

# Firm Characteristics and Corporate Governance Performance of Nigerian and South African Deposit Money Banks (DMBs)

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## ABSTRACT

The study is a cross-country comparative analysis of the impacts of firm characteristics on corporate governance performance between Nigeria and South Africa listed Deposit Money Banks (DMBs). The study adopted the census method of sampling in selecting the entire thirteen (13) listed DMBs in Nigeria and matched with an equal sample of thirteen (13) purposively selected DMBs in South Africa for the purpose of the comparative analysis, totalling a balanced panel of 143 firm-year observations (each) respectively. The secondary data was extracted from the audited annual reports of the sampled DMBs for eleven (11) financial years (2010-2020). The data was analyzed using descriptive statistics and panel regression using E-Views 10. The preliminary analysis showed that the mean CG disclosure of the South African DMBs is significantly greater than that of the Nigeria sample at 5% level of significance. The result of panel regression analysis showed that in the Nigerian sample, firm size and age exerts positive significant influence of CG performance, while only firm size (positive) was the significant determinants of CG performance in the South African sample. The report suggests, among other things, that older banks publish more information than younger banks, and that a more competitive environment be created to encourage banks to have a good corporate governance framework, which will attract more potential investors.

**KEYWORDS:** Firm size, Age and Corporate Governance Performance

## INTRODUCTION

The issue of corporate governance (hereafter, CG), especially the quality of its disclosures, has become a prominent issue of universal consequence. It generated much debate in modern accounting literature especially in the aftermath of the several financial scandals that ravaged some high profile companies in both developed and developing countries around year 2000's (Alagla, 2019; Bushra & Imran, 2019; Ofoegbu, Odoemelam, & Okafor, 2018). A typical example includes the high-profile collapses of U.S. based Enron and Worldcom which took the corporate world by surprise, considering that they both went bankrupt not long after declaring huge profits. Similar trends of financial crisis and business collapses were also witnessed in both Nigerian (for example Oceanic bank, Intercontinental bank, among others) and South African companies (for example Saambou bank and Fidentia Plc). The above are just

few examples of notable business collapses that were attributed majorly to poor CG dynamics and use of out-dated governance codes (Mohammed, Che-Ahmad & Malek, 2018). Majority of the corporate failures in Nigeria and South Africa were witnessed more in the banking sector.

As per Alper and Aydgan (2017) and Tshipa and Mokoaleli (2015), weak CG and poor auditing problems in financial institutions were among the major issues behind the financial crises and corporate scandals experienced during the recent past. The aftermath of these corporate failures saw the enactments and implementations of different CG regulatory reforms. For example, the Sarbanes Oxley Act (SOX) was released by the U.S. legislature in 2002, while South Africa revised her King I Code of CG in 2002 (currently updated up to King IV Code as

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from 2016). In Nigeria, the 2004 Companies and Allied Matters Act (CAMA) as amended CAMA 2020, and the recently revised Code of CG (2018) are all efforts towards facilitating effective governance and control mechanisms among listed corporations in order to effectively protect investors' funds and enhance firms' continuity.

Fundamentally, the need for sound CG mechanisms emanated from the agency relationship, that is, the separation of ownership (capital providers) and control (management) in modern corporations (Adane, Engida, Asfaw, Azadi, & Passel, 2018). Since the agents (managers) manage the day-to-day activities of the firm on behalf of the principals, financial reporting then becomes a veritable means by which the principals are kept abreast of the economic situation of the firm. A well-detailed financial report is thus required to enable the users understand and obtain precise and consistent information about the company, and consequently make better investment decisions (Cunha & Mendes, 2017). In essence, the financial report should encompass more than just economic information (that is, both financial and non-financial) for it to fully achieve its purpose of guiding investment decisions. Another angle to the agency relationship is the issue of information asymmetry since the agents have more information than the principals and could exploit that to pursue their own interest other than that of the capital providers. This usually brings about conflict of interests and agency problem. CG principles and regulation are being created to help solve or avoid conflicts of interest between the company's stakeholders by ensuring a trustable and transparent business environment. According to Aren, Kayagil, and Aydemir (2014), the concept of CG has been originated from these valuable efforts.

As described by Al-Homaidi, Almaqtari, Ahmad, and Tabash (2019), CG embodies the processes and systems by which the entities are directed, controlled and how they should be held accountable in order to enhance business prosperity with corporate accountability being the ultimate objective. Corporate governance (CG) performance, on the other hand, represents the gauge of the extent of CG disclosure scores according to an index constructed from a specified set of governance indicators or characteristics (Brown, Beekes, & Verhoeven, 2011). The principal characteristics of effective CG performance include transparency which is reflected in the disclosures made by the firm. It includes the disclosure of relevant financial and operational information and internal processes of management oversight and control; protection and enforceability of

the rights and prerogatives of all shareholders; and of independently hiring management, monitoring management's performance and integrity, and replacing management when necessary (Al-Homaidi et al, 2019). All these characteristics contribute towards the attainment of the objective of good CG, towards the maximization of shareholders' value.

However, despite the projection that management's incentive to engage in CG qualitative disclosures are influenced by some of firm-specific characteristics enumerated above, recent studies (for example Franke, 2018; Demerjian, 2017) have indicated that the above projected relationships may not hold for all stock markets. Going by the above, this study intends to carry this line of thought by investigating the relationships between firm-related characteristics on the quality of CG disclosures (that is, CG performance) in the two different stock markets (that is, Nigerian Stock Exchange [NSE] and Johannesburg Stock Exchange [JSE]). These form the motivation behind this comparative study between Nigeria and South Africa.

