International Journal for Social Studies

Available at https://edupediapublications.org/journals

ISSN: 2455-3220
Volume 04 Issue 08
August 2018

Board Characteristics and Directors Tunneling: An Empirical Analysis of Conglomerate Firms in Nigeria

Nwakoby, Nkiru Peace (Phd)[1]; Ezejiofor, Raymond A. (PhD)[2*] & Ajike, Ada Kanu[3]

[1]Department of Entrepreneurship Studies, Nnamdi Azikiwe University, P. M.B. 5025. Awka
[2]Department of Accountancy, Nnamdi Azikiwe University, P. M.B. 5025, Awka
[3]Department of Business Administration, University of Nigeria, Enugu Campus
*Email of corresponding author: thaddray4life@yahoo.com

Abstract
This study is to examine the relationship that exists between the board characteristics and directors tunneling of conglomerates firms in Nigeria. The specific objectives are: to determine the relationship exist between Board size and related party transaction of quoted conglomerates firms in Nigeria and to ascertain the relationship exist between board independent and related party transaction of quoted conglomerates firms in Nigeria. Ex post fact research design and time series data were adopted. Formulated hypotheses were tested using multiple regression and Pearson Coefficient Correlation with aid of SPSS Version 20.0. The study found that board size has negative significant relationship on related party transaction of conglomerates firms in Nigeria. Another finding is that board independent has positive significant relationship on related party transaction of conglomerates firms in Nigeria. Based on the findings of the study, the study recommends that in order to ensure the shareholders" returns, corporate organizations should encouraged to appoint board members based on expertise, character and professional qualifications as well have more outside directors in the size of the board.
Keywords: Board Characteristics, related party transaction and conglomerate firms

INTRODUCTION

Board characteristics issues have become a worldwide problem, as is evident in the number of corporate governance reports that have been issued in a number of countries (Rossouw, 2005). The board of directors is particularly important in developing economies, characterized by relatively weak governance mechanisms and institutions such as market for control, financial markets, regulators, monitoring and legal system (Ujunwa, Salami & Umar, 2013). It has been observed that the effectiveness of the board is impaired by information asymmetry which leads to the agency problem between management and shareholders, whereby managers exploit the shareholders (Fama & Jensen, 1983). This has been adjudged to be responsible for several corporate failures in Nigeria, especially as was seen in the banking sector (Oso & Semiu, 2012).

Meanwhile, there has been a growing interest in the issue of Related Party Transactions (RPTs) in recent years. RPT issues are considered critical in developing countries that have the characteristics of low levels of investor protection, law enforcement and group structure. Lack of disclosure of RPTs and low investor protection in these countries have made it difficult for users of financial statements to assess whether a certain transaction was made for economic, earning

management, or tunneling purposes. Johnson, La Porta, Lopez-de-Silanes and Shleifer (2000) define tunneling as transferring of resources out of a company for the benefit of its controlling shareholders. Bae, Kang and Kim (2002) describe that tunneling practices could range from outright theft or fraud to dilutive share issues which discriminate against minority shareholders. There is plenty of empirical evidence of companies using RPTs for tunneling purposes.

Tunnelling is particularly serious in emerging economies due to poor corporate governance systems that fail to protect minority shareholders and corporate ownership structures that promote expropriation opportunistic behaviour (Aharony et al. 2010; Claessens et al. 2000; Liu & Lu 2007).

Though various methods of tunnelling have been suggested, much of the empirical research focuses on RPTs. Weak corporate governance systems and prevailing corporate structures in many nations worldwide, provide a great scope for RPTs to be a convenient mechanism for the expropriation of firm value from minority shareholders (Cheung et al 2009; Gao & Kling 2008; Liu & Lu 2007) There is a view that RPTs are a high risk factor for investors (Cheung et al. 2009; Kohlbeck & Mayhew 2010). Abusive RPTs have increasingly become a challenge to the integrity of the Asian capital market (OECD 2009).

An overwhelming theme of prior empirical tunnelling research is the varying influence of corporate governance, whether at the national or firm-level. In the present globalized, 'corporate governance' is a frequently used catch-phrase sometimes used as an all-encompassing concept but at other times cast in a very narrow frame of reference. Though there has been much corporate governance debate in recent decades, the underlying concept is not well understood with a lack of consensus on a formal definition and conceptual boundaries. At a national-level, legal systems and investor protection are merely components of a broader system. Meanwhile, ownership structure is also a single facet of a broader range of firm-level corporate governance mechanisms (Juliarto, Tower, Van der Zahn, & Rusmin, 2013).

1.2 Statement of Problem

So far, studies that focus on the impact of directors tunneling are still very limited and the results have been inconclusive. Gao and Kling (2008), Lo, Wong and Firth (2010), Yeh, Shu and Su (2012) and Haβ, Johan and MÜller (2016), for examples, found that overall board characteristics practices could prevent tunneling activities, whereas Cheung, Jing, Lu, Rau and Stouratis (2009a), Li (2010), Juliarto, Tower, Van der Zahn and Rusmin (2013), and Shan (2013) found that the overall board characteristics variables could not explain the corporate behaviour in relation to tunneling.

Despite the number of studies have investigated the nexus of board characteristics, and tunneling in corporate organization across the globe (Roman and Persida, 2012; Juliarto, TowerVan der Zahn, and Rusmin, 2013; Ridwan, Fitri and Berto, 2015; Ratna, Fatimah and Hadrian, 2016; Osazuwa, Ayoib and Noriah, 2016; Ali, Merve and Nizamettin (2013)Yunling, Xinwei & Chi-Wen et al, (2013).

Further, considering the board characteristics attributes and tunneling relationships, prior studies have found the results to be mixed (Roman and Persida, (2012) Melsa, Hakan and Burcin (2010) found that independent directors reduce firm performance and this

negative effect was even more important during the recent financial crisis; Juliarto, TowerVan der Zahn, and Rusmin (2013); Ratna, Fatimah and Hadrian (2016) Yunling, Xinwei & Chi-Wen (2013) founds a positive association between managerial ownership and the extent of tunnelling), also, to the best of our knowledge there are no studies that have investigated the board characteristic in influencing directors tunneling in firms within the Nigerian context, hence providing justification for future study.

