



Corporate Governance and Capital Structure of Privatized Companies in Nigeria: A Critical Analysis of Leverage Ratio of Ashaka Cement Company

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Abstract

The paper examines the impact of Corporate Governance on capital structure of Ashaka Cement Company. The variables studied were leverage ratio as dependent variables and Corporate Governance proxies as independent variables. Data was obtained from the secondary sources, and the statistical tools employed in the Methodology were; Performance Trend Analysis and OLS regression. The trend analysis result reveals that, post-privatization period has higher firm value, government relinquished ownership in totality, and foreign ownership has concentration shares, low work force. Percentage of non management staff declined shapely, while, pre-privatization periods has smaller board size and percentage of management staff. In both periods, board chairman is not the CEO and Chairman Audit Committee was a non-executive director. Comparatively, Leverage ratio was higher pre-privatization period. The inferential statistic result reveals that, Privatization policy, workforce, board size have positive and significant impact on company's performance (LEV). While Total Market Value of Shares and Percentage of Non Executive Directors have negative and significant impact on company's performance (LEV). However the minority ownership has positive and insignificant impact on company's performance (LEV). The study concludes that, corporate governance has significant impact on Ashaka Cement Company even though; unfavourable macroeconomic environment militated against its efficiency. The study recommends that, Nigerian government should ensure favorable macroeconomic environment such as stable exchange rate and low interest rate in order to create fevourable environment for the importation of spare parts, cheap credit and effective demand from private sector. The corporate governance should be using retained earnings and equity financing in order to enhance positive capital structure that is devoid of debt burden. Introducing better management of inventories and prudent financial management is paramount in mitigating increase in leverage. The company should also, create a subsidiary in building industry through participation in building affordable mass housing for owner's occupier, hotels, market shops and shopping complex across the country.

Keywords: Corporate Governance, capital structure, Privatization and Ashaka Cement Company

JEL Classification: G30, G32, G33

Contribution to/Originality Knowledge

1.0 Introduction

Corporate governance has responsibility to exercise Duty of Care in the choice of optimal combination of capital structure between equity and debt financing in order to protect stakeholders, enhance; profitability, business growth and sustainability. A healthy capital structure is paramount to both private and public corporations corporate governance; it is revealing the effectiveness of Board of Directors on supervisory responsibility and



Management prudence in financial operations, management and investment. In fact, financial institutions are using capital structure as a yard stick for assessing credit worthiness of a firm and evidence of prudent financial management of firm's liquidity. Similarly, rational investors consider issue of capital structure and business prospect first in their investment decision before any other thing.

Unlike public corporations, private firms are meticulous in organizing their capital structure, they always prefer using retained earnings and equity financing in operation and investment activities than using debt financing indiscriminately, because it is costly. In addition to that, the fundamental goal of their businesses investment is the desire to maximize profit and personal gains. In view of that, their corporate governance is always avoiding unprofitable decisions as well as framed to restrain prodigality and enhance efficiency. Contrary wise, according to Masu-Gombe (2022), the corporate governance of public corporations is designed to serve both public and economic interest of the nation. This desire gave the corporations' managements and other stakeholders' opportunity to divert corporate resources to promote social needs as against the economic needs that would enhance and sustain the productivity of the corporations. Consequently, they built unhealthy capital structure which threw public enterprises, globally, into financial crises that caused a serious financial liability on the fiscal responsibilities of the capitalist economies in the early 1970s (Nellis, 2006). In view of that, British government and some members of Organisation of Economic Cooperation and Development (OECD) countries introduced privatization policy as a remedy. Fortunately, the success of the policy in containing the inefficiency of corporate governance of public corporation and enhancing national productivity, thus, privatization is a natural experiment to examine how corporate governance mechanism evolves, interact and affects firm's performance (Boubakri and Cosset, 1999).

Nigerian government introduced privatization policy in 1986, unfortunately, policy inconsistency affected it efficacy. Before the introduction of the policy, Cement Companies were absolutely owned by Federal Government of Nigeria, to that effect, the companies were enjoying a lot of privileges and support from government such as; aid, grand and credit subsidy, these privileges created an opportunity for the board of Directors and the Management to collect credit indiscriminately to finance operations and short term investment needs, which resulted to increase in leverage ratio of the companies. This assertion was confirmed in the empirical studies of Masu-Gombe (2015) where performance trend analysis result establishes that, leverage ratio of the cement industry is higher pre-privatisation than post-privatisation.

The research focused on impact of corporate governance on the performance of Ashaka Cement Company for the period 1991 – 2011. The choice of this period was informed by the desire to have equal years between pre and post privatisation policy, in order to make a valid discernment. However, the limitation of the study are the used of secondary data that is subject to companies' internal manipulations, which is well known to every researchers. In this regard, the researcher used the certified data from Annual Reports of Ashaka Cement Company and BPE Reports respectively, however, lack of serial and consistent annual reports beyond 1991 constitute another limitation.

What actually distinguishes this research paper from the previous papers reviewed in the literature are; comparative analysis was made on the changes that happened to corporate governance indicators pre and post privatisation, secondly, performance trend analysis result identified the endogenous and exogenous factors that affected the performance indicators over the observational period, in which, in all the papers reviewed we have not seen a single paper with that perspective, thirdly, a wide range of fourteen indicators of corporate governance were used in the model as against the common practice of the papers reviewed that are using a minimum of 2 and maximum of 5 indicators. The paper is organized in the following subheadings; Introduction, literature review and theoretical frame work, Methodology, result interpretation and analysis, Conclusion and Recommendations.