Furthermore, while there are a slew of empirical research on the impact of corporate governance on various organizational outcomes (typically business performance), just a few focus on its drivers and determinants, according to a review of the literature. Then, none of the research have adopted the comparative dimension used in this study when looking at the correlations between various dimensions of business characteristics and corporate governance performance. Cross-country comparisons are becoming more common in accounting research, and South Africa is a good place to start because of their experience with corporate governance and sustainability challenges. The closest to this study are Isukul and Chizea (2017a) and Isukul and Chizea (2017b) which both conducted a comparative study of corporate governance disclosures between Nigeria vs South Africa and Nigeria vs Ghana respectively. However, they focused only on the level of disclosure of each country but did not consider the firm-level determinants of such disclosures as well as whether or not corporate governance performance mitigates the probability of bankruptcy. Another closely related study is that by Ofoegbu et al (2018) which also conducted a comparative study between Nigeria and South Africa, but focused only on determinants of environmental disclosure. This study therefore determines the impact of firm characteristics on corporate governance performance of listed DMB's in Nigeria and South Africa. The specific objectives are to:

1. Examine the influence of firm size on corporate governance performance of quoted DMBs in Nigeria and South Africa.
2. Ascertain the influence of firm age on corporate governance performance of quoted DMBs in Nigeria and South Africa.

## Review of Related Literature

### Corporate Governance

The concept of corporate governance first arose as a significant concern in the 1980s, when several corporations in various developed countries collapsed due to a lack of adequate operating control (Tricker, 2009, 2012). Among the companies involved are Drexal Burnham Lambert (US), Robert Maxwell Group plc and Coloroll (UK), Rothwells Ltd (Australia), and Nomura Securities (Japan). In a nutshell, corporate governance occurs when a corporation's owners delegate authority to someone else, i.e. when ownership and control are separated. The first dispute about the separation of ownership and control, according to Mulyadi (2017), began in 1827 when Adam Smith, in his book "*An Inquiry into the Nature and Causes of the Wealth of Nations*", offered his perspective on the issue. He claims that directors are in charge of more people's money than they are, and that they cannot be expected to monitor someone's wealth with the same vigilance that co-partners would. "Negligence and profusion, therefore, must always prevail, more or less, in the management of such a company's affairs," he says (Smith, 1827, p. 311). Berle and Means (1932) observed the developing tendency of more powerful managers of firms' daily operations, owing to the increasing number and geographic distribution of shareholders, even in the early 1930s.

As a result of a succession of multinational company scandals and evidence of director power abuse in the 1980s, 'corporate governance' became a major concern. Regulators were pushed to rethink how organizations were run and directors were held accountable as a result of the improprieties. The London Stock Exchange established the Cadbury Committee on Corporate Governance in 1991 as a result of this (Charumathi & Krishnan, 2011). Although it has been argued that the modern corporate governance reform process started with the formation of Cadbury Committee in England in 1991 (Keasey, Thompson, & Wright, 2005), its transformation from a national scope to international dimensions is assumed to have occurred after the call by Organization of Economic Corporation and Development (OECD) Council to national governments, other related international organizations and private industries to develop a series of corporate

governance standards and regulations at the meeting held among the ministers of member countries on April 27 – 28, 1998 (OECD, 1999). Following this meeting, in order to support member and non-member governments in development of legal, regulatory and corporate framework, OECD published "Corporate Governance Principles" in 1999 (Bai, Liu, Lu, Song, & Zhang 2004), which was initially reviewed in 2004 and finally reviewed again as a result of experienced crises, at G20/OECD Corporate Governance Forum organized in Istanbul on April 10, 2015. "The principles aim to assist policy makers in assessment and development of legal, regulatory and corporate framework in order to promote economic activity, sustainable growth and financial stability" (G20/OECD KYI, 2015). As claimed by Maina, Gachunga, Muturi, and Ogutu (2017), OECD was the first institution that issued internationally domiciled comprehensive corporate governance principles in 1998, after which its report rapidly increased in academic and practical studies.

### Differences and Similarities between Nigerian and South African CG Codes

There have been, and still are, rapid changes in corporate governance practices internationally following their internally peculiar events leading to the conflicting views as to whether specific corporate governance models may be best suited for different countries (Carney, Gedajlovic, & Yang, 2009; Gliberman, Peng & Shapiro, 2011). Basically, the differences in corporate governance practices and regulations between countries can be attributed to the diversity of control structures, religion, corporate governance reform periods and enforcement levels (Al-Malkawi, Pillai, & Bhatti, 2014). However, undermining few inclusions of national-specific issues, majority of the codes follow international best practice guidelines on corporate governance. Markkanen (2015) did a comparative analysis of corporate governance in Africa and concluded that African corporate governance codes have mimicked the governance codes of the developed countries, but however, have addressed issues which are relevant for their environment, such as strong communal values, religion and corruption. Thus, both South Africa and Nigeria can be assessed or compared based on international best practices, as have been done by some prior studies (for example Isukul & Chizea, 2017a).

### Corporate Governance Performance

According to Docekalova, Kocmanova, and Kolenak (2015), defining corporate governance performance is difficult. While the effectiveness of corporate governance is understood to be its influence on

financial performance, the literature highlights its effectiveness rather than its performance (Jungman, 2006). Corporate governance performance indicators are frequently linked to the following areas: supervisory board composition and compensation, corruption, stakeholder involvement, economic competition strategy, political lobbying, transparency, reporting, and ethical code. Corporate governance performance has also been taken to mean corporate governance quality which researchers like De Nicolo, Laeven, and Ueda (2008) cited in Biswas (2013) defined as the adoption of a broad set of rules and practices that help provide corporate insiders with incentives to act towards maximising firm value.

Alagla (2019) conceptualised corporate governance quality in terms of corporate transparency which is a signal for the quality of management and management ability to induce growth and profitability. Rahman and Khatun (2017) posit that corporate governance quality is measured by different names such as corporate governance ranking, corporate governance score, corporate governance index, corporate governance quality in percentage form, corporate governance rating etc. However, for the purpose of this study, this researcher defines corporate governance performance as the extent to which a company adheres, both in principles and practice, to all the required tenets of good corporate governance guidelines recommended by capital market agents of a given jurisdiction. That is, it can be related to level of corporate governance disclosure which UNCTAD (2011), as cited in Adefemi, Hasan & Fletcher (2017) defined as Corporate Governance Disclosure as the extent to which an organization transparently discloses its governance practices and strategies to stakeholders. Thus, the how well and detailed a company complies with all the required codes of corporate governance can be a gauge of their corporate governance quality and performance.

