikinju, 2002, 2005). First, that Nigerian firms are funded predominantly by short term, non interest - bearing debt- especially trade and sundry credit rather than long term debt instruments (see figure 3). This has consequences on the type of investment activities that could take place in the industrial sector and the long-term development of the sector. Second, despite high levels of company income tax and price inflation in the country, firms used less interest-bearing debt than expected. In other words, with high levels of income tax and price inflation, one expects that firms would shift to relatively cheaper bank credit to finance their activities. Third, we also observed a declining trend in the contribution of Owners' equity to corporate funding. The high

floatation costs, the weak state of the capital market coupled with the limited number of instruments available on the market, have among other reasons reduced the attractiveness of this source to most companies. Finally, profit and other funds generated from operations have assumed greater importance in financial provision.

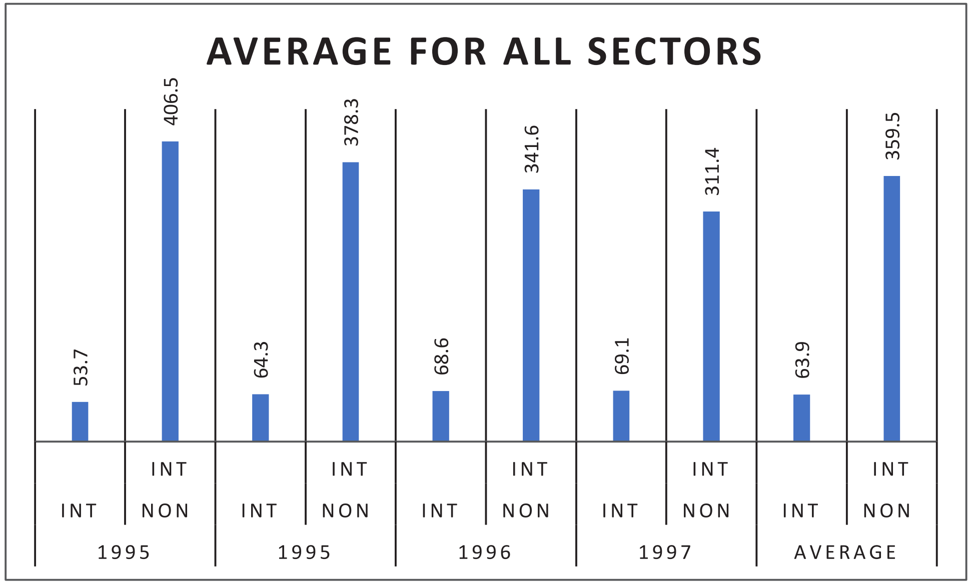


Figure 3: Interest and Non-Interest Bearing Debt as a percentage of Equity

Int: interests bearing assets; Int Non: Non Interest bearing assets

Source: Adenikinju, 2002 Computed from Companies' data

I attributed the observed trend to several possible factors, among which are the following:

(i) Debt (up to a point) is said to be a cheaper source of finance than equity and firms simply took advantage of this to increase their debt level

(ii) Flotation costs and/or transaction costs are usually quite high when new shares are being sold which is one of the reasons why equity is said to be costly

(iii) Credit rationing has limited the use of interest bearing debt forcing firms to shift to non-interest bearing debts

(iv) Macroeconomic environment in the post-1985 period has witnessed a reversal of the optimism and growth that characterized the fifteen years from 1970. The deteriorating economic situation since 1985 has shifted companies' strategy from ambitious expansion to a survivalist one. Firms are more inclined from ambitious expansion to a survivalist one. Firms are more inclined to invest in raw materials to maintain existing production facilities and thus often resort to short-term credit.

The review of the capital structure of Nigerian firms gives some credence to the pecking order theory which states that companies prioritize their sources of financing (from internal financing to equity) and consider equity financing as a last resort. This is because firms in Nigeria are likely to go for internal funds, when there is need for expansion or for new investment project at the first instance and then secondly debt. Companies only call for additional injection of equity capital in the last resort.

The analytical model on the determinant of capital structure also yielded a number of interesting results. In accordance with

developments in agency theory, we found that the distribution of equity ownership among corporate managers and external blockholders has a significant relationship with leverage. This provides support for the active monitoring hypothesis which proposes that external blockholders have greater incentives and an ability to monitor management, thereby reducing managerial opportunism which may otherwise reduce leverage to a sub-optimal level in order to reduce management's non-diversifable employment risk. This is also consistent with the study by Berger et al (1997) which found evidence that firm leverage is affected by the degree of managerial entrenchment and most of their results indicate that entrenched managers seek to avoid debt.

The empirical models also show that the index of business risk has negative and significant impact on firm's leverage. This implies that the higher the business risk the lower the incentive on the part of firms to acquire more debts we also found that inflation, has negative impact on leverage. This defers from theoretical expectation which postulated a positive relationship as an increase in inflation as expected to induce firms to substitute debt for equity since the former has become a relatively cheaper source of business finance. However, our results indicate that inflation actually reduces the willingness to incur more debt. This is possibly due to the riskiness of debt in a depressed economy.

We also found that size has a strong and positive impact on leverage. This is consistent with both the empirical and theoretical literature as larger firms, in general, are more diversified and are likely to have a lower risk of bankruptcy and thus can sustain a higher level of debt. Our models also support the tax neutrality of capital structure as all our tax variables were not significant. Profitability of firms was also found to have a negative impact on leverage. This is consistent with the pecking order hypothesis of Myers and Majluf (1984) and the empirical results of Titman and Wessels (1988), Friend and Lang (1988), Wald (1995) and Brailsford, et. al., (1999). In terms of relative importance , the key factors that influence capital structure in Nigeria are the ownership factor, index of political risk, firm's market growth potential, and size of the firms.

We also consider the determinants of business risks in Nigeria, and in particular, the impacts of leverage on business risks. Our findings show that the measure of business risk is very important in empirical analysis. Two key indicators were used to proxy business risk. The first is the logarithm of standard deviation of earnings volatility and second, the stock price indicator. Taking the results of the two measures together, we found that leverage has a strong predictive impact on the probability of business failure. Highly leveraged firms have a stronger probability of failure compared to their counterparts.

In addition, highly liquid firms are less likely to go into bankruptcy, although we should hasten to mention that this particular variable was not significant in all the models we considered. Similarly, size

and profitability were found not to be statistically significant in explaining probability of business failure. However, ownership structure was found to exert positive impact on probability of business failure, the only exception is the government shareholding.

Mr Vice-Chancellor, sir, funds can be categorised as being internal or external. The components of internal funds are revaluation reserves and other reserves, while external funds are made up of debt and equity. The share of internal funds in total funds employed rose by two percentage points from about 17 per cent in 1985 to 19 per cent in 1990 and climbed further to 21 per cent in 1997. Thus, on the average, internal funds constitute about 20 per cent of total funds employed between 1985 and 1997. Salami (2000) and Adenikinju (2002) show that internal funds constitute a small but increasing share of funds employed by Nigerian quoted companies. In fact, the Central Bank of Nigeria (CBN) (1998) reports on sources of funds for a sample of Nigerian firms' quoted and non-quoted, show that internal funds constitute over 75 per cent of investment finance. This suggests the increasing importance of internal financial resources in financial mix of corporate sector.