1.3 Objective of the study

The main objective of this study was to examine the relationship that exists between the board characteristics and directors tunneling of conglomerates firms in Nigeria. The specific objectives are:

1. To determine the relationship between Board size and related party transaction of quoted conglomerates firms in Nigeria.
2. To examine the relationship between board independent and related party transaction of quoted conglomerates firms in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Tunneling

As the first researchers to use the word "tunneling" to describe the misuse of company funds by controlling shareholders, Johnson et al. (2000) list several methods by which it is achieved: transferring growth opportunities belonging to listed company to themselves or their subsidiaries; transferring profits via intra-group transactions from listed companies to other subsidiaries they own or control; using assets or capital belonging to the listed company or using them as collateral or guarantees for their financing activities; and capital operations aimed at diluting the interests of other shareholders. Friedman et al. (2003) propose a model showing how large shareholders tunnel or prop listed companies in different financial positions. Meanwhile, companies with a pyramid ownership structure are more likely to be tunneled, but are more likely to be propped when facing adverse shocks.

In the Chinese capital market, Yu and Xia (2004) find that related party transactions are significantly more prevalent in companies with controlling shareholders. Li et al. (2004) finds that the use of listed company funds by controlling shareholders exhibits an inverted U-shaped nonlinear relationship with the proportion of equity held by the largest shareholders. Wang and Xiao (2005) find that the use of funds by the 10 largest shareholders for related party transactions is significantly less common in listed companies with institutional investors and that an increase in the stake held by institutional investors is significantly negatively related to the extent of funds used by related parties in listed companies. Chen and Wang (2005) find that the value of related party transactions is significantly positively related to ownership concentration and that increasing the number of controlling shareholders holding more than 10% reduces both the probability of related party transactions occurring and the value of such transactions. Jiang and Yue (2005) find a negative relationship between the use of funds by large shareholders and future profitability in listed companies, and show that the use of funds by large shareholders has a negative effect on the company. Gao et al. (2006) conclude that tunneling by controlling

shareholders is exacerbated by ownership concentration and business group control, but is inhibited by managerial ownership and fund holdings, information disclosure transparency, investor protection and product market competition. Luo and Tang (2007) observe that the less the regional government intervenes in the market and the more developed are financial markets, the lower the probability of tunneling by controlling shareholders in listed companies in the region. Ju and Pan (2010) find that listed firms that are smaller, have higher leverage or lower operating margins, or in which non-operating profit accounts for a larger proportion of total profit are more likely to engage in related party transactions. Du et al. (2010) find that high-quality auditing can significantly inhibit the use of company funds by large shareholders of listed companies, but that companies with more serious cases of funds being used by large shareholders may not choose to have high-quality audits performed. Jiang et al. (2010) examine other receivables in Chinese listed companies to examine the nature, content and economic consequences of controlling shareholder behavior. Jian and Wong (2010) point out those abnormal related sales are one means of propping used by the controlling shareholders of listed companies, and that it is more prevalent in state-owned listed companies and regions with a poor institutional environment.

They also show that abnormal related party transactions take place in conjunction with the next phase of associated lending for cash transfers among controlling shareholders. Using Chinese data to verify the model of Friedman et al. (2003), Peng et al. (2010) find that in financially healthy (financially distressed) listed firms, controlling shareholders are more likely to tunnel (prop) the firm through related party transactions, and that the market reacts negatively (positively) to such transactions. They also find that all types of related party transactions can be used as a means of tunneling or propping. Wang and Xiao (2011) investigate the relationship between the tunneling behavior of listed company controlling shareholders and executive compensation incentives in China, and find that tunneling by controlling shareholders reduces executives' pay-for performance sensitivity. This implies that controlling shareholders lower the incentives in the relationship between managerial pay and performance for their own interests.

Prior studies have examined the relationship between the supervision of independent directors and related party transactions or company fund use by listed company controlling shareholders. Among these studies, Tang et al. (2005) find that independent directors play a governance role in suppressing channel excavation by large shareholders through related party transactions, such as the use of company funds, asset sales and security and cash dividends, but that these effects are not obvious. In contrast, Gao et al. (2006) find that independent directors have no monitoring effect on tunneling behavior by controlling shareholders. After controlling for the endogeneity of independent directors, Ye et al. (2007) find that increasing the number and proportion of independent directors may deter controlling shareholders from using company funds. Huang and Pan (2010) find that the professionalism of independent directors has a significant monitoring effect on related party transactions between controlling shareholders and listed companies. They also demonstrate that independent director compensation is

significantly positively related to the frequency of related party transactions between controlling shareholders and listed companies, but that the proportion of independent directors has no significant effect on such transactions.

Although the literature has yet to explore the relationship between social networking among corporate boards and the tunneling behavior of controlling shareholders, some recent studies examine the nexus between board social networks and corporate finance. Hochberg et al. (2007) find that venture capital companies with more network relationships perform better in the follow-up financing and exit stages. Kuhnen (2009) shows that mutual fund directors and fund administration consulting firms prioritize appointing each other based on the degree of contact they have had in the past, but that such strong director-consultant links do not lead to better or worse consequences. Based on a sample of 29,637 firm observations in the United States from 2000 to 2007, Larcker et al. (2013) find that firms with more central director positions earn higher stock returns.

They measure centrality by the number of directors common to two companies. If a portfolio is constructed by buying stocks of firms with a central position in a board network and selling stocks of those without, an average annual excess return of 4.68% can be obtained. Their results show that the board of director network is a signal of economic benefits not immediately reflected in stock prices. In the Chinese capital market, Chen and Xie (2011, 2012) investigate the relationship between the board network of independent directors of listed companies and investment efficiency or executive incentives.