According to Pahuja and Bhatia (2008), the principal characteristics of effective corporate governance disclosure include transparency that is, disclosure of relevant financial and operational information and internal processes of management oversight and control; protection and enforceability of the rights and prerogatives of all shareholders; and, directors capable of independently approving the corporation's strategy and major business plans and decisions, and of independently hiring management, monitoring management's performance and integrity, and replacing management when necessary (Gregory, 2000). All these characteristics contribute towards the attainment of objective of good corporate governance that is, maximization of shareholder value. Eriabie

and Odia (2016) also suggest that the quality of disclosure comprises of several attributes like relevance, reliability, understandability, comparability and materiality.

In terms of the measurement of corporate governance performance, Modugu and Eboigbe (2017) argue that attempts at conceptualizing and measuring it have not yielded a universal approach for prior researchers. Maimako and Ayila (2015) collaborate that corporate disclosure is a theoretical concept that is difficult to measure directly. Cooke (1989) asserts that disclosure is an abstract concept that cannot be measured directly as it does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car. Hence, previous studies have mostly utilized corporate governance disclosure check lists to collect and measure the level and quality of the disclosure. As Modugu and Eboigbe (2017) put it, corporate governance disclosure results in a combination of mandatory and voluntary items that constantly interact with each other. Mandatory disclosure is a company's obligation to disclose a minimum amount of information in corporate reports, whereas voluntary disclosure is a provision of additional information when mandatory disclosure is unable to provide a true state of a company's value and managers' performance. Voluntary disclosure is the release of additional information about a firm in excess of the statutorily required information. For example, both Nigeria and South Africa's code requires a firm to disclose the profile of its directors, however, some companies go ahead and even disclose their age, tribe and a brief biography, which is considered as an additional information.

### **Firm Size and Corporate Governance Performance**

Firm size is a key factor in explaining corporate disclosure practices as well as other organizational outcomes. The size of a company can be measured in a variety of ways, including the number of employees, total turnover, and the natural logarithm of total assets. According to Klapper and Love (2004), business size has an uncertain impact on corporate governance quality. On the one hand, larger companies may have higher agency costs as a result of their higher free cash flow, prompting them to proactively implement better corporate governance procedures to offset the problem. On the other hand, smaller firms are expected to grow faster and, therefore, to need more external financing. This could lead them to adopt better governance practices as well. Therefore, both would have different incentives to voluntarily achieve better corporate governance standards and performance.

Empirically, Cerf (1961), the first scholar to conduct an empirical study on corporate governance disclosure determinants using a quantifiable measure of corporate disclosure index of 527 US listed firms (according to Cunha & Mendes, 2017), discovered a significant positive correlation between the level of corporate disclosure and the asset size of a firm. A majority of the fifty-five (55) empirical research analyzed in this study found a positive relationship between business size and the quality of corporate governance transparency (Wachira, 2018; Modugu & Eboigbe, 2017; Cunha & Mendes, 2017; Elfeky, 2017; Adefemi, Hasan & Fletcher, 2017; Ghasempour & MdYusof, 2014). This implies that large firms most likely comply to appropriate corporate governance disclosure practices in most jurisdictions. The reasons for large firms' tendency to disclose more information are explained by Singhvi and Desai (1971) as cited in Uyar, Kilic, and Bayyurt (2013) as follows: accumulation and disclosure cost of information is not high compared to smaller firms; management of larger corporations is likely to realize the possible benefits of information disclosure, such as greater marketability and greater ease of financing; smaller corporations may feel that full information disclosure may endanger their competitive position.

On the other hand, some past studies equally find a negative association between firm size and level of disclosure (Aljifri, 2008; Aljifri & Hussainey, 2007; Kou & Hussain, 2007). These studies, therefore, did not support a positive relationship between size and disclosure. For example, Ikpor and Agha (2016) carried out study on the determinants of voluntary disclosure quality among listed firms in Nigeria. Data was sourced from 123 corporate annual reports of firms listed on the Nigeria Stock Exchange from 2000 to 2014. Generalized Method of Moment (GMM) regression technique was used to test the statistical significance of the hypotheses of the study. The empirical results showed that size of the company has a decreasing impact on voluntary information disclosure. Although they did not give possible reasons for their result, a possible explanation could be because most big firms are associated with top-level and positioned executives, some with political affiliations, thus they could afford to escape sanctions when they go against certain codes that the associated cost does not favour the firm.

### **Firm Age and Corporate Governance Performance**

Firm age represents the number of years the firm has been in operation. Bhuiyan (2010) termed it 'business operating tenure'. Age is among the major firm characteristic variable usually used in determining

several organisational outcomes. Concerning the projected nexus between firm age and corporate governance performance, there are several theoretical grounds to assume that older companies would likely disclose more information than younger ones. For example, the competition argument proposes that young companies are not likely to disclose full information about their financial results and position, because this may prove to be detrimental if sensitive information is disclosed to the established competitors. In contrast, old companies are less likely to be motivated to withhold such information since their competitive advantages cannot be easily challenged with increased disclosure (Hossain & Hammami, 2009). Bhuiyan (2010) also argue that firms that have been operating for a long time and have survived in the competitive market must have a strong system of corporate governance or are presumed to have an optimum level of corporate governance compliance (Biswas, 2013).

Empirically, the relationship between firm age and corporate governance performance is projected to be either positive or negative in both countries under study. However, the conjecturing that older firms are likely to have a more-established system of governance because they have had more time to improve their governance in response to internal needs or investor pressure, was fully supported by the studies of Alagla (2019); Biswas (2013); Hossain and Hammami (2009); Modarres, Alimohaadpour, and Rahimi (2014), and Rabiou and Ibrahim (2017) which all found significant positive relationships between firm age with voluntary disclosure. However, that notion was weakly supported by Haque, Arun and Kirkpatrick (2011) who found a positive, though statistically insignificant, association between firm age and a corporate governance quality measure.