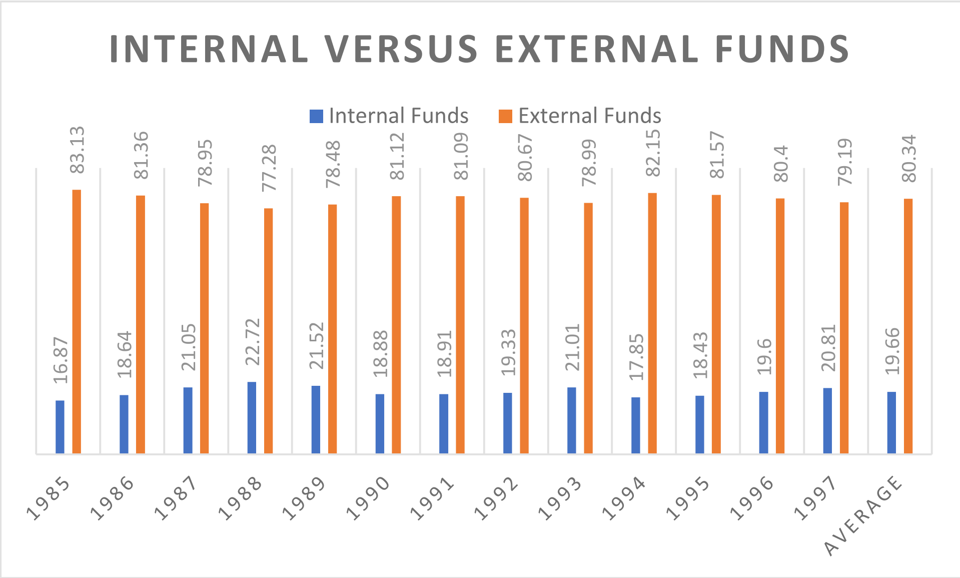


Fig. 4: Relative Importance of Internal and External Funds among Quoted Companies

Figure 4 shows that external funds contribute a greater proportion to funds employed by Nigerian firms. On average, almost 75 per cent of total funds employed were obtained from external funds however this has been at a diminishing proportion out of the total funds employed i.e external funds as a proportion of total funds employed declined from 83.13 per cent in 1985 to 81.12 per cent in 1990 and further declined to 79.19 per cent in 1997. The fall in the contribution of external funds is as a result of the declining proportion of funds provided by way of owners' equity (ordinary shares).

Adenikinju (2002, 2007) found that debt was the dominant source of external finance, providing almost three-fifths of total funds employed. The proportion of debt in external finance rose from about 56 per cent in 1985 to about 57 per cent in 1991 and further increased to 58 per cent in 1997. Comparative figures for owners' equity were about 25 per cent in 1985, 19 per cent and 16 per cent in 1991 and 1997 respectively. However, by the time we add revaluation reserves and other reserves to owners' equity, the proportion of shareholders' funds rose to about 45 per cent in 1985 and about 45 per cent and about 44 per cent in 1991 and 1997 respectively (see figure 5). The importance of debt in corporate finance portfolio in Nigeria is a function of two major factors. First, is the tax advantage that firms wish to derive since interest payment is an expense item on the profit and loss account especially given the background of high company tax in Nigeria. Second, the bankruptcy costs in Nigeria is very low. However, the slow pace of judicial process in Nigeria hardly favours bankruptcy proceedings against any defaulting firm (Salami, 2000).

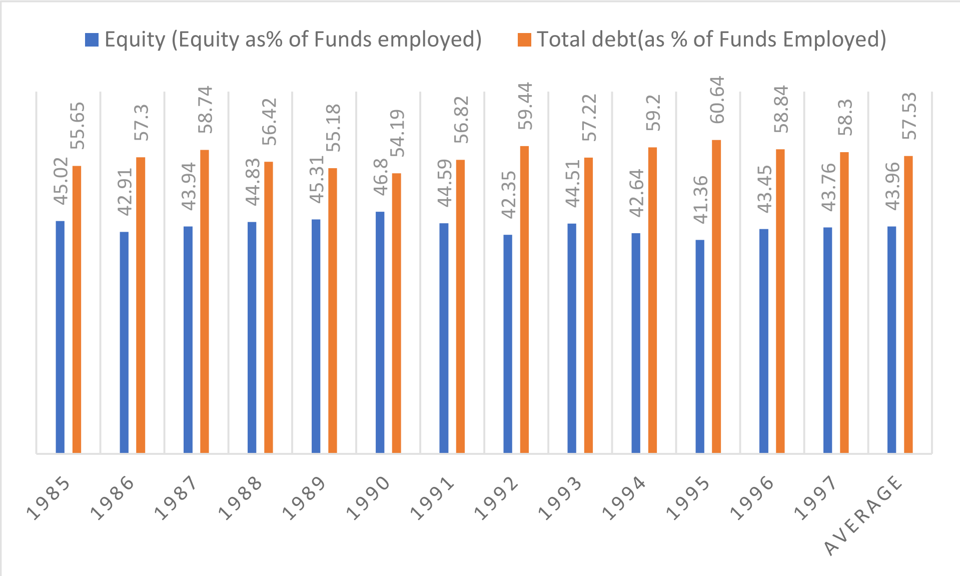


Fig 5: Equity and Debt as percentage of Funds Employed

Debt can be classified either by repayment horizon (ie. long or short –term), or by cost- that is interest or non-interest bearing. Elements of debt in Nigerian companies include deferred taxation, sundry and trade credit and bank overdrafts. Adenikinju (2002) also shows that many companies relied more on short-term debt than long-term debt which is contrary to what we expect from theory which says that small companies (possibly unquoted firms) would rely more on bank loans rather than long-term debt, because of flotation costs and problems of access to capital markets, Marsh (1982). Hence it would be expected that quoted firms would make use of long-term debt. However, the reality in the Nigerian economy is the reverse, quoted companies are making use of short

-term debt offer in the form of trade credit and short –term bank overdraft. Salami (2000) adduced two major reasons for the predominance of short –term debt in the debt portfolio of Nigerian companies. First, is the restricted opportunity for borrowing in the formal financial markets and the limited financial instruments available in the capital market. The bond segment of the Nigerian stock exchange is very thin, leaving little opportunity for active market transactions for the sale or purchase of long-term bond.

Second, the nature of investment undertaken by firms over the period of this study is basically short-term. Most companies faced with the difficult and uncertain economic terrain have moved away from the "expansionist fixed asset acquisition mode of the decade to a survivalist one. Rather than acquiring fixed assets, companies are placing significant parts of existing plants in mothballs" (Salami,2000). Investment by firms during this period is predominantly in raw materials to keep existing production facilities in service.

Decomposition of long-term obligations reflects the fact that deferred taxation contributed about 1.5 per cent of total funds employed, while long-term loans account for about 5 per cent of funds employed over the period, short-term credit accounted for slightly more than half of all financial resources employed with sundry and trade credit contributing more than half of short-term corporate obligations.

From the perspective of cost, while non-interest bearing debt provided on average 76 per cent of total financial resources, interest- bearing debt accounts for almost 18 per cent of total funds employed. Salami (2000) and Adenikinju (2002) shows that there is a positive correlation between interest bearing debt and the cost of funds, suggesting that other factors other than the cost of funds may actually be driving the demand for the interest bearing debt. However, the analysis by Salami was based on nominal cost of funds, when the real cost of fund is considered, it is clear that it was negative for most of the periods and therefore in real terms, it was cheaper for companies to rely on this source of funds.