However, in sum, findings on the effect of independent director governance on the tunneling behavior of controlling shareholders are not conclusive.

Related Party Transactions (RPTs) and Tunneling

There are three common reasons for companies to conduct RPTs. Firstly; RPTs are used by companies for the purpose of minimizing transaction costs (Fisman & Khanna 1998). This is a legitimate usage of RPTs based on economic motives. Secondly, RPTs are used by companies to manipulate earnings (Aharony, Wang & Yuan 2009; Jian & Wong 2003), and thirdly, RPTs are used for the purpose of tunneling (Berkman, Cole & Fu 2009; Cheung et al. 2009a). These second and third reasons are prompted by opportunistic motives.

In the case of RPTs that are used for the tunneling purpose, some studies have found various ways for resources to be tunnelled by companies. Aharony et al. (2009), Jian and Wong (2003), for example, found that companies used receivables to related parties as a tunnel to transfer resources out of the companies. Berkman et al. (2009) and Jia, Shi and Wang (2013) analyzed companies that issued loan guarantees to their related parties, which in effect expropriated wealth from the minority shareholders. Cheung, Qi, Rau and Stouraitis (2009b) found empirical evidence that the sale and purchase of assets to related parties were used to perform asset tunneling.

Tunneling activities are often difficult to identify since the activities are made and hidden within the seemingly legitimate transactions. However, the process for substantiating tunneling activities requires utilization of some relevant indicators, and, so far, there is a lack of an instrument that could be used for this purpose. While some studies have used the level of RPTs to measure

tunneling (Gao & Kling 2008; Juliarto et al. 2013). Taking the above discussions on board, this study tries to develop a detection model that includes a number of key 'red flags' that can be used to indicate tunneling when examining a related party transaction made by a company.

Board Characteristics and Tunneling

Principle good corporate governance mechanisms are useful in protecting the interests of minority shareholders by preventing opportunistic behaviours made by the controlling shareholders. Lins and Warnock (2004) described two common corporate governance mechanisms that companies can use: internal and external corporate governance mechanisms. Internal corporate governance mechanisms, which consist of control structure and corporate structure. External corporate governance mechanisms consist of the rule of law and market of corporate control. It has been suggested that corporate governance practices may differ across different institutional contexts and different countries (e.g. Filatotchev, Jackson & Nakajima 2013). The focus of this study is on the internal corporate governance mechanisms in Indonesian listed companies.

In relation to control structure, previous studies have found that the proportion of independent members in the board has a negative correlation with transfer pricing manipulations (e.g. Chen, Firth, Gao & Rui 2006; Gao & Kling, 2008; Lo et al. 2010; Shan 2013), a positive correlation to financial performance (e.g. Brickley, Coles & Terry 1994; Byrd & Hickman 1992) and a negative impact on financial fraud (Beasley 1996; Dechow, Sloan & Sweeney 1996). These findings imply that independent board members could counterbalance the influence of the controlling shareholders, and accordingly lead to better corporate governance practice. This perception has also been shared by some security exchanges. Indonesia Stock Exchange (IDX) for example, recommends any company listed on IDX to have at least 30% independent members on its board.

Furthermore, evidence has indicated that audit committees which had members with financial and industry backgrounds and expertise were more likely to demand higher quality audits and reduce the chances for transfer pricing manipulations or asset appropriation (e.g. Abbott, Parker, Peters & Raghunandan 2003; Carcello, Hermanson, Neal & Relay 2002; Gao & Kling 2008; Lo et al. 2010). Lary and Taylor (2012) found that stronger audit committee independence and competence were significantly related to a lower number of incidents and a lower level of severity of financial restatements, which led to companies producing more reliable financial statements. In Indonesia, any listed company on IDX is required to have an audit committee of at least three members - one of whom must be an independent commissioner of the company and acts as the chairman of the audit committee.

In addition to the key ownership, management ownership has been seen as a factor that could align the potential divergence of interests between management and the shareholders (Jensen & Meckling 1976). However, some contrary arguments have suggested that the increased management ownership is not always able to improve the welfare of the shareholders as a whole. Managers in a company could increase the percentage of their holdings to a level that allowed them to dominate the board of directors, and thus

isolate the interests of other parties in the internal and external control of the company (Fama & Jensen 1983; Gibson 2003; Santiago-Castro & Brown 2011).

In the context of emerging markets, Gunarsih (2002), in her study, found that large domestic institutional investors tended to represent their own interests, while Khanna and Palepu (2000) found that foreign institutional investors provided better monitoring functions when interacting with the emerging markets in the global economy compared to domestic institutional investors. Khanna and Palepu (2000) also found that corporate performance was positively related to foreign institutional owner ship and was negatively related to domestic institutional ownership.

In a company with a concentrated ownership structure, the controlling shareholder could control the company's resources and implement policies that benefit them at the expense of the non-controlling shareholders (La Porta, LopeZ-de-Silanes & Shleifer 2000). Gomes and Novaes (2001) suggested that a concentrated ownership structure could facilitate asset expropriation in a company as the major shareholders could not only dominate the board of directors and the shareholders' meetings, but also determine the company's daily operation including influencing contractual policies with related parties and appointing their own candidate as the CEO (Shi & Shitu 2004).

Cheung, Rau and Stouraitis (2006), Cheung et al. (2009b) and Jian and Wong (2003) found that there were many ways for companies to do tunneling. These include activities such as receivables to related party, asset transactions, trading transactions, cash payments and equity transactions to related parties. For example, a company can provide a huge amount of accounts receivable or a long credit period or loans to a related party. A receivable given to a related party can be treated as a put option, in which a related party can exercise such an option by not paying the receivable in a bad situation (Atanasov, Black & Ciccotelo 2008). Provision and elimination of related party loans will in effect decrease a company's net earnings.