### **Empirical Review**

There are various studies relating to the impact of firm characteristics on corporate governance performance (quality of disclosure) as well as the impact of corporate governance compliance on the risk or possibility of bankruptcy, both by foreign and Nigerian writers. For example, Wu (2021) examined the moderating effects of country governance on the relationships between corporate governance and firm performance. The study took a multiple cross-country approach by extracting secondary data of 830 companies (out of the world's top 1000) across 43 countries from 2009 to 2018. Using the multivariate data analysis methods, the study found that CEO duality and the percentage of independent directors exerted, respectively, negative and positive influence on ROA. Further analysis showed that regulatory

quality and the rule of law positively moderated the negative effects of the former and negatively moderated the positive effects of the latter (percentage of independent directors). Ezejiofor (2021) investigated the impact of the Altman bankruptcy prediction model on deposit money bank corporate governance in Nigeria. The study investigates if the Altman bankruptcy forecasting model has an impact on the frequency of deposit money bank board meetings in Nigeria. It was decided to use an ex post facto study design. Data was gathered from the sampled banks' annual reports and accounts for the years 2009 to 2019. With the help of E-View 9.0, the study used regression analysis to test the hypothesis. According to the data analyzed, the Altman bankruptcy forecasting model has a favorable effect on board meeting frequency, and this effect is significant. Koji, Adhikary and Tram (2020) conducted a comparative analysis of the impact of corporate governance and firm performance between listed family and non-family firms in Japan. They used secondary data covering 1412 firms-year observations (2014–2018) comprising of 861 non-family and 551 family firms. They used the panel regression method and found that family firms show superior performance to non-family firms with Tobin's Q while family ownership negates firm performance when ROA is taken into account. On the impact of governance elements on Tobin's Q, institutional ownership, foreign ownership and government ownership appeared as significant and positive factor for promoting the performance of both family and non-family firms. Kalyani, Mathur, and Gupta, (2019) conducted a study on how corporate governance affects financial performance and quality of financial reporting using a sample of 100 top ranking Indian companies chosen from the year of 2015–2016. The study was based on the secondary data, collected from different databases such as Prowess, Capitoline, CMIE Prowess and financial statements. The 100 sampled companies were collected on the bases of judgment sampling using non-random sampling techniques. They measured financial distress through Altman's Z-score model. Pearson correlation, multi-regression analysis and discrete statistics were used for the analysis which reports significant negative association between corporate governance and probability of financial distress. Alagla (2019) examined the determinants of corporate governance disclosure quality (CGDQ) in the United Kingdom. The study sampled a total of 70 firms from the UKs Top 100 FTSE non-regulated firms. From the application of the ordinary least squares pooled OLS regression technique, the study found that age of board members, proportion of

female directors, frequency of audit committee meetings, external audit expense, firm growth opportunities, and firm size are statistically significant in predicting CGDQ and are thus ascribed as key determinants of CG disclosure. Chauke and Sebola (2018) conducted a study the evaluated whether or not corporate governance guarantee firms survival against corporate failure in South Africa. They reviewed different corporate failures in South African banks. Their result showed that compliance with corporate governance framework is not a formula for business performance, but a starting point for corporate, managerial and stakeholder protection, accountability, responsibility and success which is key fundamental for the success of business. In order words, they concluded that corporate governance compliance is not strong panacea for business survival. Cunha and Rodrigue (2018) investigated the factors that influence corporate governance disclosure (CGD) in Portugal. Their research included a total of 263 firm year observations from 2005 to 2011. They used ordinal logistic regression to discover that foreign investor ownership, external audit quality, and degree of globalization all had a positive significant impact on CGD, whereas ownership concentration and leverage have a substantial negative impact on CGD. Sierra-Garcia, Garcia-Benau, and Bollas-Araya (2018) conducted an empirical analysis of non-financial reporting (qualitative information disclosure) by Spanish Companies. They used secondary data collated from 35 listed companies for year 2017 alone. Their analysis methods were both correlation matrix and the OLS regression technique. Their result showed that the level of regulatory compliance with non-financial disclosures is associated with the business sector in which the company operates. They concluded that the effectiveness of regulation enhances the level of disclosure. Alper and Aydgan (2017) studied the prediction of corporate governance performance relationship with a dynamic model, focusing on Turkey. Their sample consists of 342 firm-year observations running from year 2007 to 2015. They analysed the secondary panel data using the System GMM method and their result showed that there is a positive and statistically significant relationship between corporate governance disclosure scores and accounting-based ROA and market-based Tobin's Q ratios. This means that firms with high level of corporate governance disclosure are associated with higher accounting and market-based performances. Ezejiofor, Nzewi, and Okoye (2014) evaluated the Altman Model's ability to predict the risk of corporate bankruptcy/ failure in the Nigerian banking sector. The information was gathered from the banks' annual

reports and accounts. The Altman prediction method was used. The Model was found to be capable of accurately estimating the failure potential of sound and healthy banks. The findings also reveal that the Altman bankruptcy prediction model might have correctly anticipated the failure of the Nigerian banks that actually failed. The implication of this discovery is that regulatory authorities' conventional rating system for anticipating the level of failure in the Nigerian banks is still low, hence, Nigeria has had ample cases of bank failures in the past; it would have been prevented if they had applied a model similar to Altman's z-score. Ijeoma and Ezejiolor (2013) investigated whether corporate governance plays a significant role in promoting accountability and transparency and thereby improving an organization's performance. The population for the study was drawn from the management and workers of seven small and medium enterprises (SMEs) in Nigeria's Anambra state. The study's data was gathered from both primary and secondary sources. Using the Statistical Package for Social Sciences (SPSS) version 17.0 software package, the hypotheses proposed for this article were investigated and tested using the Two Way ANOVA for opinion differences. As a result, the paper concludes that corporate governance aids in the provision of structure. Nandi and Ghosh (2012) examined the impacts of corporate governance attributes and firm characteristics and the level of corporate disclosure in India. They sampled a total of 60 firms listed in the Bombay Stock Exchange (BSE)/National Stock Exchange (NSE) during the study period from 2000-01 to 2009-10. They adopted the Standard and Poor (2008) model for measuring the level of corporate disclosure and used the multiple regression technique for the analysis. Their results showed a positive relationship between board size, ratio of audit committee members to total board members, family control, CEO duality, firm size, profitability, liquidity and the extent of corporate disclosure. On the other hand, the findings also showed that the degree of corporate disclosure is negatively related to board composition, leverage and age of the firm. Elmans (2012) examined the disclosure practices of European companies by examining the relation between ownership structure and the extent of voluntary disclosures. He used secondary data for the 2007 annual report of 94 samples of Bangladeshi listed companies using 68-

item CG index. The multiple regression analysis was used and rooted under agency theory. The outcome of the study demonstrates that there is a negative association between blockholder ownership and voluntary disclosures. In addition, a positive association exists between government ownership and voluntary disclosures.