Adenikinju (2002) provides a sector by sector analysis of capital structure over the study period. Eleven sectors were used in the analysis. These include agriculture, automobiles and tyres, breweries and building materials. Others include, chemicals, conglomerates, construction and food and beverages. The final three sectors are healthcare, industrial and domestic products and publishing. The first observation from the graph is the increasing importance of internal funds in sources of funds for all Nigerian companies, irrespective of sector operations. The share of internal funds in the agriculture sector rose from 6.5 per cent in 1985 to about 38 per cent in 1997. However, the degree of importance varies across the various sectors.

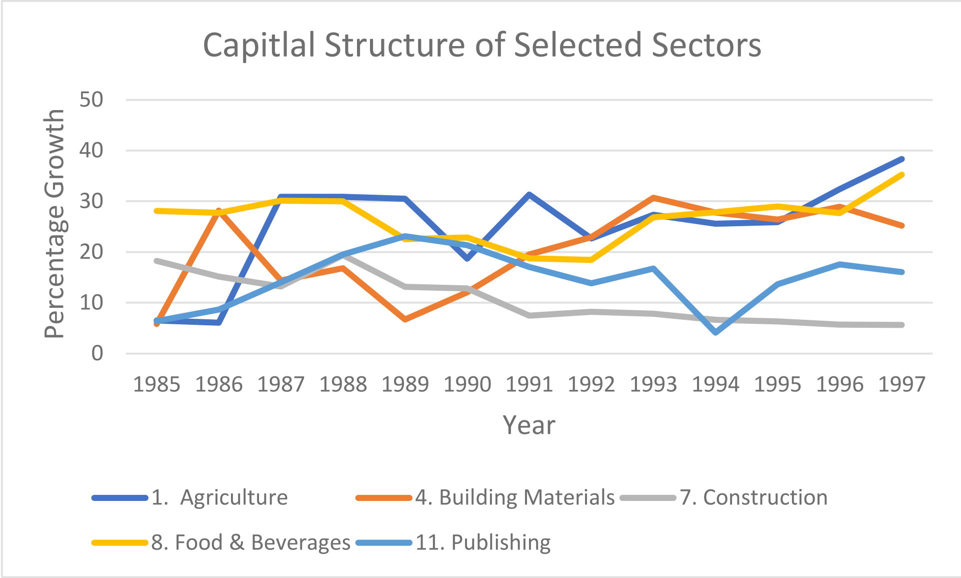


Fig 6: Capital Structure of selected sectors

Looking at the sectoral performance, it is obvious that the importance of internal funds grew for most for most of the sectors between 1985 and 1997. For instance, the publishing sector has its share of internal funds increased from about 8 per cent to about 14 per cent; building materials from about 6 per cent to about 25 per cent and conglomerates from about 24 per cent to about 33 per cent. The obvious exceptions are chemicals that had its reliance on internal funds reduced from 29.4 per cent in 1985 to 17 per cent in 1997. Similarly, industrial and domestic products and construction also witnessed a reduction in terms of relative importance of internal funds in total funds employed. It is important to mention that internal funds are driven largely by profitability. Thus, sectors with great dependence on internal funds may be recording more profits than others, ceteris paribus.

The study by Salami (2000) and Adenikinju (2002) further provided a more disaggregated analysis of the relative importance of leverage in the capital structure of Nigerian companies. Company level data was examined to reveal the leverage position of these representative companies in the period of study.

A critical examination of the sectoral analysis of debt as a percentage of equity shows that firms in the petroleum sector are on the average more leveraged than others. This is especially true of companies like Mobil and Unipetrol where debt-equity ratio is in the region of 3:1. However, for all the companies as a whole, Julius Berger in Nigeria Building and Construction is the most leveraged with an average ratio of 10:1. Nigerian Textile Mills Plc is another company with a high leverage ratio with an average of 4:1.

In the same vein companies under the Footwear, Industrial and Domestic Products sector are the least leveraged at 1.7:1. These firms have high rate of turnover and are more likely to generate a significant part of their funds from sales. The Julius Berger case is more understandable since construction is a long-term activity with payments phased over a relatively long period. Hence, the company has to rely more on debts to fund its activities.

The implication of the aforementioned is that capital structure matters for survival in a depressed economy. The mix of financing

is also a strategic issue at the firm level (Adenikinju, 2009).

5.2. My contribution in the area of Capital Structure and the Risk of Corporate Failure

Adenikinju (2009) made use of two key indicators to proxy business risk. First, is the logarithm of standard deviation of earnings volatility and second, the stock price indicator. Taking the results of the two measures together, it was found that leverage has a strong predictive impact on the probability of business failure. Highly leveraged firms have a stronger probability failure compared to their counterparts.

In addition, my study revealed that highly liquid firms are less likely to fail. Moreover, firms with high managerial efficiency are also less likely to go into bankruptcy, although it is useful to mention that this particular variable was not significant in all the models presented in the study. Similarly, size and profitability were found not to be statistically significant in explaining probability of business failure. However, ownership structure was found to exert positive impact on probability of business failure, the only exception is the government shareholding. The study also showed that capital structure and even the risks of business failure are affected by the general economic and political environment. This is consistent with the theory that the debt/equity decision is a response to current changes in capital markets and the economy. Miller suggests that there is an interesting interface between the micro and the macro environment. Furthermore external shareholders have a way of exerting pressures on management to finance business investment through debt rather than equity. The implication of this is that piling of debt also exposes the company to a higher risk of failure. Thus, there is need for government to put in place appropriate governance structure and institutions that would check the growth of debt by the firms and encourage firms to carry out their activities in an honest and profitable and transparent way.

The information in figure 7 contradicts expectations about the capital structure of troubled firms. We had expected that the leverage ratios of these companies would in general be higher than the non-troubled companies. However, except for some few companies, other companies represented in the study have low leverage. The explanation for the above trend is that given the poor performance indicators of these companies, banks and non- bank creditors have cut their access to credit. Their low credit ratings have therefore reduced their overall leverage levels. Second, it could mean that there are other environmental factors responsible for their low performance besides leverage levels. This may also be consistent with the findings of Flathe and Knoeber(1980) that there is no relationship between leverage and business risk.

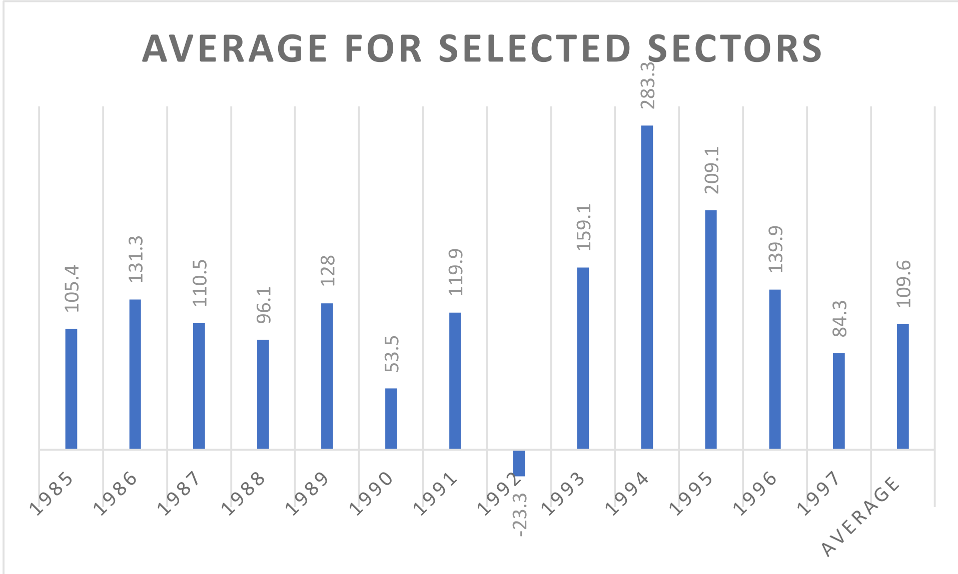


Figure 7: Debt as a Percentage of Equity: Sectoral Analysis of Troubled Companies