Transfer pricing for related-party transactions should be set according to market prices as used in arm's length transactions (OECD 2001). However, in practice, management can use transfer pricing as a mechanism to transfer profits among related companies in order to reduce tax, increase management bonuses, and channel resources from one firm in a group of companies to another firm in the group or to the owner. Tunneling could also be made through unfair transfer pricing transactions, in which a company sold assets to related parties at a lower price than the normal independent party transaction price or purchased assets from related parties at a higher price than the independent transaction prices (Cheung et al. 2009b; Lo et al. 2010). Hosseinyan, Hashim and Isa (2016) found that sales or purchases of good through RPTs have a significantly negative relationship with firm value. Lo et al. (2010) found that tunneling through unfair transfer pricing decrease being-tunneled profit. Bertrand, Mehta and Mullainathan (2002) and Cheung et al. (2006), in their studies, found that being-tunnelled companies experienced decreased performance, while the tunneling companies experienced increased performance.

Board of Directors

This is often considered to be one of the major sources of monitoring firm's conducts and performance. It is responsible for hiring and firing executives, setting executive

compensations and making key decisions in the life of the firm. The board of directs should in principle be one of the major checks one the management. It is directly elected by the shareholders to act on their behalf. A high level of independence is important for it to perform its monitoring duties more effectively.

The standard view is that the board of directors is more independent as the number of outside directors' increases. Executive directors are not likely to self-monitor effectively the performance of the CEO because their career is closely tied to the incumbent CEO (Jensen 1993). Several studies show that board membership is related to the degree of agency problems at a firm. The larger the percentage of outside directors, the more likelihood of (i) an outside executive being appointed chief executive officer (CEO) (ii) a non-performing, CEO to be dismissed and (iii) significant positive share reactions. With respect to the size of the board and performance, Yermack (1996) provides evidence of a negative relationship between the size of the board and firm value. However, Hermalin and Weisbach (1999) found no significant relationship between board composition and performance while Yermack also shows that the percentage of outside directors does not insignificantly affect firm.

Board of Directors and Audit Committee

Various attributes of the board and audit committee may influence their effectiveness as corporate governance process participants. For example, the Blue Ribbon Committee (1999) recommendations looked at strengthening both the independence and expertise of audit committees. In this section, they examine the research of various characteristics of the board and audit committee which include the

(1) composition,
(2) Independence,
(3) Knowledge and expertise,
(4) Effectiveness,
(5) Power,
(6) Duties and responsibilities and
(7) The association between board characteristics, earnings manipulation and fraud.

Composition of Board Members

The composition of board members is also proposed to help reduce the agency problem (Weisbach, 1988; Hermalin and Weisbach, 1991). A positive relationship is expected between firm performance and the proportion of outside directors sitting on the board.

Unlike inside directors, outside directors are better able to challenge the CEOs. It is perhaps in recognition of the role of outside directors that in the UK a minimum of three outside directors is required on the board; in the US, the regulation requires that they constitute at least two-thirds of the board (Bhagat and Black, 2001).

Empirical evidence has grown but the results are very conflicting. Studies by Weisbach (1988), Mehran (1995) and Pinteris (2002) have produced evidence in support of a positive role for outside directors on firm performance. John and Senbet (1998) in a survey of corporate governance reported that the work of Fosberg (1989) was in support of this positive role.

Other works have reported no evidence of a significant relationship between firm performance and the proportion of outside directors on the board (Bhagat & Black, 2002). In fact Weir and Laing (2001) reported a negative relationship! John and Senbet

(1998) stress the role of committee structure as a means of increasing the independence of the board. They refer to the work of Klein, Shapiro and Young (2005) and argue for the need to set up specialized committees on audit, remuneration and appointment.

Unlike the preceding argument in support of board structures, Laing and Weir (1999) play down their importance, stressing instead the importance of business experience and entrepreneurship. According to them, firms managed by dynamic CEOs tend to perform better than other categories of firms. On the assumption that foreign firms are managed by more experienced CEOs. Hannifa and Cook, (2002) in Muhammed, (2014) stated that board composition is defined as the proportion of outside directors to the total number of directors.

Board composition has given rise to two different views – Those who contend for more non-executive directors in the board and those who argue against more non-executive directors in the board. Those who argue for more non-executive directors in the board used agency theory and resource dependency to support their arguments. The premise of agency theory is based on the fact that the essence of the board is to monitor and control the action of directors because of their opportunistic behavior (Berle and Means, 1932, Jensen and Meckling, 1976 cited in Muhammed, 2014). The inclusion of outside directors increases the board ability of efficiency in monitoring top management and ensures no expropriate of stakeholders wealth by top management as an incentive to develop their reputation as experts in decision control (Fama and Jensen, 1983 cited in Muhammed, 2014). This is so because the non-executive directors comprises of independent directors that are appointed based on their experience and competence and do not have any interest in the shareholding of the firm but to maintain their reputation so they always strive to maximize the firms value (Yousef, Nur and Kharil, 2014). It is believed that the independency of board of directors depends on the number of outside directors that is, the board of directors are more independent as the proportion of outside directors' increases.

Structure of Board: Board Size and Independent Directors

There is another controversial issue involving board sizes and independent members as being one of the main factors of the firms' success. The board controls the firm on behalf of shareholders and the board size is expected to affect firm's performance. What is the appropriate size of a successful board? Also the board size may cause agency problems. Several researches conducted found inverse relationship between the board size and firm performance (Cahit & Ali, 2016).

Some researchers argue that larger boards may be less effective than smaller boards. A board of limited size is expected to be more performing than a bigger one due to better communication and decision making process. On the contrary, some researchers also argue that small boards may lack the advantage of providing expert advices in larger numbers. Yermack (1996) also found negative relationship between the board size and performance in his empirical research in which he observed 452 US firms during 1984-1991. Bennedsen, Kongsted and Nielsen (2008) examined 6,850 Danish firms for boards with 6 and more members and found no positive relationship between board sizes and firm performances (ROA). Ammari, Kadria and Ellouze (2014) examined board structure (board size, independent members)

of 40 French firms listed on the SBF 120 during the periods of 2002-2009. They found a strong negative relationship between board sizes and performances. Zakaria, Purhanudin and Palanimally (2014) analyzed Malaysian listed trading and services sector by using panel data regression model. They found that board size positively influences firm performance. They also found that the effects of board independent members are insignificant on firm performance. Fernandez (2014) in his recent study also found a strong negative relation between performance and board size. He analyzed the sample of firms that constitute the EUROSTOXX50 Index. He used ROA, ROE and Tobin's Q as performance indicators.