The assessment of previous researches, which included both studies by foreign authors (from Africa and beyond) and those by their Nigerian counterparts, yielded some interesting findings. To begin with, no comparison investigation of the drivers of corporate governance performance from the dimension of firm characteristics has been done to our knowledge. Only Isukul and Chizea (2017a) examined Nigeria and South Africa, but their research was confined to determining the degree of corporate disclosures in both countries and did not look into firm-level variables. The goal of this research is to add to the body of knowledge on the subject.

## **Methodology**

### **Research Design**

The study used an ex post facto research strategy because the occurrences under inquiry had already occurred and the researcher couldn't change the secondary data.

### **Population of the Study**

The population of the study comprises of all listed banks in both Nigeria and South Africa. As at year ended December 2020, there are a total of 19 banks (comprising of 13 deposit money banks, 2 mortgage banks, 1 Islamic bank and 2 microfinance banks) listed on the Nigerian Stock Exchange (NSE), while South Africa has thirty-four (34) banks also listed on the Johannesburg Stock Exchange (JSE) within the same period, out of which seventeen (17) are DMBs.

### **Sample and Sampling Technique**

Considering the limited number of listed and currently operational DMBs in both countries and the need to adopt an equal sample size (for both countries) for the purpose of the comparative analysis, the census sampling method was employed in choosing the entire thirteen (13) DMBs in Nigeria as the benchmark sample size, matched with an equal sample size of 13 purposively selected DMBs in South Africa. Table 1 presents the sample size of the study.

**Table 1: Sample Size**

s/n	Nigeria	South Africa
1.	Access Bank	ABSA bank
2.	Eco Bank	African Bank
3.	Fidelity Bank	Bidvest bank
4.	First Bank Holding	Capitec Bank
5.	First City Monument Bank	First Rand
6.	Guaranty Trust Bank	Grindrod Bank
7.	Stanbic Ibtc Holding	HBZ Bank
8.	Sterling Bank	Investec Bank
9.	Union Bank Of Nig	Mercantile bank
10.	United Bank For Africa	Nedbank
11.	Unity Bank	Rand Merchant Bank
12.	Wema Bank	Sasfin Bank
13.	Zenith Bank	Standard bank

**Source: Researcher’s compilation (2020)**

**Method of Data Collection**

The study used secondary data sourced from various annual reports of the sampled companies deposited at the libraries and website of the NSE ([www.nse.com.ng](http://www.nse.com.ng)) and JSE ([www.jse.co.za](http://www.jse.co.za)). The research covered a period of eleven (11) financial years (2010-2020).

**Model Specification**

The expected linkages in the study's conceptual framework (see Figure 1) resulted in econometric models created expressly for this investigation. As a result, in order to evaluate the correlations between chosen business characteristics and corporate governance performance of DMBs listed on both the NSE and JSE, this study used the following models to answer the study's null hypotheses:

The functional forms of the two general models are expressed as:

**Model 1:**

$$\text{Corporate governance performance} = f(\text{firm characteristics}) \dots\dots\dots (1)$$

**Model 2:**

$$\text{Bankruptcy risk} = f(\text{corporate governance performance}) \dots\dots\dots (2)$$

Since the study separately compare the behaviours of the independent variables on the dependent variable(s) in both Nigeria and South Africa.

The model 1 is collapsed into econometric forms as follows:

**Model 1a: (Firm characteristics and CGP in Nigeria)**

$$CGP_{it} = \beta_0 + \beta_1SIZ_{it} + \beta_2AGE_{it} + \beta_3ROA_{it} + \beta_4LEV_{it} + \beta_5FOWN_{it} + \epsilon_i \dots\dots (3)$$

**Model 1b: (Firm characteristics and CGP in South Africa)**

$$CGP_{it} = \beta_0 + \beta_1SIZ_{it} + \beta_2AGE_{it} + \beta_3ROA_{it} + \beta_4LEV_{it} + \beta_5FOWN_{it} + \epsilon_i \dots\dots (4)$$

For model 2, which proposes to test the impact of corporate governance performance on the probability of bankruptcy, the study will adopt three of the firm characteristics (size, age and leverage) as control variables. Prior studies (Rianti & Yadiati, 2018; Situm, 2014; Succurro & Mannarino, 2011) suggest that that older companies are usually larger in size and tend to avoid bankruptcy at all costs in order to retain their reputation. Similarly, bigger firms with high debt ratio (leverage) may likely escape liquidation due to privileged access to external financial resources which could mitigate the adverse effects of financial crisis.

Incorporating the controlling variables, the econometric forms of model 2 are specified thus:

**Model 2a: (CGP and bankruptcy risk in Nigeria)**

$$BNK_{it} = \gamma_0 + \gamma_1CGP_{it} + \gamma_2SIZ_{it} + \gamma_3AGE_{it} + \gamma_4LEV_{it} + \epsilon_i \dots\dots\dots (5)$$

**Model 2B: (CGP and bankruptcy risk in South Africa)**

$$BNK_{it} = \gamma_0 + \gamma_1CGP_{it} + \gamma_2SIZ_{it} + \gamma_3AGE_{it} + \gamma_4LEV_{it} + \epsilon_i \dots\dots\dots (6)$$



Where:

$\beta_0, Y_0$ , = Constants or Intercepts

$\beta_1$  to...  $\beta_6$ ;  $Y_1$  to...  $Y_4$ ; = Unknown coefficients or parameters to be estimated

CGP = Corporate governance performance

SIZ = Firm size

AGE = Firm age

ROA = Return on Assets, proxy for firm profitability

$\varepsilon$  = the error term or residual.