Source: Adenikinju, 2002 Author's Compilation

5.3 My contributions in area of ownership structure

Mr. Vice- Chancellor, Sir, my work alongside my colleagues provided a detailed analysis of ownership structure in terms of public/private, individual/institutions, foreign/domestic, insiders/outsiders and examined the relationship of ownership structure with key indicators of performance (Adenikinju, Ayonrinde and Adenikinju, 2003). There is ample rationale for the departure of ownership structure from the anonymous, small diversified shareholders that prevailed in the US, UK and economic theory. This is especially the case where legal protections are ineffective. Ownership concentration and ownership structure in general can fill the gap by providing the functions of corporate governance and enhance promise fulfilment, management monitoring and lower costs of resolving competing claims (Dyck, 2000).

Adenikinju et al. (2003), in analysing the structure of ownership of firms established the following; first, the vast majority of Nigerian individual investors are small shareholders and few are in the list of the ten top largest shareholders (see figure 8). Second, on the average, ownership structure is highly concentrated in Nigeria (see figure 9). However the study did not find the problem of free rider in the corporate sector. Third, the indigenization policy and privatization programme of the federal government did alter the landscape of ownership structure in Nigeria, as Figure 9 shows that only 8 per cent of corporate shares were owned by the government in . The study however did not find empirical support for for the Jensen and Meckling (1976) position that managerial share ownership would promote efficiency as managers now have incentives to reduce consumption of perquisites, expropriate shareholders wealth and engage in other non- maximising behaviour.

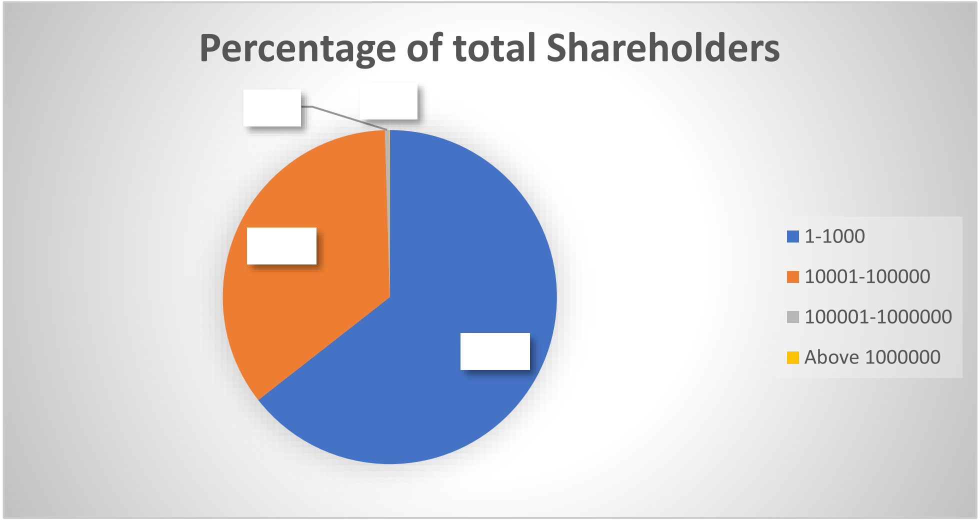


Figure 8: Ownership Structure: Pattern of Ownership Among Nigerian Quoted Firms, 1998

Source: Computed from company accounts and NGX Factbook

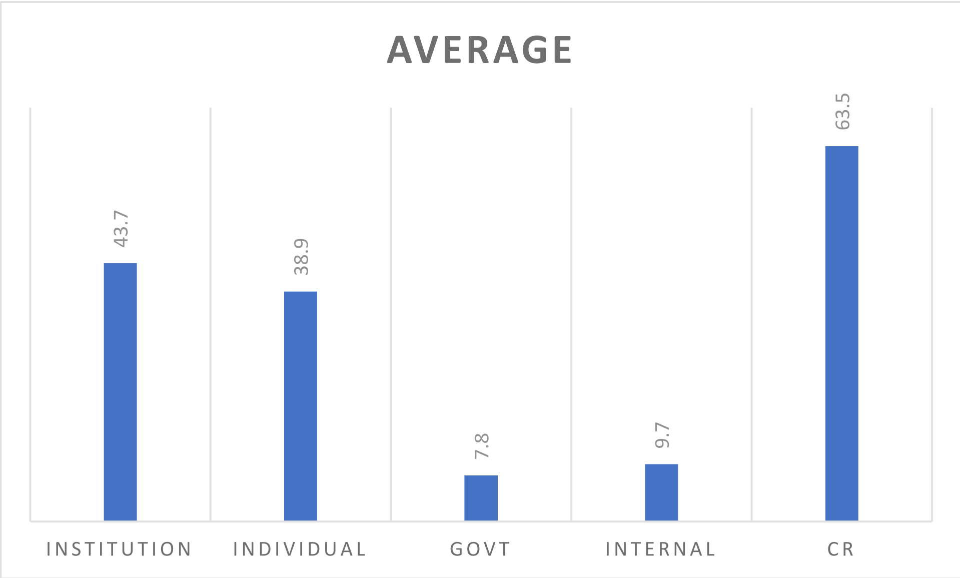


Figure 9. Ownership Structure of Nigerian Quoted Companies, 1995- 1998

Source: Computed from company accounts and NGX Factbook

Figure 10 shows that most of the shares in Nigeria, about 37 per cent were owned by domestic individuals, followed by foreign institutions at 26 per cent, next is domestic institutions at 17 per cent. Management owned 10 per cent, and staff less than 1 per cent.

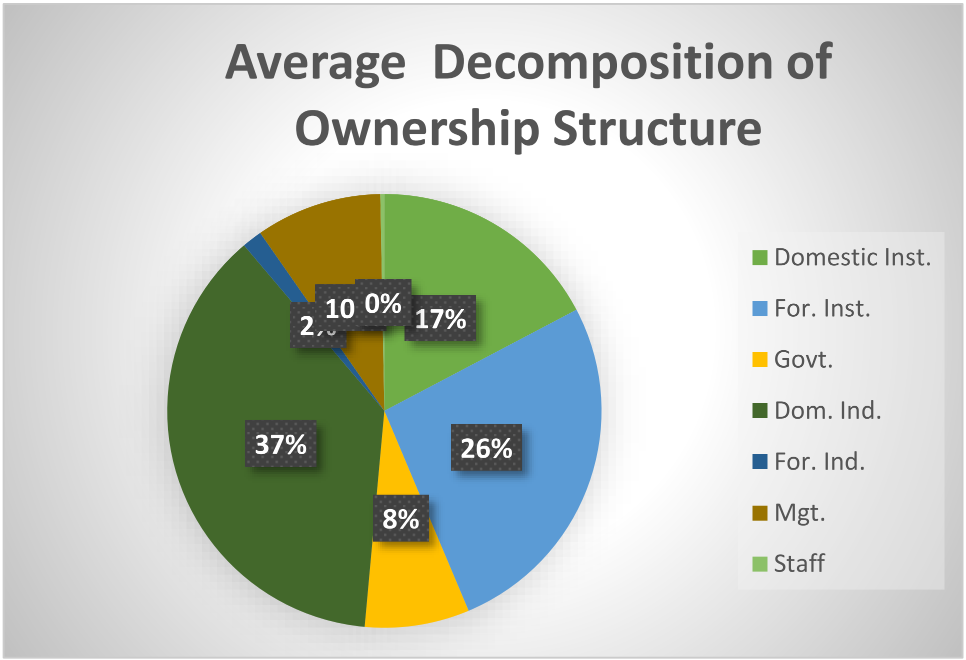


Figure 10. Decomposition of Ownership structure of Nigerian Quoted Companies, 1995- 1998

Source: Computed from Company Accounts and NGX Factbooks, Adenikinju,2009

Figure 11 compares ownership structure and ownership concentration in Nigeria and a set of countries, USA, Japan, Germany, Czech Republic and China. Concentration was much higher in Nigeria than USA, Japan and Germany, but comparable to those in Czech Republic and China.