2.0 Literature Review

2.1 Concept of Corporate Governance

Boubakri, Turnball and Dyck as cited by Masu-Gombe (2021) view corporate governance as institutional framework that influences the integrity of transactions, resource allocations, returns on investments, and at the same time, determines the control and direction of the corporation's delegated decision making for the production of goods and services in the best interest of the corporation's owners. It encompasses all set of processes, customs, policies, laws and institutions that ensure credible flow of information, accountability and transparency with a view to achieving long term strategic goals of stakeholders (Wikipedia, 2010). Furthermore, Okeahalam & Akinbode (2003) assert that corporate governance comprises the establishment of appropriate legal, economic and institutional environment that permits corporations to operate as entities for promoting shareholders value, maximising human centred development and discharging responsibilities to stakeholders, environment and the society in general. In line with these conceptual views, Salacuse & Braker (2002), La Porta, et al., (2002) and others, define corporate governance as a system of rules and regulations which determine the control and direction of the corporation as well as define relationship among the corporate primary participants (Salacuse & Braker, 2002). It is a set of mechanisms through which outside investors protect themselves against the expropriation of the insiders (La Porta, et al, 2002). Thus, expropriation means; direct theft, selling firm security below market price to management staff, mostly, in firms that management controlled. And it also means investor's dilution, diversion of corporate opportunities, installing incompetent family members on managerial position and wasteful project (Salacuse, & Braker, 2002). O'Donovan, as cited by Wikipedia (2010) defines corporate governance as an internal system encompassing policies, processes and people which serve the needs of shareholders and other stakeholders by directing and controlling management activities with good business savvy, objectivity, accountability and integrity.

In summary, corporate governance is a systematic social relation among corporate participants, guided by constitutional provisions, business ethics, and corporate internal regulations, aimed at protecting the rights and privileges of principals, obligation of agents and other stakeholders via incentives, transparency and accountability that will enable the corporation to achieve long-term objectives of operational and financial efficiencies plus excellent return on investment that will uplift firm value (Masu-Gombe 2021).

2.2 Concept of capital structure

According to Tuovila, James and Rathburn (2023) Capital structure is a combination of debt and equity used by a company to finance its overall operations and growth. It is a mixture of a company's long-term debt, short-term debt, common stock, and preferred stock. Based on the above postulation, capital structure is a debt-to-equity ratio used by a corporation in financing business operation and investment. They further state that what defines a healthy combination of debt and equity are; stage of development, time frame, external changes in interest rates and regulatory environment. In addition to that, Javaid, Nazir, and Fatima (2021) find that some conventional determinants of capital structure, include; firm's size, asset structure, profitability,

business risk and growth. Selecting an optimal level of debt and equity for the capital structure is key to minimize the cost of capital and maximize shareholder value with the best management of risk and return of the firms (PeiZhi and Muhammad 2020). Unfortunately, there is no magic ratio of debt to equity to use as guidance to achieve real-world optimal capital structure (Tuovila, James and Rathburn, 2023). For instance, Capital-intensive industries like auto manufacturing and financial institutions may utilize more debt, while labour-intensive or service-oriented firms like software companies and agricultural industries may prioritize equity. Investors can monitor a firm's capital structure by assessing the Debt-to-Equity ratio and comparing it against the company's industry peers. This enable them to study how risky a company's borrowing practices are. Even though, the industry that a firm belongs to, is one of the major determinants of its capital structure. On the issue of who is responsible for deciding the optimal capital structure of a firm, it seems Tuovila, James and Rathburn, (2023) & PeiZhi and Muhammad (2020) have a common stand that, it is the responsibility of corporate governance, particularly, the managers.

Scholars categorized companies that are heavily financed by debt as having more aggressive capital structure and, therefore, poses a greater risk to investors and creditors. This risk, however, may be the primary source of the firm's growth. Too much equity, however, could mean the company is underutilizing its growth opportunities or paying too much for its cost of capital as equity tends to be more costly than debt (Tuovila, James and Rathburn, 2023). This argument on cost of equity has appeared to be weak, because in developing economies like Nigeria, banks are charging 22% interest rate plus inflation rate 22% again, how can you say equity is costly?

Debt is a fund borrowed from individuals, banks and capital markets that attract interest payment. It comes in the form of bond issues, long term loans and short-term debts (Tuovila, James and Rathburn, 2023). Debt consists of borrowed money that is due back to the lender, commonly with interest expense. In most of the capitalist economies, interest rate is a tax-deductible, therefore, companies benefit from debt financing in two capacities; interest expense that is tax-deductible which reduces cost of capital and consequently, increase firm value (Tuovila, James and Rathburn, 2023& PeiZhi and Muhammad 2020). Debt also allows a company or business to retain ownership, unlike equity. Additionally, in times of low interest rates, debt is abundant and easy to access. //However, study of PeiZhi and Muhammad (2020) find that high cost of debt financing puts downward pressure on corporations due to higher cash flows in the form of interest costs, even though, leverage ratio improves accounting performance, but it adversely impact on the share prices of listed firms. With regards to equity financing, Tuovila, James and Rathburn, (2023) posit that equity capital arises from ownership shares in a company and claims to its future cash flows and profits. Equity may come in the form of common stock, preferred stock, or retained earnings. Equity consists of ownership rights in the company, without the need to pay back any investment. Equity allows outside investors to take partial ownership of the company. High equity financing is better for the growth and performance of organizations (PeiZhi and Muhammad 2020). Equity is more expensive than debt, especially when interest rates are low. However, unlike debt, equity does not need to be paid back. This is a benefit to the company in the case of declining earnings. On



the other hand, equity represents a claim by the owner on the future earnings of the company. Thus, It is calculated by dividing total liabilities by total equity (Tuovila, James and Rathburn, 2023). In fact investors prefer equity finance in Nigeria than debt finance from our banks because of uneconomic open and hidden charges on loanable funds.

2.3 Concept of Privatization

Aktan (1991) postulates that privatization has narrow and broader meanings. The narrow meaning defines privatization as the sale of publicly owned enterprises' asset or shares partially or fully to private sector. On the other hand, the broad meaning defines privatization as transfer of functions previously performed exclusively by the public sector to the private sector. It encompasses all methods or policies implemented to increase the role of market forces within an economy. He further states that privatization and denationalization are mostly confused and used interchangeably in literature. Denationalization is the transfer of 51% or all shares or assets of publicly owned enterprises to private sector. If we critically observe the meaning of denationalization it is almost the same with the narrow meaning of privatization.