$i$  =  $i$ th firm for cross-section

### Method of Data Analysis

For the purpose of the empirical analysis, the study employed both univariate and multivariate analysis techniques. Firstly, a comparative descriptive statistics was conducted to observe the differences and similarities of the sample characteristics in respect to all the studied variables. The average mean values of the corporate governance disclosure level by the sampled DMBs in both countries were further tested statistically to determine if there is significant difference - using the independent sample t-test via SPSS 24 software. The associations between and amongst the variables was also examined using correlation matrix which also checked for signs of possible multicollinearity problem. The panel regression technique was thus employed using the Eview 10 software in testing the impact of the selected firm characteristics on CGP. Both fixed effect and random effect techniques were estimated, while the Hausman test for endogeneity was used in choosing the better model. Other conventional diagnostic tests such as normality, multicollinearity, heteroskedasticity, and Ramsey RESET Test were equally conducted in addressing the basic regression analysis assumptions.

### Results and Discussion

#### Univariate Analyses

This sub-section presents the preliminary analysis of the data using descriptive statistics, independent sample t-test and correlation analysis of all the variables used in the study. The description was analysed based on mean, maximum, minimum and standard deviations. The Skewness-Kurtosis (Jarque-Bera) statistics was also analysed for the purposes of normality test of the data and preclusion of outliers. The result was presented in a comparative form to reflect the sample characteristics of both countries as regards all the variables of interest. Thereafter, regression analyses are presented, and the results are then interpreted and discussed.

**Table 2 Descriptive Statistics**

<b>NIGERIA</b>	<b>CGP</b>	<b>SIZE</b>	<b>AGE</b>	<b>ROA</b>
Mean	0.561	2419248644	33.692	0.016
Median	0.600	1611880000.	30.000	0.013
Maximum	0.733	10384349227	60.000	0.095
Minimum	0.178	156506504	20.000	-0.095
Std. Dev.	0.133	2228213316	10.739	0.021
Skewness	-1.010	1.355406	1.025	-1.095
Kurtosis	3.704	4.175967	2.892	12.473
Jarque-Bera	27.269	52.025	25.103	563.258
Probability	0.000	0.000	0.000	0.000
Observations	143	143	143	143
<b>SOUTH AFRICA</b>	<b>CGP</b>	<b>SIZE</b>	<b>AGE</b>	<b>ROA</b>
Mean	0.834	403998734.4	32.245	-0.120
Median	0.844	36523000	26.000	0.014
Maximum	0.973	2532940000	69.000	6.450
Minimum	0.556	572000.0	8.000	-28.305
Std. Dev.	0.096	552465854.5	15.769	2.434
Skewness	-0.378	1.420282	0.488	-10.830
Kurtosis	2.326	4.798539	2.108	127.825
Jarque-Bera	6.118	67.35027	10.420	95633.89
Probability	0.046	0.000	0.005	0.000
Observations	143	143	143	143

Source: E-views 10 (2021)

From Table 2, it can be observed that the mean value for corporate governance performance (CGP) measured using the CGD index stood at 0.561 and 0.834 for the Nigeria and South African samples respectively. This indicates that the percentage level of disclosure using the CGD index is 56.1% and 83.4% for Nigeria and South Africa samples respectively. It then means that the average CGP of the Nigerian sample (56.1%) is less than that of the South African sample (83.4%). Thus, the Nigeria banks disclose less corporate governance information than their South African counterparts. Rahman and Khatun (2017) posit that corporate governance quality is measured by different names such as corporate governance ranking, corporate governance score, corporate governance index, corporate governance quality in percentage form, corporate governance rating etc. It then implies that corporate governance is of more quality in South Africa than Nigeria. The standard deviation value of 0.133 for Nigerian sample indicate that the CGP score tend to revolve around the mean unlike 0.973 CGP score for South African which is far away from the mean value.

The mean value for firm size (SIZE) measured using the raw value of total assets, showed an average value of ₦2,419, 248,644 (about \$5.8 million) and R 403,998,734.40 (about \$28 million) for the Nigeria and South African samples respectively. This means that the South African banks have more assets base than the Nigerian banks. According to Klapper and Love (2004), firm size influences corporate governance quality ambiguously. Bigger firms could face greater agency costs due to their larger free cash flow, leading them to voluntarily adopt better corporate governance practices in order to mitigate this problem. On the other hand, smaller firms are expected to grow faster and, therefore, need more external financing. This could lead them to adopt better governance practices as well. Therefore, both would have different incentives to voluntarily achieve better corporate governance standards and performance. The standard deviation value of ₦2,228,213,316 for Nigerian sample indicate total assets tend to revolve around the mean unlike R 2,532,940, 000 for South-African samples which indicates that total assets is far from the mean value. The mean values of AGE show that Nigerian banks are jointly (howbeit, marginally) older than the South African banks with average firm age of 33yrs and 32years respectively. According to Hossain and Hammami (2009), old companies are less likely to be motivated to withhold information since their competitive advantages cannot be easily challenged with increased disclosure. On the contrary, Maina et al (2017) argue that newer firms, trying to become relevant in the market, are likely be more incentivized to foster greater transparency in order to woo meaningful investors. The standard deviation value of 10.739 and 15.769 for Nigerian and South-African samples respectively indicate that AGE tend to revolve the mean.

On the performance of the companies in terms of return on assets (ROA) measured using the ratio of profit after tax to total asset, it could be deduced that while the Nigerian banks have an average ROA value of 0.016, the South African banks have negative average ROA of -0.120. This goes to show that within the 11-year period covered by the study, the Nigerian banks (on average) made better profits of 1.6% return on their investments than their South African counterparts with -12% return on their investment. According to Gallery et al. (2008), high profitable companies disclose extensive information in order to show and explain to shareholders that they are acting in their best interests and justify their compensation packages; and also to avoid underestimation of their corporate value or to promote a positive impression. However corporations may also use corporate disclosures to provide an explanation for their poor performance to their stakeholders. The standard deviation of 0.021 for Nigerian banks is an indication that the ROA of majority of the sampled banks revolves around the mean value, while the standard deviation of the South African sample 2.434 suggests that the ROA of some of the banks are way higher than the negative mean value obtained.