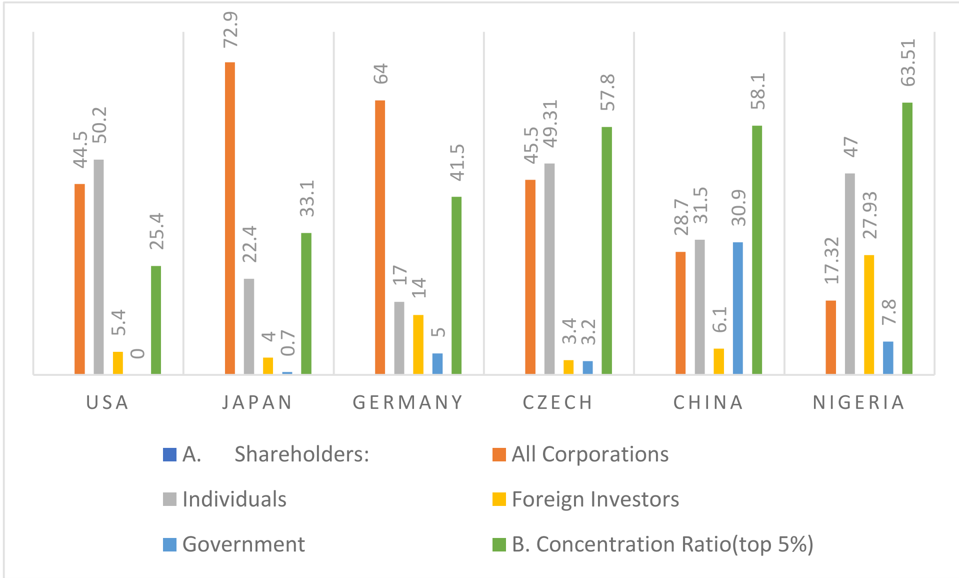


Figure 11: Comparison with Other Countries: Ownership of Ordinary Shares (per cent of outstanding shares owned)

Source: Yu and Wang (1997); Adenikinju et al.(2003)

We investigated the impact of ownership structure on performance (Adenikinju, Ayonrinde and Adenikinju 2003). There are theoretical and empirical issues surrounding the relationship between a firm's ownership structure and its performance (Morck et al. 1988; McConnell and Servaes, 1990, 1995; Hermalen and

Weisbach, 1991; Himmerlberg et al. 1999; and Cho, 1998).
Our findings showed that concentration ratio (CR), did not play a significant role in explaining performance. Most of the firms have high concentration index already and thus CR may not be important in explaining variation in performance among Nigeria quoted firms. CR results differ from what was obtained from China by Xu and Wang (1997) that reported a positive and significant impact on performance. However, our results are similar to the report on Czech Republic by Classens, Djankov and Pohl (1996) that reported CR has no significant impact once other factors like strategic investors are controlled for.

In respect for ownership mix we obtain the following results: ownership mix has marginal impacts on firm's performance, especially under EVA. All the ownership mix except internal shareholding are rightly signed. However, only institution and domestic individuals have significant impact. The coefficients on both domestic and foreign institutions are also very close suggesting the same degree of impact. Institutions (INST) however, have positive and significant impact on performance.

In respect of the government, contrary to our expectations, government ownership did not have any negative impact on firm's performance. In fact, in all the models, the variable has positive though insignificant impact on firm's performance. This implies

that the presence of the other shareholders was able to mitigate the negative impact of the government on performance. Our finding here was similar with the results reported for transitional economy by Frydman, et.al 1997.

At the same time, it was found that institutional shareholding exerted a positive impact on performance. These seemingly contradictory findings seem to suggest that concentration ratio is positively related to performance up to a point beyond which it has a negative impact. In other words, excessively high concentration may lead few shareholders to use their positions to benefit only themselves.

Finally, our study did not support the convergence of interest hypothesis that internal share ownership is an important motivating factor. The coefficients on internal shareholders variable were not significant in all the models and even negative. Hence, our study could not confirm a discernible or systematic impact of internal shareholding on performance16.

5.4 My contributions with regard to corporate governance and firm performance

Adenikinju and Akande (2016) considered the relationship between corporate governance and firm performance for quoted companies in Nigeria focusing on the oil and gas sector and found that the size of the company, financial leverage and the ownership concentration of the companies on the average positively influenced the performance of these companies. In addition, the intensity through the square value of financial leverage tends to retard the performance of companies on the average. The study further recommended that companies need to improve on the quality of their directors in order to improve firm performance.

Adenikinju(2016) examined corporate governance and capital structure decisions of selected Nigerian listed firms. Corporate governance is considered as having significant implications for the growth prospects of an economy, because proper corporate governance practices reduce risk for investors, attract investment capital and improve performance of companies. The study found that the number of directors has a positive and significant impact on capital structure (leverage), while return on assets has a negative and significant impact.

Adenikinju (2011) set out to identify the factors that influence corporate financial performance of Nigerian Quoted Oil Companies. Findings reveal that leverage, working capital and dynamics of growth are the most important determinants of performance in the petroleum (marketing sector) of the Nigerian stock exchange.

Adenikinju (2018) investigated the role of business ethics and good corporate behavior on firms' financial performance. Results show that there is a positive and significant relationship between

corporate revealed ethics, corporate applied ethics and stakeholder satisfaction.

5.5 My Contributions with regard to Managerial Characteristics, corporate governance and performance

Adenikinju (2012) funded by a grant from the African Economic Research Consortium (AERC, Nairobi, Kenya). The study examined the governance structure of Nigerian firms and their managerial characteristics, and the extent to which the governance structure and managerial characteristics influence performance. There is no doubt that the structure of ownership of a firm and its managerial characteristics have an important impact on the capability of the firm to respond to external factors impinging on its performance. Prior studies as on the corporate sector as at that time had not attempted to analyse the causal relationship between managerial characteristics, company governance and company performance. The exogenous variables in the research were classified into four; a set of managerial characteristics, corporate control and governance structure variables, ownership structure and the control variables. In this study chief executive officer (CEO) characteristics such as tenure, age, education, sex, compensation and shareholding where specifically tested alongside other variables to ascertain their impact on corporate performance. The apriori expectation is that there is a positive relationship between these characteristics and performance.

Findings from this study confirmed that the background of the CEO, has a negative impact on firm performance. However, all the other variables including sex/ gender seem to have no significant impact on Tobin's Q. However, when ROA is used as a measure of performance, CEO's stability has a positive impact on corporate performance. The impact is also positive if the CEO emerges through internal promotion.