Privatization provides enabling environments for efficient corporate governance mechanisms operation. It encourages countries to embark on legal framework reform that will suit market oriented economic system. Krakovsky (2000) posits that privatization compels countries to promulgate laws that enhance shareholders' right, investors' protection, and strengthening the board monitoring function. The laws will spell out the responsibilities of all corporate participants which mitigate the conflict between the management and other stakeholders. This creates a conducive atmosphere for the board of directors and the management to exercise their rights and duties without much conflicts. It makes the corporate governance of the privatized firms reflect the interest of shareholders and support the role of other stakeholders.

Privatization changes the position of directors from passive and crisis manager to proactive by empowering them with the authority to monitor company and management's performance as well as granting them access to current and viable information. Withdrawal of impediments to accurate and timely flow of information makes the directors to get acquainted with burning issues requiring immediate attention and their involvement in the activities of the company, permit them to have a forceful voice to express opinion, investigate issues and allegations thoroughly, and moreover, restrain management from disregarding their observations and recommendations. This development, creates conducive atmosphere for mutual understanding, respect as well as effective decision making between the directors and management (Donaldson, *et al.*, 1995, Salmon 2000).

Privatization creates competition and market scrutiny that discipline managers and force privatized firms to adhere to accounting standard in financial and operating activities (Grossfield and Iraj 2003, Vitezić, 2004). It enhances corporate governance's allocative and productive efficiencies, widespread private ownership, and above all, brings an end to inefficiency of public enterprises.

2.4 Trade-Off Theory of Capital Structure

Modigliani and Miller (1958) argue that companies should determine the optimal mix of debt and equity financing that balances the benefits and costs of each source, taking into account factors such as the company's risk profile, expected future cash flows, and the tax implications of each source of financing. This can be achieved when the trade-off between debt and equity is balanced, maximizes a firm's value and minimizes its cost of capital. So also, the marginal benefit of using debt is equal to the marginal cost of using debt, a trade-off between interest tax shields a company may enjoy when using debt, and the cost of financial distress when the debt becomes overwhelming. PeiZhi and Ramzan (2020) posit that, having a best financing level of debt and equity will save corporation from unnecessary financial crises. Therefore, managers have to exercise duty of care in making an appropriate choice of capital structure with consideration of trade-off between interest tax shields and the cost of financial distress that will definitely safeguards the wealth of the shareholders and the general interest of other stakeholders. Some financial analyst attributed the causes of 1997 financial crises of most of global firms to corporate governance mismanagement of capital structure by using excessive debt financing. The trade-off theory of capital structure can help traders and investors to evaluate the valuation of a stock as part of fundamental analysis.

Despite the role of the model in emphasizing the importance of capital structure on business prosperity, guidance to prospective investors and financial analyst as well as revealing the advantage of debt financing, still scholar like Hengjie, Frank and Sanati (2021) and Tuovila, James and Rathburn (2023) identified some limitation of the model. They argue that, the theory overemphasized on tax benefits due to interest payments tax-deductibility, actually, in developing economies of Africa this may not always be the case, in some instances the tax benefits of debt financing may be offset by higher interest rates or other costs, e.g. in Nigeria where the interest rate is above 22%, which type business can you do that will fetch you, cost of capital at 22%, inflation rate at 22% and give you a reasonable margin as profit that can sustain your business? The answer is non. The assumption that perfect capital markets, homogeneous investors, and fixed costs of financial distress exist is not realistic. In reality, financial markets are complex and imperfect, and investor preferences and behaviours can vary significantly from one industry to another. Furthermore, the theory has applicability constraint, because the trade-off may not be applicable to all companies or industries, as different companies may have different risk profiles, borrowing capacity, and capital market conditions. For example, companies in emerging industries or with limited track records may face greater difficulty in securing debt financing. Non-financial factors such as reputation, corporate governance, and social responsibility, which can also influence the company's financing decision have nothing to do with tax benefits and costs of financial distress. Industry peculiarity made the prediction of optimal capital structure vogue. For instance, financial institution are capital intensive that require more debt than equity. Therefore, Companies must make their own decision based on their unique circumstances and strategic objectives.

In a nutshell, despite the limitations of the theory mentioned above, still the theory built a concrete ground for the importance of optimal capital structure, benefit of debt financing and highlighted the limitations of equity financing in economies that have efficient financial system



and stable monetary policies. However, I doubt much, too, if the model prediction can work efficiently on developing economies.

2.5 Empirical Review on Corporate Governance and Capital Structure

Chen (2018), Itopa, Musa and Yahaya 2019, Javaid, Nazir, and Fatima (2021) examines Corporate governance and Capital Structure of firms and find that, corporate governance influences firms' leverage choices, board size and board composition, non-executive directors, independent director and ownership concentration, have statistically significant direct effect on the firm's financing decisions on total debt ratio and long-term debt ratio. With regards to CEO/Duality, Itopa, Musa and Yahaya (2019) find that CEO duality has insignificant impact on firm financing decision, contrary wise, Javaid, Nazir, and Fatima (2021) find that, CEO/Chair duality have statistically significant direct effect on the firm's financing decisions. On the issue of ownership and capital structure, Group ownership has short term debts repayment ability, low leverage, faster revenue and total asset growth and transparency but weak corporate governance mechanisms and lower share value in Pakistan (Ghani, and Ashraf, 2005). Individual and institutional ownership has significant impact on performance most especially high banks ownership, whereas minority holding of non-bank financial firms has negative relation with Leverage ratio (Badunenko, Karber, and Schafer, 2010, Chen 2018, PeiZhi and Ramzan, 2020, Javaid, Nazir, and Fatima, 2021). The same thing with control variables such as profitability and liquidity are negatively related to total debt ratio and long-term debt ratio, whereas firm size is positively related (Itopa, Musa and Yahaya, 2019). In case of ownership and restructuring, empirical studies of Sami, Wang and Zhou (2009) documented that both domestic and foreign ownership stimulate restructuring. Managerial ownership is negatively related to long-term debt ratio (Itopa, Musa and Yahaya (2019), however, in the study of Javaid, Nazir, and Fatima (2021) Managerial ownership have statistically significant direct effect on the firm's financing decisions, whereas director remuneration is negatively related to firm decision (Chen, 2018).