Obradovich and Gill (2013) stated in their research that larger board size negatively impacts the value of American firms however financial leverage and firm size positively impact the value of American firms. Yammeesri and Herath (2010) raised doubts about the ability of non-executive directors in monitoring firm management and found no conclusive evidence in their capabilities either in increasing or decreasing the corporate performance. In the case of Thai firms, no evidence was found to confirm that the existence of independent directors is significantly related to firm value. In relation to independent board members, Mak and Kusnadi (2005) stated that increasing number of independent members on the board helps in enhancing firms‟ value. It is believed that independent board members are an important component of good corporate governance. The question for the independent members is "whether independent members can add value to the firm or not". Independent members are assumed to add more value to the firm. Therefore corporate governance suggests that increase in the number of independent members should increase firm performance (Ammari, Kadria & Ellouze, 2014). Nicholson and Kiel (2007) argued that inside directors better understand the business than outside directors and so can make better decisions. Rashid, Zoysa, Lodh and Rudkin (2010) argued that there is a greater information asymmetry between inside and outside independent directors due to the lack of day to day inside knowledge that would effectively limit the ability of outside independent directors in controlling the firm due to lack of support of the inside directors. John and Senbet (1998) in their article argued that boards of directors become more independent as the proportion of independent members (outside managers) increases. As opposed to this argument some researchers such as Fosberg (1989) who found no relation between the proportion of independent members and various performance measures. Bhagat and Black (2002) also found no relation between proportion of independent members of board and ROA, asset turnover and stock returns. Andersen, Sattar and Reeb (2003) showed that the cost of debt is lower for larger boards, presumably because creditors view these firms as having more effective monitors of their financial accounting process.

Empirical Review

Studies have been carried out on tunneling in corporate entities across the globe, the study of Roman and Persida (2012) examine the relationship of selected Board of Directors' characteristics and firms' financial performance. Using a sample of large U.S firms in 2005-2009, the study found that the degree of insider ownership influences

positively firm performance, because it reduces agency problems. The age of the Board of Directors matters, to a certain degree, as well. Younger members are probably willing to bear more risk and to undertake major structural changes to improve firm´s future prospects. On the other hand, they find that independent directors reduce firm performance and this negative effect was even more important during the recent financial crisis. All in all, their results suggest that corporate governance is important for firm´s financial performance.

Juliarto, TowerVan der Zahn, and Rusmin (2013) investigate the extent and the determinants of tunnelling behaviour in five ASEAN countries (i.e. Indonesia, Malaysia, Philippines, Singapore, and Thailand). Related party transactions (RPTs) in the form of loans to related parties are used as the proxy for tunnelling. With 200 firm-year observations over the period 2006-2009, this study finds a positive association between managerial ownership and the extent of tunnelling. The other important findings are that business environment (BE), foreign ownership, and independent directors are ineffective governance mechanisms to rein in tunnelling behaviour.

Ridwan, Fitr and Berto (2015) investigates the relationships between board characteristics variables and tunnelling activities in Indonesia. Using 2216 firm-year observations from 2005 to 2012, the study find that several corporate governance variables contribute to explaining the phenomenon of tunnelling in Indonesia. The data reveal that approximately 276 firms had experienced expropriation in the form of tunnelling, particularly expropriation from majority to minority shareholders, which can be identified through the related party transaction. They find that firms with family and state ownership tend to experience tunnelling. This result is consistently revealed when they separate the data into eight industries.

Ratna, Fatimah and Hadrian (2016) developed a detection model to distinguish related party transactions that can be categorized as tunneling activities. Furthermore, this study also examines whether board characteristics mechanisms can explain the tunneling activities. The main findings of this study suggest that companies, in Indonesian listed companies, with concentrated ownerships have a greater tendency to conduct tunneling transactions compared to companies with dispersed ownerships, and the overall corporate governance mechanisms implemented by the companies could not be used as predictors for tunneling behaviour.

Osazuwa, Ayoib and Noriah (2016) examined the relationship between political connection, board characteristics and firm performance in Nigerian quoted firms. The model of the study is built based on the agency theory. It utilises a cross-sectional data of 116 firms for the year 2013, obtained from the annual reports of the firms. The robust corrected standard error regression was used in estimating the model. The study provides partial support for the proposition of the agency theory. The study finds board gender positively related to firm performance, while political connections and CEO incentives were negatively related with firm performance. The findings of this study should interest organizational stakeholders. Particularly, the negative association of political connection with firm performance

has implication for auditors, shareholders and management.

Melsa, Hakan and Burcin (2010) analyze the relationship between board structure and firm performance for Turkey - a country that features relatively weak protection for investors. They do so by using a hand-collected data set on directors' personal characteristics and their roles. They document that Turkish boards are populated besides members of the controlling shareholder and their affiliated parties, by employees of the parent firm in the business group, by ex-politicians, ex-bureaucrats and ex-military officers. Classifying the board members as independent and affiliated directors, the study found that (i) board independence is unrelated to equity issues, (ii) independent directors are unlikely to curb the extent of related party transactions, and (iii) the presence of independent board members and firm performance are negatively related. These results are robust under different specifications and estimation methods which deal with endogeneity problems inherent in board research.