The study also showed that CEO compensation exerted a strong positive impact
on firm performance. The policy implication flowing from this finding is self-evident. Firms must motivate their CEOs in order to encourage them to deliver good returns on shareholders' investments. It is therefore imperative that the salary and other perks attached to the position of the CEO if tied to performance indexes will be a useful tool in the hands of shareholders/stakeholders in ensuring greater overall company performance. I also found that the concentration ratio has a negative impact on performance.

In spite of the findings of this paper, there are many issues in corporate governance in Nigeria that remain unresolved. The dearth and poor quality of data continue to be major constraints in a comprehensive study of corporate governance in Nigeria. Nevertheless, the present study has shed more light on the linkage

between ownership structure, corporate governance, managerial characteristics and firm performance in Nigeria.

5.6 My Other Contributions to Knowledge

Mr Vice- Chancellor, Sir, my other contributions to knowledge have been in the areas of trade liberalization and technological acquisition in the manufacturing sector, economic development issues, oil price shocks, energy security and the concept of tax mitigation. In recent years I have also considered issues relating to gender. I presently chair one of the SDG groups in the University which is on gender equality.

My research in the area of gender have related to whether women actually perform better in certain roles more than their male counterparts. My interest in gender was sparked by my research titled, 'Managerial Characteristics, Corporate Governance and Corporate Performance: The Case of Nigerian Quoted Companies' (Adenikinju 2012). Findings from this research showed that gender did not significantly influence the performance of these quoted companies. One reason for this could be because very few women actually get to the position of CEO of quoted Nigerian firms.

Mr Vice- Chancellor, Sir, I have also carried out other studies on gender titled; 'Does Gender matter for Firm Performance: Evidence from South-West Nigeria' and 'Closing the gender gap in Nigerian Agriculture Value Chain'. The findings from the former paper revealed that there is a bias and discrimination towards women SMEs especially in the financing and sources of funds. Furthermore government policies appear to favour male owned enterprises than their female counterpart unintentionally. The topmost government policies that have negatively affected the SMEs operation irrespective of gender is the business environment that cuts across laws and regulations and government actions which have made business unbearable. Female owned enterprises are underserved by the financial institutions which might be linked to stringent conditions and cultural values that entrust valuables and assets (landed properties) in the hand of the men with less or no assets for the women to use as collateral to secure loans in the financial institutions. Interestingly, in terms of profitability, this study found that the male owned enterprises appear to perform better going by the perception of the respondents however, a closer look reveals that for the sector where females dominated (wholesale and retail), the females actually performed better than the males.

The latter research on closing the gender gap in the Agricultural food chain discovered that there are gender gaps in the Cocoa value chain in terms of; the number of individuals involved in the business (there are more men than women, 83.3% of the male headed households were married while 43.5% of the female headed households were single and widowed); in terms of educational qualifications (majority of the female headed

households have no formal education whereas majority of the male headed households had West African Senior Secondary School Certificate; Farm size for Cocoa (the modal farm size for Cocoa for male headed household is 2- 3.9 hectares as attested to by 57.1% of the respondents whereas the modal farm size for Cocoa is less than 2 hectares of Cocoa as attested to by 47.8% of the respondents; access to credit (more female headed households (65.2%) did not have access to credit compared to 50.6% of the male headed households that did not have access to credit; volume of credit (the amount of credit obtained - less than N50,000 as attested to by 100% of the female headed households is less than that of the male headed households- N50,000 - N999,999 as attested to by 52.6% of the respondents; gender discrimination (females are often more discriminated in terms of extension visits).

My work together with my colleagues on the issue of trade liberalization has shed more light on the importance of technology in the ability of firms to appropriate the benefits from trade liberalisation. Technology is one of the primary determinants of the competitiveness of manufacturing firms. Ayonrinde, Adenikinju and Adenikinju (1998) and Ayonrinde and Ola (2001, 2002) with assistance of grants from the AERC carried out research to determine the technological response of the Nigerian manufacturing sector to trade liberalization. The study made use of data from 94 firms covering three industrial locations in

Nigeria. The results of the study were mixed. Factors other than trade liberalization that affect investment were controlled for, with additional variables like capacity utilization, age, and size being held constant. Most of the variables had the expected signs. However, in line with the qualitative results obtained from the survey, most of the coefficients were not significant. Size was found to be the most important determinant of technological activities of the firms. Newer firms were also placed higher on the technological scale compared to the older firms. Firms that export were also found to have greater incentives to upgrade their technological equipment than firms that did not export. The index of trade liberalization had a positive sign but was not statistically significant.

In terms of the descriptive approach, the poor performance was attributed largely to the continued weak demand for local manufactures, owing partly to the influx of imports, which were relatively cheaper. In addition, labour lay-offs, particularly in the private sector, contributed to the weak aggregate demand. In response, manufacturers reduced their scale of operations to curtail unplanned inventory of goods. It seems then that trade liberalization has had the unintended effect of reducing the size and employment of the manufacturing sector. This has largely been attributed to the influx of finished consumer goods and the fact there has been no significant expansion of manufactured exports as a result of the lack of competitiveness among domestic

manufacturers and the continued existence of trade barriers in industrial countries.

Like all trade and industrial policies, the 1995- 2001 Tariff Decree has inevitably impacted on the emergent structure of the manufacturing sector. Not surprisingly, the sub-sectors which have gained the most from trade and foreign exchange liberalization are those with domestic sources of inputs, high export orientation and capability, or those whose levels of competitiveness and efficiency are high and close to those of foreign exporters. Accordingly, cotton and synthetic textiles, leather and leather products, soaps and detergents, and other agro-based and mineral based industries have emerged as 'winners'. Conversely, industries that are heavily dependent on imported inputs or which are inefficient have suffered sharp declines. Industries, which have turned out to be 'losers' include paper and paper products, chemicals and pharmaceuticals, roofing sheets, radio and television, and vehicle assembly.

Osakede and Adenikinju (2022) considered trade liberalization on industrial sector performance: evidence from Economic Community of African States (ECOWAS). Findings from the study showed that trade liberalization measured by openness index and export taxes led to improvement in manufacturing value added. The findings lend support to the potential of African Continental Free Trade Area (AfCFTA) in promoting industrial sector performance and sustainable development in Africa.

Adenikinju and Osakede (2020) discussed Per Capita Income and Health Outcome Convergence among Economic Community of West African States (ECOWAS). The results showed existence of â-convergence in per capita income and health with faster rates in income relative to health. There were also indications of ó-convergence in health outcome except for life expectancy. ó-convergence results however, showed divergence in per capita income. The results suggest strong influence of governance quality in attaining convergence not only for per capita income but also health outcome. Findings for convergence, strongly suggest that economic policy agreements in developing economies such as those of the ECOWAS engender sustainable development in income and health.

Babatunde, Adenikinju and Adenikinju (2013) investigated the interactive relationships between oil shocks and the Nigeria stock market. This was the first study to examine the dynamic linkages between stock market behavior and oil price shocks in Nigeria. The study revealed that stock market returns exhibit insignificant positive response to oil price shock but reverts to negative effects after a period of time depending on the nature of the oil price shocks.

Akande and Adenikinju (2013) examined the relationship among natural resources, human capital economic growth in Nigeria. The study indicated that natural resources are detrimental to economic growth for countries that have low levels of human capital, and

countries with rich natural resource that neglect human capital like Nigeria. The research did not find any significant evidence of a direct negative relationship between natural resources and economic growth as suggested in the literature. The results imply that it is not the natural resource that retards the development of rich-economies but lack of good governance and inadequate institutional framework for economic development.