Based on the above empirical studies reviewed, corporate governance, particularly, concentration and institutional ownerships have negative relationship with debt financing and the manager is a key player in determining capital structure.

2.6 Privatization and capital structure

The earlier mentioned privileges of public corporations created incentive to their corporate governance to indulge in collecting unnecessary loans to finance investments or to improve working capital, which consequently threw them into financial predicament that resulted to their privatization (Masu-Gombe, 2015). Fully knowing the implication of capital structure on firm profitability, global practice shows that, rational investors exercise absolute care in bargaining for public corporations with debt burden. According to Jeron (2008), private buyer mostly does not like the burden of debt even when the sale price is discounted by the amount of the debt that is why they used to request for cash flow compliment to reduce risk and financing new Investments. Admirably, debt write-down is a common practice for privatizing government around the globe. Boubakri and Cosset (1998) find that, leverage decline

significantly post privatization due to debt write-down, sometimes due to equity capital infusion in executing primary issue, but in most cases due to higher retained profit. Furthermore, Jeron (2008), find that, leverage decreases in private firms because of government removal of debt grantee that increased the cost of borrowing. This reason created disincentive for new corporate governance of privatized firms that are profit oriented to embark on reckless borrowing to finance new investment or for enhancement of working capital post-privatization (Masu-Gombe, 2021).

Privatization brings about financial and operational restructuring that enhances corporate governance. Operational restructuring embodies replacement or improving production process and machineries, reduction in employment, changing the combination of management and board of director's membership, reorganizing work force and the procedure of channeling information and delegation of powers. The other form of restructuring is the financial restructuring which comprises restructuring financial reporting procedure, leverage ratio and sources of short-term and long-term finances. Dsouza, Meggison and Nash (2006) conducted an empirical study on the effect of change in corporate governance and restructuring on operating performance of privatized firms. The results suggest that profitability has significant relationship with state ownership and restructuring, but negative relationship with employment. Real sales have positive relationship with restructuring and output. Efficiency result suggests that restructuring has increases sales efficiency, resources deployment efficiency, operational efficiency and reduction in employment. Adeyemi, and Fagbemi, (2010) study the Audit quality, corporate governance and firm characteristic in Nigeria. The result suggests that non-executive directors' ownership, firm size, and leverage have positive and significant influence on Audit quality. Dsouza, Meggison, and Nash, (2001), Birdsall and Nellis, (2002) find that, privatization affects financial and operational performance by significantly increasing firm profitability, real sales, operating efficiency, capital expenditure, investment and dividend policies, output as well as decrease leverage. Privatized firm's corporate governance is more efficient than state own firm (Meggison, and Netta, 2002), because they improve coverage, service quality and reliability as well as prices decline (Delfor and Casarin 2001 Parede, 2001; Arosena 2001; Barjar and Uguiola, 2000).

3.0 Methodology

Data spanning from 1991 to 2011 was sourced from the annual report of the company, Bureau of Public Enterprises reports and Security and Exchange Commission reports. However, it proves difficult to ascertain consistent and serial annual reports of the company beyond 1991, even at Ashaka Cement Library, talk less of BPE and SEC. Performance Trend Analysis and OLS regressions were used to analyze the data. Higgins (2003) opines that, the efficient means of evaluating trend of firm's performance is performance trend analysis. Therefore, performance trend analysis was employed to identify the factors affecting corporate governance efficiency on the performance of the company and the changes that occurred comparatively. Ordinary Least Square Regression model establishes the relationship between the Dependent and Independent Variables, which examines the significance impact of corporate governance on the capital structure of privatized cement companies in Nigeria. Leverage Ratio (LEV) was used as dependent variable. It is defined as long-term

borrowings/debt divided by the total shareholders' ordinary fund plus long-term debt. The researcher employed Performance Trend Analysis to serve objective one and OLS regressions to serve objective two.

Leverage Ratio

Debt to total capital ratio, measures the financial leverage of a firm. It was hypothesized that if a firm used debt to finance the increased operations, the firm could potentially generate more earnings than it would have without outside financing. It is a Gearing ratio defined as long-term borrowings/debt divided by the total ordinary shareholders' fund plus long-term debt. The coefficient was expected to be positive since greater borrowing implied that lenders/banks played a greater monitoring role. A high debt to total capital ratio generally means that a company had been aggressive in financing its growth with debt. The ratio reduced the free cash flows, exposed firm to more market monitoring and induced fear of default in meeting loans obligations which motivated financial prudence and forces efficiency in firm performance. However, it causes bankruptcy cost or debts agency cost which consequently intensify cash crunch (Aljifri and Moustafa, 2007).

DEPENDENT VARIABLE

Thus

$$LEV = \frac{TD}{TA} = \frac{CL + LTL}{FA + Ca}$$

Where

LEV= leverage ratio

TD = Total Debts

TA = Total Assets

CL = Current Liability

LTL= Long Term Liability

FA = Fixed Assets

CA = Current Assets

HYPOTHESIS

Null Hypothesis: Corporate Governance does not have significant impact on the performance (Leverage Ratio) of Ashaka Cement Company.