Yunling, Xinwei & Chi-Wen (2013) examine the supervisory efficiency of independent directors with respect to information disclosure. Using data from 2007 to 2009, the study find that in the absence of ownership balance, independent directors have a significant positive effect on the accuracy of management forecasts. In addition, the personal backgrounds of independent directors have specific effects on management earnings forecasts. Directors with certified public accountant (CPA) expertise significantly improve the precision of management forecasts. However, directors with industrial expertise significantly reduce the precision of management forecasts. In other words, having directors with CPA expertise improves the independence of boards, but having independent directors with industrial expertise has the opposite effect.

Ali, Merve and Nizamettin (2013) empirically investigates the factors that impact voluntary information disclosure level of Turkish manufacturing companies listed in the Borsa Istanbul (BIST). The data collection methodology of the study is content analysis of annual reports of the corporations listed on the BIST for the year 2010. In order to analyze the results, they employed Ordinary Least Square (OLS) and Two-Stage Least Squares (2SLS) regressions to examine the association between the explanatory variables and voluntary disclosure level. The findings provide evidence of a positive association between voluntary information disclosure level and the variables such as firm size, auditing firm size, proportion of independent directors on the board, institutional/corporate ownership, and corporate governance. However, leverage and ownership diffusion were found to have negative significant association with the extent of voluntary disclosure. The remaining variables, namely, profitability, listing age, and board size were found to be insignificant.

Ali (2011) investigates the association between firm characteristics and the voluntary disclosure level of graphs in annual reports of Turkish companies listed on the Istanbul Stock Exchange (ISE). The firm characteristics used in the study are auditor size, ownership structure, firm performance (profitability), and firm size. The methodology of the study is content analysis

of annual reports of the corporations listed on the ISE-100 Index for the year 2006. The results of univariate and multivariate analyses indicated that firm size, and auditor size has significant positive association with voluntary disclosure level of graphs. On the other hand, profitability and ownership structure do not have any significant association with graphical disclosure level.

Khaldoon (2014) focuses on the voluntary disclosure in corporate annual reports in Jordan, and its objectives are: (1) To measure the voluntary disclosure level in the annual reports of Jordanian companies listed in Amman Stock Exchange (ASE). (2) To examine the relationship between a number of explanatory variables and the level of voluntary disclosure. Weighted disclosure index consisting of 63 voluntary items was developed to assess the level of voluntary disclosure in the annual reports of 124 listed companies on ASE for the period of 2010 to 2012. Univariate and Multivariate analysis were applied to explore the relationship between each explanatory variables and the level of voluntary disclosure and a number of sensitivity tests were taken to further analysis. The findings of the study reveal that the level of voluntary disclosure in Jordanian corporate annual reports is low (its average is 35.7% for three years), although there is a significant increase in the level of voluntary disclosure from year to year. Univariate analysis reveals that firm size, leverage, firm age, profitability, liquidity, board size and audit committee size have a significant positive relationship with the level of voluntary disclosure while independent directors and ownership structure have a significant negative relationship with the level of voluntary disclosure. Meanwhile, multivariate analysis reveals same results to Univariate analysis except leverage has no impact on the level of voluntary disclosure.

Kabir (2015) share more lights in the transition process to IFRS with regards to segment reporting in mandatory regime. Based on sample of 97 listed companies using a disclosure index, the study document that the quantity of disclosure was positively related to some aspects of firm characteristics such as industry type, auditor type, firm size, and company's listing age, albeit these variables provide a significant impact on compliance with IFRS 8 (Operating segments) disclosure. The study Further document that majority of the sample companies identify Board of Directors (BOD) as their Chief Operating Decision Maker (CODM).

Kabir (2014) aimed to gain more insights in the disclosure practices among the largest public listed companies in Nigeria, by examining the associations between firm characteristics and the extent of voluntary segments disclosure on IFRS 8 Operating Segments by using a sample of 76 companies. The results document that firm size and industry type have positive association with voluntary segments disclosure. In addition, negative association is observed between firm listing age, growth, and return on investment, ownership diffusion and voluntary segments disclosure.

Despite the number of studies have investigated the nexus board characteristics, corporate governance disclosures and tunneling in corporate organization across the globe (Roman and Persida, 2012; Juliarto, TowerVan der Zahn, and Rusmin, 2013; Ridwan, Fitri and Berto, 2015; Ratna, Fatimah and Hadrian, 2016; Osazuwa, Ayoib and Noriah, 2016; Ali, Merve and Nizamettin

(2013)Yunling, Xinwei & Chi-Wen et al, (2013).

Further, considering the corporate governance attributes and tunneling relationships, prior studies have found the results to be mixed (Roman and Persida, (2012) Melsa, Hakan and Burcin (2010) found that independent directors reduce firm performance and this negative effect was even more important during the recent financial crisis; Juliarto, TowerVan der Zahn, and Rusmin (2013); Ratna, Fatimah and Hadrian (2016) Yunling, Xinwei & Chi-Wen (2013) founds a positive association between managerial ownership and the extent of tunnelling), also, to the best of our knowledge there are no studies that have investigated the board characteristic in influencing directors tunneling in firms within the Nigerian context, hence providing justification for future study.

RESEARCH METHODOLOGY

Research Design

Due to the nature of the study, Ex-Post facto research design was adopted. This is appropriate because the study aims at measuring the relationship between one variable and another in which the variables are not manipulated.

Population of the Study

The population of the study was made up of conglomerate companies quoted on the Nigerian Stock Exchange (NSE) as at 2016. The companies are as follows: A.G Leventis Nigeria plc, John Holt plc, Chellarams Plc, SCOA Nigeria Plc, Transnational Corporation Plc and UACN Plc

A process whereby all units of analysis or population are studied is known as complete enumeration or census under the complete enumeration, the expectation is that more faith would be placed in the findings of the entire population rather than a sample.

Method of Data Analysis

Data collected from annual reports and accounts of the conglomerate companies were analyzed using Pearson Coefficient Correlation. Pearson Coefficient Correlation is a method to quantify the relationship between a variable of interest and explanatory variables with the aid of SPSS ver. 20.