Adenikinju, Akutson and Adenikinju (2011) discussed issues related to energy security in Africa and the possible roles for green energy. The study found that while it true that Africa is a net exporter of energy to the rest of the world, the significant inequality in the distribution of energy endowments across the continent shows that the nature and depth of energy security issues vary. While green energy offers prospects for mitigating energy security challenges, the high costs of renewable energy technologies and significant poverty in most of the countries make it very difficult for these countries to successfully diversify and augment the energy mix.

The study by Adenikinju and Enofe (2006) examined the extent to which the Nigerian financial sector performed in international financial integration within the context of globalization. The results from the study indicate that the financial sector of the economy has not been appropriately integrated into the global economy, and hence it is not maximally contributing to the Nigerian economic development.

Mr Vice –Chancellor, Sir, My PhD students and myself have published articles from their thesis and some of them are listed below;

1. Emmanuel, Adenikinju, Doorasamy, Ayoola, Oladejo, Kwarbai, and Otekunrin (2023), "Carbon Emission Disclosure and Financial Performance of Quoted Nigerian Financial Services Companies". International Journal of Energy Economics
2. Adeyanju, D.O. and O.O. Adenikinju (2022), "User's Perception on the Adoption of Computer Assisted Audit Tools and Techniques (CAATTs) in Detecting Fraud amongst Deposit Money Banks". Seybold Report DOI 10.5281/zenodo.7262654

3. Raji. S. A. and O.Adenikinju (2023), " Working Capital Management and Financial Performance Nexus: Evidence from African Manufacturing Companies" Seybold Report DOI 10.5281/zenodo.7259753

4. Raji, S.A. and O.O. Adenikinju (2023) " Working Capital Management of Companies in Selected African Countries. AESS Journal

5. Alamu, N. E., and Adenikinju, O.O. (2022), "Tax Reforms and Tax Revenue in Nigeria", Journal of the Chartered Institute of Taxation of Nigeria

6.0 . Constraints to Performance

Mr Vice Chancellor, Sir, corporate performance is important to different stakeholders, including potential investors due to potential risks, including adverse publicity brought about by the collapse of some firms and others that are under receivership. Since the global financial crisis of 1998, many investors across the world are wary of risks of corporate failures, and the damage they may brought. This is even complicated by the very difficult operating economic environment in Nigeria. Several factors, internal and external to the firm can impact on the performance of firms. Some of the internal factors that were identified include leverage, liquidity, firm size, firm age, managerial ownership, and block holder ownership (Adenikinju, 2002, 2012; Adenikinju and Adenikinju, 2005; Adenikinju and Ayonride 2003; Adenikinju and Akande 2016).

The competitive pressures, high interest and exchange rates and macroeconomic instability which prevailed for the greater part of the eighties and much of the early nineties, have combined to present a strategic dilemma for companies operating in the Nigerian environment (Adenikinju and Adenikinju, 2005).

Both financial and non-financial sectors are further bogged down by internal environment constraints (Nwaeke, Adegbie and Ogundajo, 2022). Aside factors from the internal business environment such as lack of capital (inadequate capitalization), inefficient management, unprofitable expansion (premature expansion), mode of appointment of chief executives, fraud, liquidity of most companies and audit failures - internal or external may affect corporate performance.

A highly leveraged firm may stand the risk of distress than a low leveraged firm, while a high level of capitalization reduces a firm's exposure, because equity does not need to be repaid unlike debt. Yet, a high level of capitalization will be tantamount to a foregone opportunity for additional profits through a judicious use of leverage.

Chude and Chude (2015) added that external influences, such as corporate income tax levied on companies might affect the performance of business firms in Nigeria hence, leading to low collections of corporation taxes to meet government sovereign expenditure needs.

Ebodaghe (1994) identified causes of distress among Nigerian banks. He identified the following factors; adverse economic environment, capital inadequacy, inept management, ownership structures, impact of deregulation, political interference and incidence of bad debts as being responsible for the high incidence of bank distress in Nigeria. However, the distress was by no means limited to the financial sector. The industrial sector is also equally affected by this poor performance.

Many firms, irrespective of size, have experienced financial problems leading to mergers, acquisitions and liquidations. The adoption of the structural adjustment programme in 1986 and the

liberalization of the Nigerian economy coupled with the devaluation of the naira altered radically the environment of doing business in Nigeria. This had a dire effect on the Nigerian corporate sector. Nigerian firms are heavily dependent on imports for raw materials and capital goods and on the highly sheltered domestic markets for sales of outputs. The devaluation of the naira at that time led to a spiral increase in the cost of imports provoking sharp fall in capacity utilization across most Nigerian firms and closure of some other firms.

The increase in cost of production arising from rising import cost was further accentuated by the increase in infrastructure cost like electricity, petroleum products and telecommunication in the aftermath of the removal subsidies on these products. The rise in infrastructure tariffs however did not translate into improvements in the quality and adequacy of provision of infrastructure. Firms continue to bear the brunt of the poor quality and low reliability of infrastructure in Nigeria. This has provoked firms to invest in expensive private provision as backup or alternative source of supply to public provision (Lee and Anas, 1991).

In addition to the economic factors, developments in the political realm have also affected the general environment of doing business in Nigeria. The years of military rule and frequent changes in government have triggered policy instability, insecurity of lives and property, and a high risk of investment. Many of these uncertainties and risks are then factored into the cost of capital. Given all the economic and political developments over this period, the survival of firms have been largely influenced by a combination of internal factors such as the quality of management, size of the firm, earnings, rising prices of input materials, high exchange rates, political instability among others (Adenikinju 2012).

7.0 . Recommendations on what drives performance

Mr. Vice - Chancellor, Sir, I have shown in this lecture that several factors, both internal and external affects the performance of firms operating in Nigeria. While the focus of my research over the years have examined the internal structure and practices of firms, nevertheless, external operating environment that firms face are also very important. My recommendations towards improving overall corporate performance in Nigeria are highlighted in this section of the lecture.

First, we have shown in the course of the lecture that capital structure and the risk of business failure are affected by general economic and political environment. This is consistent with the theory that debt/equity decision is a response to current changes in capital markets and the economy. Literature suggest that there is an interface between the micro and macro environment. Therefore government needs to put in place policies and programmes that create an environment that is conducive to corporate performance. In particular, exchange rate volatility has significant impact on

business earnings volatility. Thus, government needs to reduce volatility of the naira exchange rate through appropriate policies that would influence the supply and demand for foreign exchange. One way of doing this is to diversify the production and export base of the economy away from oil.

Second, external blockowners have a way of exerting pressures on management to finance business investment through debt rather than equity. The implication of this is that piling of debt also exposes the firm to a higher risk of failure. Thus, there is need for government to put in place appropriate governance structure and institutions that would check the growth of debt by the firms, but encourage firms to carry out activities in a honest, transparent and profitable way.

Thirdly there ia a need to deepen the stock market in Nigeria especially in the area of long - term instruments. The absence of variety in long-term debt instruments has probably reduced the proportion of long term debt in the capital structure of these companies. The preference of short- term for long term debt, given the relative higher cost of the former can easily be attributed to the absence of opportunities to make use of the latter. Hence it is important for government to put in place measures to deepen this aspect of the Nigerian capital market. The preponderance of short-term debt also has implications on the type of investments that can be embarked upon by these firms. Banks should also be encouraged to give out loans, both short- term and long term, to firms not only the very large ones but also the upcoming ones which really drive the economy. Low interest rates will encourage borrowing.