Alternative Hypothesis: Corporate Governance has significant impact on the performance (Leverage Ratio) of Ashaka Cement Company.

$$\text{LEV}_{it} = \beta_0 + \beta_{01}\text{TMVS}_{1it} + \beta_{02}\text{STOWN}_{2it} + \beta_{03}\text{INST}_{3it} + \beta_{04}\text{MINOWN}_{4it} + \beta_{05}\text{FOREI}_{5it} + \beta_{06}\text{BSIZE}_{6it} + \beta_{07}\text{PED}_{7it} + \beta_{08}\text{PNED}_{8it} + \beta_{09}\text{DUAL}_{9it} + \beta_{010}\text{CACNE}_{10it} + \beta_{011}\text{WF}_{11it} + \beta_{012}\text{PMS}_{12it} + \beta_{13}\text{PNMS}_{13it} + \beta_{14}\text{PRIV}_{14it} + u_{it}$$

Thus, the Corporate Governance proxies (Independent Variables) are defined as follows;

- i. TMVS: Total Market Value of the Shares measures the Company's market capitalization. Its expected coefficient is positive, because, it reveals the level of investors' patronage and their assessment on the quality of the company's corporate governance.
- ii. STOWN: Measures the proportion of State Ownership in the company. The larger the proportion, the higher is the undue government interference. Therefore, its expected coefficient is negative which implies that restructuring will be difficult in the company.
- iii. INST: Institutional Ownership measures the proportion or percentage of institutional investors' ownership in the company. In view of that, its expected coefficient is positive which means that, the higher the proportion, the greater is the monitoring role of institutional investors. It also implies that managers would be under pressure to meet the expectations of institutional investors.
- iv. MINOWN: Minority ownership measures the proportion of minority shareholding in the company. The higher the proportion of their ownership, the higher the insiders' expropriation due to monitoring cost. However, the expected coefficient is negative, this is because, and the management will have incentive to connive with concentrated shareholders to promote their personal interests as against the minority owners.
- v. FOREI: Foreign ownership measures the proportion of foreign investment shareholding in the company. The coefficient is expected to be positive, because, the higher the proportion of their ownership, the greater the possibilities of infusing new talents, new technologies and restructuring in the company. This implies that operational and financial reorganization will take place for a better performance.
- vi. BSIZE: the total number of directors in the board of directors measures the efficiency of delegated decision making and the level of investors' protection on company's operations. The expected coefficient is positive, because, cohesiveness of the Board members and having diverse expertise and experience may enhance the company performance. However, unwieldy group on the other hand may be detrimental to performance.
- vii. PED: the Percentage of Executive Directors on the board of directors. It is defined as the number of Executive Directors divided by the total number of directors on the board of the company. The coefficient expected sign is positive, i.e., the lower the proportion, the more independent is the board in making decisions.
- viii. PNED: the Percentage of Independent Directors on the board of directors. It is defined as the number of independent directors divided by the total number of directors on the board of the company. The coefficient expected sign is positive, i.e., the higher the proportion, the more independent is the board in making decisions.
- ix. DUAL: a binary variable representing CEO's who also double up as the Chairman of the board of directors. This variable takes the value of one if the CEO/Managing



Director performs the dual role; otherwise it takes a value of zero. The coefficient expected sign is negative. This is because the effectiveness of the board as an internal governance device will be perceived to have been compromised by the roles not being separated. On the other hand, a unity of command structure can motivate the CEO to strive for excellent performance. If this is the case, the coefficient's sign is expected to be positive.

- x. CACNE: a binary variable representing the Chairman of the Audit Committee. If the Chairman of the Audit Committee is a nonexecutive director, the variable takes the value of one; otherwise, this variable takes a value of zero. This serves to test the degree of independence of the audit committee. An independent chairman is expected to contribute to a more rigorous regime of monitoring and therefore improves performance of the company.
- xi. WF: Work force measure the total number of the company employees. It reveals the impact of privatization on work force. The coefficient expected sign is negative. Higher size means higher cost of corporate governance.
- xii. PMS: it measures the percentage of management staff that is directly involved in the corporate decision making and policy implementation in the company. It is defined as the number of management staff divided by the total number of the workforce of the company. The coefficient expected sign is positive.
- xiii. PNMS; it measure the total number of company employees that are not involved in the corporate governance. It is defined as the number of non management staff divided by the total number of the workforce of the company. It reveals the impact of privatization on work force. The coefficient expected sign is negative, because, the higher the size the higher the cost of corporate governance.
- xiv. PRIVt: Privatization with time which is dummy variable. The expected coefficient is positive, because, privatization will promote corporate governance efficiency that will impact positively on company's performance.

4.0 Result and Discussion

Changes in the Corporate Governance of Ashaka Cement Company

Under this subheading, the result furnished us with information about ownership structure, size of the board of directors and structure of the workforce of Ashaka Cement Company at pre and post-privatization periods and elicited the changes that took place on the variables within the observation period. The table presents the distribution of the results.

Table 4.1: Distribution of Corporate Governance Indicators of Ashaka Cement Company (Independent Variables)