**Table 3 Panel Regression Results (Model 1a&b)**

<i>Nigeria:</i>	Model 1a (FIXED EFFECT)			<i>South Africa:</i>	Model 1b (RANDOM EFFECT)		
Variables	Coefficient	t-Statistic	Prob.	Variables	Coefficient	t-Statistic	Prob.
C	0.225	0.892	0.374	C	0.628	8.546	0.000***
SIZE	0.030	2.469	0.014**	SIZE	0.012	2.822	0.006**
AGE	0.030	16.454	0.000***	AGE	0.001	0.171	0.864
ROA	0.092	0.426	0.671	ROA	-0.001	-1.456	0.148
<b>R<sup>2</sup></b>	0.792			<b>R<sup>2</sup></b>	0.086		
<b>Adjusted R<sup>2</sup></b>	0.764			<b>Adjusted R<sup>2</sup></b>	0.053		
<b>F-stat (p-value)</b>	28.07 (0.000)			<b>F-stat (p-value)</b>	2.59 (0.028)		
<b>Durbin Watson</b>	1.4			<b>Durbin Watson</b>	1.2		

Source: Eviews 10 (2021) NOTE: \*\*\*, \*\*, \*significant at 1%, 5% and 10% levels respectively

From Table 3, it can be observed that the  $F$ -statistic values of 28.070 ( $p = 0.000$ ) and 2.587 ( $p = 0.028$ ) for fixed and random estimations for model 1a and 1b respectively are significant which indicate that both models are statistically valid for drawing inferences from the tests at the 1% and 5% level of significance respectively. The coefficient of determination (R-squared) for model 1a was observed to be approximately 79.2% while 8.6% for model 1b. This implies that the model estimated using the Nigerian sample (Model 1a) have higher explanatory power than the model estimated using the South African sample (that is, Model 1b).

On the behaviours of the independent variables on corporate governance performance (CGP) in model 1a using the Nigerian sample, it can be observed from the outcome that the variables SIZE, and AGE were statistically significant at varying levels of significance with SIZE and AGE exhibits a positive coefficient signs of 0.030 ( $p=0.014$ ) and 0.030 ( $p=0.000$ ) respectively This implies that corporate governance performance (CGP) is predicted to increase by up to 3% when SIZE and AGE increase by one per cent respectively and predicted to reduce by 7.6%.

**Table 4 Panel Regression Results (Model 2a & b)**

Nigeria: Model 2a (FIXED EFFECT)				South Africa: Model 2b (RANDOM EFFECT)			
Variables	Coefficient	t-Statistic	Prob.	Variables	Coefficient	t-Statistic	Prob.
C	27.630	2.7594	0.007	C	0.571	0.230	0.818
CGP	3.368	1.743	0.084*	CGP	-6.253	-1.798	0.074*
SIZE	-1.448	-2.601	0.010**	SIZE	0.403	2.675	0.008**
AGE	0.110	1.204	0.231	AGE	-0.027	-1.618	0.108
$R^2$			0.453	$R^2$			0.064
Adjusted $R^2$			0.383	Adjusted $R^2$			0.037
F-stat (p-value)			6.516 (0.000)	F-stat (p-value)			2.351 (0.047)
Durbin Watson			0.99	Durbin Watson			1.4

Source: Eviews 10 (2021) NOTE: \*\*\*, \*\*, \*significant at 1%, 5% and 10% levels respectively

From Table 4, it can be observed that the  $F$ -statistic values of 6.516 ( $p = 0.000$ ) and 2.351 ( $p = 0.047$ ) for fixed and random estimations for model 2a and 2b respectively are significant at 1% and 5% level of significance respectively which indicate that both models are statistically valid for drawing inferences. The coefficient of determination (R-squared) for the models was observed to be approximately 45.3% while 6.4% for models 2a and 2b respectively. This implies that the model estimated using the Nigerian samples (Model 2a) have higher explanatory power than the model estimated using the South African (that is, Model 2b).

On the behaviours of the independent variables on corporate bankruptcy risk in model 2a using the Nigerian sample, it can be observed from the outcome that the variables SIZE and AGE were statistically insignificant at varying levels of significance with different nature of relationship. Specifically, CGP and AGE exhibits a positive coefficient signs of 3.368 ( $p=0.084$ ) and 0.110 ( $p=0.231$ ) respectively while SIZE exhibit a negative coefficient sign of -1.448 (0.231).

## Test of Hypotheses

### Hypothesis 1:

**H<sub>01a</sub>:** There is no significant relationship between firm size and corporate governance performance of Nigerian DMBs.

**H<sub>01b</sub>:** There is no significant relationship between firm size and corporate governance performance of South African DMBs.

The first hypothesis of this study states that there is no significant relationship between firm size and corporate governance performance of Nigerian (H<sub>01a</sub>) and South African (H<sub>01b</sub>) DMBs. The evidence provided by the regression result of model 1a showed that the variable of SIZE has a positive coefficient of 0.030 and a p-value of 0.014 which is significant at 5% level; while the outcome of model 1b showed a positive coefficient of 0.012 and a p-value of 0.006 at

5% level. This means that both H<sub>01a</sub> and H<sub>01b</sub> are rejected as there is significant relationship between firm size and corporate governance performance in both Nigerian and South African banks and it also exhibit positive relationship in both samples.

### Hypothesis 2:

**H<sub>02a</sub>:** There is no significant relationship between firm age and corporate governance performance of Nigerian DMBs.

**H<sub>02b</sub>:** There is no significant relationship between firm age and corporate governance performance of South African DMBs.