Fourth, in the NGX, the establishment of more platforms for trading other securities such as bonds, commodities, and derivatives, combined with other initiatives such as dematerialization of share certificates, e-dividend, direct cash settlement and multiple account regularization, among others, would contribute to the growth of the Nigerian capital market, attract more retail investors and discouraging the activities of Ponzi schemes in the market.

Fifth, there is the need to expand the role of women in the managerial and ownership structure of the corporate sector in Nigeria. The women gender is seriously disadvantaged in the current structure of the industry. Moreover, women have less access to credits, shareholding and place of influence in the corporate and financial sectors of the economy. This should be urgently addressed.

Finally, the issues around data, both quality, quantity, timeliness and costs of access to data should be addressed by the relevant regulatory agencies in the sector. The dearth and poor quality of data continue to be major constraints in a comprehensive study of corporate governance in Nigeria. We have had to invest a lot of time and other resources to be able to shed more light on the

linkage between ownership structure, corporate governance, managerial characteristics and firm performance in Nigeria.

Conclusion

Mr Vice Chancellor, Sir, in this lecture, I have shown that internal factors play significant roles in the performance of corporate firms in Nigeria. My research over the years have shown that in Nigeria, capital structure has significant impact on firms' performances. This impact varies by sectors and size of firms, as well as type of shareholding structure in place. Furthermore, capital structure has no significant effect on risk of corporate failure. This finding however is due to the fact that poorly performing companies have minimal access to the debt market. Hence their debt equity ratios are low. We also reported that ownership structure and ownership concentration are important determinants of firm performance. Nigerian firms are skewed in favour of highly centralized ownership structure. Majority of investors in Nigeria account for small proportion of total shareholding structure. Interestingly, gender seems not to have played any major roles in corporate performance. We also found the CEO remunerations have positive impacts on corporate performance. We also found that CEO's stability and those that emerged through internal promotion have positive impacts on corporate performance.

However, despite the important roles played by internal factors in corporate performance, my research has also shown that external factors or 'acts of God' are important drivers of firms performance. Nigerian firms have suffered and are still suffering from hostile external factors originating from exchange rate volatility, high inflation, difficult operating environment, policy inconsistency of government and poor infrastructure. No wonder that many reputable international companies that have been operating in Nigeria for a long time have suddenly exited from the country. In 2023 alone, more than six reputable international companies left Nigeria. They include: GlasxoSmithkline, Sanofi, Bolt foods, Procter and Gamble, and Unilever Nigeria. The companies exited Nigeria due to reasons that have revolved around difficult operating business environment, and low profitability. The government must put in place policies to reverse this trend if the country wants to address the issues of poverty, unemployment, high inflation, and low economic growth. It is also important to revise the current corporate government codes to ensure that companies adopt the best practices that will enable them to adjust, adapt, and mitigate the constraining external environment that is prevailing in Nigeria

APPRECIATION

I thank God almighty for His goodness and mercy towards me. My Lord and saviour, Jesus Christ, saved me and made me His own. Thank you my father.

I am very grateful to my parents, late Professor and Mrs Christopher and Helen Ola for their love and care and sound upbringing, my in-laws late Prince and Mrs Emmanuel and Margaret Aladedunye Adenikinju. Professor Akinbo Adesomoju has been a father indeed. I appreciate my siblings; Dr Christopher Ola, Dr Ayodele Ola, Oluseyi Ola Esq, Folasade and Dapo Sijuwola and their families and my late sister's children; Samuel, Isabelle and Maria Odutola for their love and care. I thank Pastor and Mrs Amos Aladedunye, Dr and Mrs Adekunle Aladedunye, Tayo and Tolu Adenikinju, Toye and Bose Aladedunye and Ajasin Aladedunye and their families. I specially thank Joshua Aladedunye for assisting me with typing of the manuscript.

I thank my teachers from my primary school days, especially Mrs Valerie Banjo (who was also my god mother), Mr Oyetayo……(my Economics teacher at the International School, University of Ibadan, ISI), Mr Akintilebo (my mathematics teacher in ISI), my PhD thesis supervisor, Professor Ademola Oyejide (who took up the work of supervising my thesis when my first supervisor, Professor Afolabi Soyode had to travel out of the country on sabbatical leave), Professors Akin Iwayemi, Sam Olofin, S. Ibi- Ajayi, Afolabi Soyode, Doyin Soyibo, Kassey and

Abdul Ganiyu Garba, Oluremi Ogun, I.D Poloamina, Bade Onimode, Razak Olopoenia, Gini Mbanefo, Eno Inanga, David Ekpenyong, and others. I am grateful to Professor Timothy Olagbemiro for believing in me as a young academic when I joined Bowen University. I am grateful to Professors Joshua Ogunwole, Tosin Atobatele and O.Oladele for their support over the years. I thank Professors Dan Izebaye, A.Owosekun, T.O.Aro, J.A Faniran, M.O.Fawole and E.O.Ogunjimi for their role in building Bowen University and worthy examples they showed.

I am indeed grateful to all my former teachers, colleagues, brethren from Jesus Is King Ministries (JIK), New Covenant Church (NCC), friends, students and staff of CS Ola and Co. I am grateful to my Pastor, Reverend and Mrs Dele Adeyemi and the Elders at the New Covenant Church, Basorun. I am particularly grateful to Bro. And Sis. Oyekale, Tosin Ogundipe,Mrs Oluremi Ajayi and all the teachers and teenagers in the Teenagers Church and the Coordinators of the Palace Daughters and Nobles club of NCC, Basorun. Pastor and Mrs Bayo Davids, Bro and Sis Adebayo, Bro and Sis Akintimehin, Apostle and Mrs Oluyemi, Professor Bola Adelore, Professor and Mrs Bade Omololu, Baba and Mama Ajao are appreciated.

I thank Professor and Professor (Mrs) Anthony Akinlo, Professor and Dr(Mrs) Rafiu Salawu, Professor B.Folorunsho, all from the Obafemi Awolowo University. Dr and Mrs Boye Adeyemo, Engineer and Dr (Mrs)Ayonrinde, Dr and Dr (Mrs) Olumuyiwa

Alaba. Ayomide, Anike, Esther and Titi are acknowleged.

I am grateful to the Provost of the College of Management and Social Sciences (COMSS), Professor Lere Amusan, and former Provosts, Professors S.Owolabi and John Ayoade, my Programme Coordinators in the Economics and Accounting programs, other Programme Coordinators in COMSS, staff and students of the College. Drs Toyin Adigun, Uche Osakede, Opeyemi Olagunju are appreciated likewise Ajibade Adeoye, Olujide Olakanmi, Abigail Tonye-Dick and Joel Adeyemo and all staff of the Accounting program.

I am grateful to the various institutions and organizations and organizations which provided support for me in my academic career, the African Economic Research Consortium (AERC), Nairobi; the Institute of Chartered Accountants of Nigeria (ICAN); the Chartered Institute of Taxation (CITN). I am appreciative of Bowen University for giving me a platform to excel and achieve the height of my academic career.

My husband, Adeola has been a pillar of support over the years and I am grateful to him and our children (Toluwani and her husband Dara, Ayodeji, Daniel and Victor). I am blessed to have such an awesome family. My inlaws (through Tolu), Papa and Mama Adeyemo and the entire Adeyemo family are appreciated.

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