OBS	TMVS	STOWN	INST	MINOWN	FOREI	BSIZE	PED	PNED	DUAL	CACNE	WF	PMS	PNMS	PRIVt
1991	323778000	38.6	7.4	29	25	9	22.22	77.78	0	1	1566	0.383142	99.61686	0
1992	485667000	38.6	7.4	29	25	11	18.18	81.82	0	1	1589	0.377596	99.6224	0
1993	485667000	38.6	7.4	29	25	11	18.18	81.82	0	1	1807	0.332042	99.66796	0
1994	7285005000	38.6	7.4	29	25	10	20	80	0	1	1859	0.322754	99.67725	0
1995	7285005000	38.6	7.4	29	25	11	18.18	81.82	0	1	1831	0.32769	99.67231	0
1996	6060460000	38.6	7.4	29	25	11	18.18	81.82	0	1	1861	0.322407	99.67759	0
1997	121475	38.6	7.4	29	25	13	15.4	84.62	0	1	1754	0.342075	99.65792	0
1998	121475	38.6	7.4	29	25	13	15.4	84.62	0	1	1705	0.351906	99.64809	0
1999	121475	38.6	7.4	29	25	13	15.4	84.62	0	1	1711	0.350672	99.64933	0
2000	121475	38.6	7.4	29	25	8	25	75	0	1	1640	0.365854	99.63415	0
2001	121475	0	0.16	49.84	50	13	15.4	84.62	0	1	1573	0.381437	99.61856	1
2002	121475	0	0.16	49.84	50	12	16.7	83.33	0	1	769	0.780234	99.21977	1
2003	18202135	0	0.16	49.84	50	13	15.4	84.62	0	1	769	0.780234	99.21977	1
2004	18202135	0	0.16	49.84	50	13	15.4	84.62	0	1	688	0.872093	99.12791	1
2005	303541875	0	0.16	49.84	50	11	18.18	81.82	0	1	688	0.872093	99.12791	1
2006	3541321875	0	0.16	49.84	50	13	15.4	84.62	0	1	671	0.894188	99.10581	1
2007	351321875	0	0.16	49.84	50	13	15.4	84.62	0	1	662	0.906344	99.09366	1
A2008	4131542188	0	0.16	49.84	50	13	15.4	84.62	0	1	655	0.916031	99.08397	1
2009	4647984957	0	0.16	49.84	50	13	15.4	84.62	0	1	653	0.918836	99.08116	1
2010	4131542188	0	0.16	49.84	50	13	15.4	84.62	0	1	658	0.911854	99.08815	1
2011	4647984961	0	0.16	49.84	50	11	15.4	84.62	0	1	655	0.916031	99.08397	1

Source: Author's computations

KEYS: Observations (OBS), total market value of shares (TMVS), state share ownership (STOWN), column 4 institutional ownership (INST), minority ownership (MINOWN), foreign ownership (FOREI), board size (BSIZE), percentage of executive directors (PED), percentage of non executive directors (PNED), duality of board chairman and chief executive officer (DUALITY), chairman Audit committee non executive director (CACED), firm size (FSIZE), workforce (WF), percentage of management staff (PMS), percentage of non management staff (PNMS), and privatization with time (PRIVt) which is a dummy variable.



The Table 4.1 reveals that prior to privatization, the total market value of shares (TMVS) of Ashaka Cement Company was ₦323,778,000.00 in 1991, ₦485,667,000.00 in 1992 and 1993, while it remarkably rose to ₦7,285,005,000.00 in 1994 and 1995. These values reveal that the company had floated share in 1993 which were subscribed by investors, which indicates investors satisfaction with the quality of the company's corporate governance and its overall performance. However, the market capitalization declined to ₦6,060,460,000.00 in 1996 and later rose to ₦121,475,000.00 from 1997-2002. Furthermore, post-privatization market value of the company shares was ₦18,202,125.00 from 2003 to 2004. The market capitalization rose to ₦303,541,875 in 2005 and ₦354,121,875 in 2006. The value, again, declined to ₦351,321,875 and rose to ₦413,1542,188 and ₦4,647,984,957 in 2007-2009. Similarly, it declined to ₦4,131,542,188 in 2010 and rose to ₦4,647,984,961 in 2011 respectively. Comparatively, post-privatization period has higher firm value than pre-privatization periods.

The result of Table 4.1 also discloses that the ownership of the company was highly concentrated in the hands of government before privatization. Thus Government had 38.6% from 1991 to 2000, institutional ownership was 7.4%, minority ownership was 29% and foreign ownership was 25%. However, in post-privatization era, the percentage of state ownership became 0%, institutional ownership became 0.16%, minority ownership 49.84% and foreign ownership became 50%. This implies that government relinquished ownership in totality; however, the ownership of the company post-privatization is absolutely private with foreign ownership concentration.

Furthermore, the result on Table 4.1 suggests that Pre-privatization board size was 9 members in 1991, 10 members in 1994, 11 members in 1992, 1995 and 1996. It rose to 13 members from 1997 to 1999 and the size declined to 8 members in 2000. The result reveals that Post-privatization, the board size was 13 members in 2001, 12 in 2002, 13 members in 2003 and 2004. The size decreased to 11 members in 2005, rose to 13 members from 2005 to 2010 and decreased to 11 members in 2011 accordingly. The board membership exhibited similar behaviour pre and post-privatization in terms of board size. The result suggests that pre-privatization periods have smaller size as compared to post-privatization.

With regards to the percentage of executive directors and percentage of non-executive directors, pre-privatization result reveals that executive directors were 22.22% in 1991 and declined to 18.18% in 1992 and 1993. It later rose to 20% in 1994 and declined steadily to 18.18% in 1995 and 1996. From 1997 up to 1999 the percentage pegged at 15.4%. It suddenly rose to 25% in 2000. Similarly, post-privatization result revealed that percentage of executive directors was 15.4% in 2001, 16.7% in 2002 and declined to 15.4% in 2003 and 2004. Admirably, the percentage rose to 18.18% in 2005, and declined to 15.4% from 2006 to 2011. Accordingly, the result of percentage of non executive directors reveals that the percentages were 77.78% in 1991, 81.82% in 1992-1993, 80% in 1994, 81.82% in 1995 and 1996. It rose to 84.62% in 1997 up to 1999. However, it declined to 75% in 2000. Post-Privatization result suggests that the Non-Executive Directors were 84.62% in 2001, 83.33% in 2002, 84.62% in 2003-2004, 81.82% in 2005, and 84.62% in 2006-2011. Post privatization has lower percentage of executive directors and higher percentage of non executive directors.

The results of duality, which means one person holding a stewardship of board Chairman and chief Executive Officer of the company simultaneously reveals that there was a separation of power between the two positions in both observational periods. In case of Chairman Audit Committee Non-Executive Director, the result also reveals that the Chairman Audit Committee was a non-executive director throughout the periods. Impliedly, the boards of director's financial reports were free of the management manipulations. Hence, in both periods; no duality and the chairman audit committee is non executive director.