The dependent variable director tunneling is operationalized in this study using loan to related party divided by total assets as a proxy for tunneling (Gao & Kling 2008; Juliarto et al. 2013). While independents variables are measure using Size of Board of Directors (BSZ), Board Composition Diligence (BCD),

Hypotheses formulated for the study were tested with the pooled multiple regression and correlation coefficient with aid of Statistical Package for Social Sciences (SPSS) version 20.0 software package.

Decision rule:

Using SPSS, 5% is considered a normal significance level. The accept reject criterion was based on the p-value, alternative hypothesis will be accepted.

Model specification

In the specification of the model for the study, the researcher adapted the Nosakhare, Ayoib Noriah (2016) as follows:

$DIRTUNL_{it} = \beta_1 BSZ_{it\,it} + \beta_2\, AC_{it+} \beta_3\, BCS_{it} \sum_{it}$ ……(i)

$DIRTUNL_{it} = a + \beta_1 BSZ_{it} + \mu_{it}$ …….. ……...(ii)

$DIRTUNL_{it} = a + \beta_2 BODIND_{it}$ + …….. …….(iii)

Where:

The Independent variables: (Board characteristics) =

BSZ = Board size

BODIND = Board Independent

The Independent variables: (DIRTUNL) Directors tunneling

(β) = Coefficient to be estimated for firm in period

Variable Description

Dependent Variable:

Related Party Transactions (RPTs) of the Companies as obtained from notes in the annual accounts of the companies were used as proxy to measure RPTs, *such as RPT sales, receivables, purchases, payables, directors related party expenses, transaction with key management personnel etc.*

Independent Variables:

Size of Board of Directors (***BODSZ***): Represents the total number of board members within the board of directors.

Board Independent (***BODIND***): The number of board members that independent as specified in the reports.

DATA PRESENTATION AND ANALYSIS

Data Analysis

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
RPT	8	1233551000.00	19895007000.00	8796245250.0000	7260800676.19769
BODSZE	8	46.00	54.00	50.0000	2.56348
BODIND	8	29.00	34.00	30.8750	1.64208
Valid N (listwise)	8				

Table 1 shows the mean (average) for each of the variables, their maximum values, minimum values, and standard deviation. The results in table 1 provide insight in the nature of the Nigerian quoted conglomerate companies that were used in this study. It was observed that on the average over the eight (8) years periods (2009-2016), the sampled

quoted Nigerian conglomerate companies were characterized by improved related party transaction (RPT) =8796245250. The gap between the maximum and minimum value of the related party transaction and board characteristics (board size, and board independence) showed that board characteristics really determine the level of related party transaction of the companies.

Test of hypotheses

Regression Analysis

Table 4.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923[a]	.852	.741	3697350197.51735

a. Predictors: (Constant), BODCOMP, BODIND, BODSZE

Table 4.3 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3143529912839831000000.000	3	1047843304279943700000.000	7.665	.039[b]
	Residual	5468159393232642000.000	4	1367039848308160500.000		
	Total	3690345852163095000000.000	7			

a. Dependent Variable: RPT
b. Predictors: (Constant), BODCOMP, BODIND, BODSZE

Table 4.4 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-98534151734.446	102645407732.572		-.960	.391
	BODSZE	-113733281.646	989586301.530	-.040	-.115	.914
	BODIND	4505660995.476	1531605047.731	1.019	2.942	.042
	BODCOMP	-717394423.878	2423563242.844	-.149	-.296	.782

a. Dependent Variable: RPT

Table 4.2 above shows that the Model revealed the value of R^2 = 0. 852 and Adjusted R^2value is .741 this suggests that the model explains about 8.6% of the systematic variations in the dependent variable. This means that the regression explains 85% of the variance in the data. In table 4.3, it reveals that the F-stat (7.665) and p-value (0.039) indicates that the hypotheses of a statistically significant linear relationship between the dependent and independent variables cannot be rejected at 5% level.

In table 4, the regressed coefficient correlation result shows that an evaluation of the financial performance of the explanatory variable (Beta Column) shows that audit quality is positive and significant (Sig.= 1.560). Therefore board characteristics have a significant effect on directors tunneling using related party transaction of conglomerate companies in Nigeria. In the light of this, we reject null hypotheses and accept alternative with state that

board characteristics has effect on related party transaction of conglomerate companies in Nigeria.

4.2.2 Testing hypotheses using correlation coefficient

Table 4.6 Correlations

		RPTs	BODSIZE	BODIND	BODCOMP
RPTs	Pearson Correlation	1	-.340	.920**	.670
	Sig. (2-tailed)		.411	.001	.069
	N	8	8	8	8
BODSIZE	Pearson Correlation	-.340	1	-.407	-.777*
	Sig. (2-tailed)	.411		.317	.023
	N	8	8	8	8
BODIND	Pearson Correlation	.920**	-.407	1	.773*
	Sig. (2-tailed)	.001	.317		.025
	N	8	8	8	8

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Testing hypothesis one

H_o^1 Board size has no significant effect on related party transaction of conglomerates firms in Nigeria.

Indeed, from the above figure, correlation coefficient of -.340 indicates a negative correlation between Board size and related party transaction of conglomerates firms in Nigeria. To get an idea of how much variance the two variables share, the coefficient of determination (R) is calculated. R is -0.340 x -0.3401 = 0.1156. It implies that relationship on related party transaction of conglomerates firms in Nigeria help to explain 12% of the variance in Board size. From the above result, the study discovers that the confidence level between Board size and relationship on related party transaction of conglomerates firms in Nigeria is low. It means that correlation coefficient is significant at 0.05 levels. Therefore, we accept alternative hypothesis which states that Board size has significant (negative) effect on related party transaction of conglomerates firms in Nigeria.

Testing Hypothesis Two

H_o^2 There is no significant relationship between Board independent and related party transaction of conglomerates firms in Nigeria.