The second hypothesis of this study states that there is no significant relationship between firm age and corporate governance performance of Nigerian (H<sub>02a</sub>) and South African (H<sub>02b</sub>) DMBs. The evidence

provided by the regression result of model 1a showed that the variable of AGE has a positive coefficient of 0.030 and a p-value of 0.000 which is significant at 1% level; while the outcome of model 1b showed a positive coefficient of 0.001 and a p-value of 0.864 which is insignificant at 5% level. This means that  $H_{02a}$  is rejected as there is significant relationship between firm age and corporate performance in Nigeria samples and it also exhibit positive relationship while  $H_{02b}$  is accepted as there is no significant relationship between firm age and corporate performance for South Africa samples and it also exhibits positive relationship.

### Discussion of Findings

As observed from the first hypothesis test, the null hypothesis that firm size has no significant relationship with corporate governance performance was rejected in both the Nigerian and South African models and the coefficient sign showed a positive relationship in both samples. The probability values are both statistically significant which led to the rejection of the split null hypothesis in both models. Although SIZE had significant impact on corporate governance performance in both samples, however, the magnitude of the impact differs showing 3% and 1.2% for Nigerian and South African samples respectively. This means that for the Nigerian samples, the average asset size of \$6,346,402.53 leads to 3% change in corporate governance performance unlike the South African samples with an average asset size of \$27,900,465.08 leads to 1.2% change in corporate governance performance. It can be observed that the average size of assets in both samples did not lead to a corresponding change in corporate governance performance, that is, large firm size having a higher magnitude of impact on corporate governance performance vice-versa as posited by Singhvi and Desai (1971) as cited in Uyar, Kilic and Bayyurt (2013) due to low disclosure cost, higher competitive advantage etc. However, the small firm size-high corporate governance trend is not unlikely as many studies have supported such trend. For instance, Ikpor and Agha (2016) carry out study on the determinants of voluntary disclosure quality among listed firms in Nigeria. The results showed that size of the company has a decreasing impact on voluntary information disclosure. A possible explanation could be that most big firms are associated with top-level and positioned executives, some with political affiliations, thus they could afford to escape sanctions when they go against certain codes that the associated cost does not favour the firm. According to Klapper and Love (2004), firm size influences corporate governance quality ambiguously. On the one hand, bigger firms could

face greater agency costs due to their larger free cash flow, leading them to voluntarily adopt better corporate governance practices in order to mitigate this problem. On the other hand, smaller firms are expected to grow faster and, therefore, need more external financing. This could lead them to adopt better governance practices as well. Therefore, both would have different incentives to voluntarily achieve better corporate governance standards and performance. Again, the differences in the magnitude of impact could also be justified based on Institutional theory which maintains that the quality of institutions tends to influence corporate governance practices. The results in both the Nigerian and South African samples are in tandem with apriori expectation and prior studies that found positive association between firm size and corporate governance disclosure quality level (Wachira, 2018; Modugu & Eboigbe, 2017; Cunha & Mendes, 2017; Elfeky, 2017; Adefemi, Hasan & Fletcher, 2017; Rabiou & Ibrahim, 2017; Hieu & Lan, 2015; Alimohaadpour & Rahimi, 2014; Abdolreza & Mohd, 2014; Ghasempour & MdYusof, 2014; Jouirou & Chenguel, 2014; Barac, Granic & Vuko, 2014; Biswas, 2013; and Sukthomya, 2011). This implies that large firms most likely comply to appropriate corporate governance disclosure practices in most jurisdictions. The reasons for large firms' tendency to disclose more information are explained by Singhvi and Desai (1971) as cited in Uyar, Kilic, and Bayyurt (2013) as follows: accumulation and disclosure cost of information is not high compared to smaller firms; management of larger corporations is likely to realize the possible benefits of information disclosure, such as greater marketability and greater ease of financing; smaller corporations may feel that full information disclosure may endanger their competitive position.

On the second hypothesis, the null hypothesis that firm age has no significant relationship with corporate governance performance was rejected in the Nigerian model but accepted in South African models, the coefficient sign showed a positive relationship in both samples. The probability value for Nigerian sample is statistically significant which led to the rejection of the null hypothesis, however statistically insignificant for the South African samples which lead to the acceptance of the null hypothesis. It can be observed that the magnitude of change firm age has on corporate governance performance in the Nigerian samples is 3% unlike that of the South African sample with 0.1%, although insignificant. This suggests that older firms as seen in the Nigerian sample with average age of 33.7years exhibit better corporate governance performance of 3% than younger firm as seen in the South African samples

with average age of 32.2 years exhibiting 0.1% change in corporate governance performance. Concerning the projected nexus between firm age and corporate governance performance, there are several theoretical grounds to assume that older companies would likely disclose more information than younger ones. For example, the competition argument proposes that young companies are not likely to disclose full information about their financial results and position, because this may prove to be detrimental if sensitive information is disclosed to the established competitors. In contrast, old companies are less likely to be motivated to withhold such information since their competitive advantages cannot be easily challenged with increased disclosure (Hossain & Hammami, 2009). Bhuiyan (2010) also argue that firms that have been operating for a long time and have survived in the competitive market must have a strong system of corporate governance or are presumed to have an optimum level of corporate governance compliance (Biswas, 2013). The positive coefficients in both samples is in tandem with the apriori expectation and prior studies that found positive association between firm size and corporate governance disclosure quality level. The conjecturing that older firms are likely to have a more-established system of governance because they have had more time to improve their governance in response to internal needs or investor pressure, was fully supported by the studies of Alagla (2019); Rabiü and Ibrahim (2017); Modarres, Alimohaadpour, and Rahimi (2014); Biswas (2013); Hossain and Hammami (2009), and which all found significant positive relationships between firm age with voluntary disclosure. However, that notion was weakly supported by Haque, Arun and Kirkpatrick (2011) who found a positive, though statistically insignificant association between firm age and a corporate governance quality measure.

### Recommendations

In view of the findings and conclusions drawn from the results of the study, the following recommendations were proffered by the study:

1. Given the findings that bank size has a significant impact on corporate governance performance in both samples, banks' regulatory authorities should ensure compliance with corporate governance regulations as they expand. Large banks may experience higher agency costs as a result of their free cash flow, which, if not managed properly, could result in an escalating agency problem.
2. Considering that older banks discloses more than younger banks, a more competitive environment should be created which will further aid banks to

have a strong system of corporate governance as this will further attractive potential investors.

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