The total number of the workforce pre-privatization was 1566 in 1991, it rose to 1568, 1809 and 1859 in 1992, 1993, and 1994, respectively and it later declined to 1831 in 1995 and rose to 1861 in 1996. It steadily declined again to 1754, 1705, 1711, 1640, in 1997, 1998 and 1999 and rose to 1754 in 2000. Post-privatization result shows that the employees were 1573 in 2001, 769 in 2002 and 2003, declined to 688 in 2004/2005, 671, 662, 655, 653 in 2006, 2007, 2008 and 2009 respectively. It rose to 658 in 2010 and declined to 655 in 2011. The result shows that post privatization has low work force.

In the case of percentage of management staff, the result shows that the percentage of management staff was 0.38% in 1991/1992, 0.33% in 1993, 0.32% in 1994, 0.33% in 1995, 0.32% in 1996, 0.34% in 1997, 0.35% in 1998/1999, and rose to 0.36% in 2000. Post-privatization results reveal that the percentages were 0.37% in 2001, 0.38% in 2002, 0.78% in 2003 and 2004, 0.87% in 2005 and 2006, 0.89% in 2007, 0.91% in 2008, 0.92% in 2009, 0.92% in 2010, 0.91% 2011. Percentage of non-management staff was 99.62% in 1991, 99.62% in 1992, 99.67 in 1993, 99.68% in 1994, 99.67% in 1995, 99.68% in 1996, 99.66% in 1997, 99.65% in 1998, 99.65% in 1999, and 99.63% in 2000. Post-privatization result shows that percentage of non-management staff was 99.62 in 2001, 99.22% in 2002, 99.22% in 2003, 99.13% 2004, 99.13% in 2005, 99.11% in 2006, 99.10% in 2007, 99.10% in 2008, 99.10% in 2009, 99.10% in 2010, 99.10% in 2011. The percentage of management staff was high post privatization while the percentage of non-management staff declined shapely.

Challenges of Corporate Governance Efficiency on the Performance Leverage ratio (LEV) of privatised Ashaka Cement Company

Table 4.2: Trend Analysis of Performance Results of Ashaka Cement Company

Observation	Leverage Ratio %
1991	8.3%
1992	11%
1993	9%
1994	13.3%
1995	13%
1996	10%
1997	9.4%
1998	2.3%
1999	10%
2000	10%



2001	
2002	9%
2003	9.4%
2004	9%
2005	9%
2006	7%
2007	0.03%
2008	6.2%
2009	6.2%
2010	6.2%
2011	9%

Source: Author's computations

However, the negative effect of the micro and macroeconomic situations, threw the company into a financial predicament that compelled the board of directors to approve the management request for increasing leverage to enable them have smooth daily operations and capital investment. Evidence of this decision manifested in leverage ratio result, where the debt financing of the company's assets increased from 8.3% in 1991 to 11% in 1992. Admirably, this board decision, safe guarded the confidence of the creditors particularly those with contract of receiving interest repayment and the ability of the company to meet the obligations of suppliers and distributors. Therefore, the board exercised duty of care and directed the management to pay off some of the company's obligations, which drastically reduced company's leverage from 11% in 1992 to 9% in 1993.

Banks strike in 1994 created a serious problem in financial market and became a serious obstacle in obtaining loan facilities to finance transactions of company's suppliers, distributors and sourcing of soft loan to augment working capital and short term investments. In an effort to rescue the company from this financial predicament, the board of directors resorted to a long term loan contract arrangement which increased the company's leverage to 13.3% in 1994 which was the maximum debt assets financing pre privatization. Fortunately, Government stabilized interest rates and exchange rates between 1995 to 1998, which culminated in increasing company's earnings and the reduction of leverage ratio to 13% in 1995, 10% in 1996 9.4% in 1997 and 2.3% in 1998 which was minimum ratio of debt financing in pre privatization period respectively. However, the Leverage ratio rose to 10% in 1999 and 2000 respectively. Maybe, the increase arises in an effort to address all outstanding obligations before the government privatized the company.

Unlike public ownership were the company was enjoying many privileges such as subsidy and budget constraint, the leverage was dwelling around single digit, which is an indication of prudence in financial management. The leverage ratio was 9% in 2002 and 2003, however, it rose to 9.4% in 2003 which was the maximum ratio of debt assets financing post privatization, and declined to 9% in 2004/2005 and to 7% in 2006. Furthermore, the ratio declined to 0.03% in 2007 which was the least ratio of debt assets financing post privatization. One beauty with private ownership, despite the above mentioned challenges, they refused to engage in receiving

long term loan. However, the leverage remains constant at 6.2% between 2008 and 2010, and suddenly ascended to 9% in 2011. Comparatively, Leverage ratio was higher pre-privatization period.

Table 4.3: Regression results of Leverage ratio on the set of independent variables of Ashaka Cement Company

Independent variables	Coefficient	Significance
1 (CONST)	-4.129	0.022
TMVS	2.082E-10	0.000
MINOWN	2.425	0.001
BSIZE	-0.181	0.002
PNED	8.279	0.006
WF	0.000	0.000
PNMS	0.003	0.012
PRIVt	-8.866	0.000
R	0.992	
R ²	0.984	
Ajd R ²	0.975	
F stat	111.192	0.000

Source: Authors Computation

The Leverage Ratio result reveals that the total assets financed by long term liability (dependent variable) was associated to the corporate governance proxies (independent variable) to the tune of $R = 0.992$. This implies that, 99.2% of the company assets were financed by long term liabilities, which shows that there is a strong relationship between leverage ratio (LEV) and corporate governance performance. R^2 result reveals that about 98.4% variation of the leverage ratio (LEV) was explained by the corporate governance proxies. The result of Adjusted R^2 discloses that corporate governance proxies jointly accounted for 97.5% variation in leverage ratio (LEV). Statutorily, the board of directors charged with duty of care which saddled it with the responsibility of scrutinizing and approving major management decision that involve capital project and sourcing for long term loans to finance any activity in the corporation in order to mitigate agency problem. The calculated F-statistics was 111.192 and the estimated significant value was 0.000. In conducting the test at 5% statistical significance the model is strong in explaining the variation in leverage ratio of Ashaka Cement Company. In view of that, we conclude that, the model has a good fit.

The constant value -4.129 is the average value of leverage ratio (LEV), in the absence of corporate governance variables. Holding other variable constant, the result suggests that, a unit increase in TMVS leads to increase of 2.082E-10 in leverage ratio (LEV) and the estimated significant value is 0.000. The coefficient confirms the expected positive coefficient of the study, that market values of shares represents investors' assessment on the quality of company corporate governances, the strength and ability of company to meet long term loan repayment potential that enable creditors and investors to make discernment on contractual agreement with the corporation or otherwise. The market value of the company shares serve as a catalyst



of exploiting sources of funds to enhance leverage situation of the company. The p-value 0.000 reveals that total market value of shares has significant impact on Ashaka Cement Company leverage ratio (LEV), in conducting surrogate test at 1% statistical significance. Hence, TMVS has negative and significant impact on company's performance (LEV).

Similarly, a unit increase in MINOWN result into 2.425 increases in leverage ratio (LEV) and the estimated significant value is 0.001. The positive coefficient contradicts the expected negative coefficient of the study, which indicates that a unit increase in MINOWN will results into creating an illegal means for the management team and concentrated shareholders to control corporate decision making to serve their personal interest against other stakeholders. Conversely, P-value of MINOWN 0.365 is signifying that, minority ownership has no significant impact on the company's operational Efficiency. Thus, minority ownership has positive but insignificant impact on company's performance (LEV).

A unit increase in BSIZE leads to -0.181 decrease in leverage ratio (LEV) and the p-value is 0.002. The coefficient contradicts the expected positive coefficient value of the study which opines that an increase in board membership with right people enhances board decision making efficiency, check mating company's management performance and that cohesiveness of the Board members, having a diverse expertise and experienced personalities enhance financial performance. The p-value 0.027 reveals that, BSIZE has significant impact on the company's performance (LEV), conducting the surrogate test at 5% statistical significance, the board size has positive and significant impact on Ashaka Cement Company's performance (LEV).

A unit increase in PNED leads to 8.279 increases in leverage ratio (LEV) and the estimated significant value is 0.006. The positive coefficient of the result is consistent with the expected positive coefficient of the study, which argues that an increase in percentage of non executive directors will enhance board independence. This means that, board decision making was not influenced by the management and the statutory responsibilities of the independent director was not being compromised. The p-value 0.006 reveals that the PNED has significant impact on company's performance (LEV) in conducting the test at 10% statistical significance. In conclusion, we can, therefore, state that percentage of non executive directors has negative and significant impact on company's performance (LEV).

Furthermore, a unit increase in WF brings about 0.000 increases in leverage ratio (LEV) and the estimated p-value is 0.000. The coefficient of the result is contrary to the expected negative coefficient of the study, which postulates that an increase in WF will lead to decrease in operational efficiency. Moreover, the significant test result reveals that the workforce has p-value 0.000, which means it has significant impact on the profitability in conducting the test at 5%. Thus workforce has positive and significant impact on Ashaka Cement Company's performance (operational efficiency).

Finally, -0.866 was the difference in leverage ratio (LEV) and the estimated significant value is 0.000 post Privatization compared to pre privatization, The privatization negative coefficient is inconsistent with expected positive coefficient of the study, which states that privatization will promote corporate governance efficiency that will impact positively on company's

performance (LEV). The result confirmed trend analysis result which reveals that pre privatization has higher leverage ratio compared to post privatization. In addition, the negative coefficient establishes that private owners of Ashaka Cement Company are more conscious of financing company assets with equity than debts financing. The p-value 0.008 reveals that privatization has significant impact on the company's performance in conducting the test at 1% statistical significance. In conclusion, privatization has positive and significant impact on company's performance (LEV).

4.1 Summary of the major findings

The trend analysis result reveals that, post-privatization period has higher firm value, government relinquished ownership in totality, and foreign ownership has concentration shares, low work force. Percentage of non-management staff declined shapely, while, pre-privatization periods have smaller board size and percentage of management staff. In both period, board chairman is not the CEO and Chairman Audit Committee was a non-executive director. Comparatively, Leverage ratio was higher pre-privatization period. The inferential statistic result reveals that Privatization policy, workforce, board size have positive and significant impact on company's performance (LEV). While Total Market Value of Shares and Percentage of Non-Executive Directors have negative and significant impact on company's performance (LEV). However the minority ownership has positive and insignificant impact on company's performance (LEV).

5.0 Conclusion

The study concludes that, post privatization corporate governance has positive impact in the reduction of leverage ratio in the capital structure of Ashaka Cement Company. Despite the unfavourable macroeconomic environment militated against its efficiency.

5.1 Policy Recommendations

From the above results, one may appreciate the fact that the new corporate governance has exercise due of care in the reorganisation of the capital structure using less debt in financing operation and investments. In view of that, the researcher advanced the following recommendations.

1. Nigerian government should ensure favorable macroeconomic environment such as stable exchange rate and low interest rate in order to create fevourable environment for the importation of spare parts, cheap credit and effective demand from private sector.
2. The corporate governance should be using retained earnings and equity financing in order to enhance positive capital structure that is devoid of debt burden.
3. Introducing better management of inventories and prudent financial management is paramount in mitigating increase in leverage.



4. The company should create a subsidiary in building industry through participation in building affordable mass housing for owner's occupier, hotels, market shops and shopping complex across the country.

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