Indeed, from the above figure, correlation coefficient of .920 indicates a positive correlation between Board independent and related party transaction of conglomerates firms in Nigeria. To get an idea of how much variance the two variables share, the coefficient of determination (R) is calculated. R is 0.920 x 0.920 = 0.8464. It implies that relationship on related party transaction of conglomerates firms in Nigeria help to

explain 85% of the variance in Board independent. From the above result, the study discovers that the confidence level between Board independent and relationship on related party transaction of conglomerates firms in Nigeria is high. It means that correlation coefficient is significant at 0.05 levels. Therefore, we accept alternative hypothesis which states that there is a significant relationship between Board independent and related party transaction of conglomerates firms in Nigeria.

Discussion of Result

Board size, from the finding, correlation coefficient of -.340 indicates a negative correlation between Board size and related party transaction of conglomerates firms in Nigeria. Therefore, we accept alternative hypothesis which states that Board size has significant relationship (negative) on related party transaction of conglomerates firms in Nigeria. This finding therefore supports our expectation and the findings of Roman and Persida (2012) and negates the view of Juliarto, Tower Van der Zahn and Rusmin (2013).

Board independent, from the finding, correlation coefficient of .920 indicates a positive correlation between Board independent and related party transaction of conglomerates firms in Nigeria. Therefore, we accept alternative hypothesis which states that Board independent has significant relationship (positive) on related party transaction of conglomerates firms in Nigeria. This finding therefore supports our expectation and the findings of Yunling, Xinwei and Chi-Wen (2013) and negates the view of Melas, Haken and Burcin (2010).

CONCLUSION AND RECOMMENDATIONS

Conclusion

This research contributes to the existing research on RPTs in different ways. Firstly, the literature regarding the examined issue, the association between RPTs and board characteristics is still limited, and in many cases emphasis is on selected companies in East Asian countries (China, In-donesia, Malaysia and Taiwan) and the United States of America. This study carries out this analysis on Nigerian conglomerates, and thus on a specific market within Western Africa. The variables used were extrapolated from the official audited reports and accounts of the companies and can be addressed as being free from discretional bias. The results of the conducted analysis, confirms that board size, board independent and board composition significantly affect related party transaction in one way or the other. In particular, our results show that RPTs and companies'.

Recommendations

Based on the findings of the study, the following recommendations were proffered:

1. In order to ensure the shareholders‟ returns, corporate organizations should encouraged to appoint board members based on expertise, character and professional qualifications as well have more outside directors in the size of the board.
2. Corporate organizations and policy makers are adjudged to look into the board independent play a significant role in publicly listed entities. They should be encouraged board independent as they are likely to carry out a more thorough diligent assignment.

References

[1] Abbott, L.J., Parker, S., Peters, G.F. & Raghunandan, K. (2003). The association between audit committee characteristics and audit fees. *Auditing: A Journal of Practice and Theory* 222: 17-32.

[2] Aharony, J., Wang J. & Yuan, H. (2009). Tunneling as an incentive for earnings management during the IPO process in China. *Journal Accounting and Public Policy* 10: 1-25.

[3] Atanasov, V.A., Black B.S. & Ciccotelo, C.S. (2008). Unbundling measuring tunneling, Finance Working Paper, European Corporate Governance Institute, Brussels.

[4] Abidin, Z. Z., Kamal, N. M., & Jusoff, K. (2009). Board structure and corporate performance in Malaysia. *International Journal of Economics and Finance*, *1*(1), 150–164

[5] Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, *14*, 257–273.

[6] Bliss, M. A., & Gul, F. A. (2012a). Political connection and cost of debt: Some Malaysian evidence. *Journal of Banking & Finance, 36*(5), 1520–1527.

[7] Bliss, M. A, & Gul, F. A. (2012b). Political connection and leverage: Some Malaysian evidence. *Journal of Banking & Finance*, *36*(8), 2344–2350.

[8] Boyd, B. K. (1994). Board control and CEO compensation. *Strategic Management Journal*, *15*(5), 335–344.

[9] Bae, K.H., Kang, J.K. & Kim, J.M. (2002). Tunneling or value added? Evidence from mergers by Korean Business Groups. *Journal of Finance* 57: 2695-2740.

[10] Bai, C.E., Liu, Q., Lu, J., Song, F.M. & Zhang, J.X. (2004). Corporate governance and market valuation in China. *Journal of Comparative Economics* 32: 599-616.

[11] Berkman, H., Cole, R.A. & Fu, L.J. (2009). Expropriation through loan guarantees to related parties. *Journal of Finance and Banking* 33: 141-156.

[12] Bertrand, M., Mehta, P. & Mullainathan, S. (2002). Ferreting out tunneling: An application to Indian Business Groups. *Quarterly Journal of Economics* 117: 121-148.

[13] Campbell, K., & Mínguez-Vera, A. (2007). Gender diversity in the boardroom and firm financial performance. *Journal of Business Ethics*, *83*(3), 435–451.

[14] Carter, D. a., Simkins, B. J., & Simpson, W. G. (2003). Corporate governance, board diversity, and firm value. *The Financial Review*, *38*(1), 33–53.

[15] Craswell, A. T., & Taylor, S. T. (1992). Discretionary disclosure of reserves by oil and gas companies: An economic analysis. *Journal of Business Finance & Accounting*, *19*(September 1991), 295–309

[16] Carcello, J.V., Hermanson, D.R., Neal, T.L. & Riley, R.A. (2002). Board characteristics and audit fees. *Contemporary Accounting Research* 19: 365-384.

[17] Chen, G., Firth, M., Gao, D.N. & Rui, O.M. (2006). Ownership structure, corporate governance, and fraud: Evidence from China. *Journal of Corporate Finance* 12: 424-448.

[18] Cheung, Y.L., Rau, P.R. & Stouraitis, A. (2006). Tunneling, propping and expropriation: Evidence from connected party transaction in Hongkong. *Journal of Financial Economics* 82: 343-386.

[19] Cheung, Y.L., Jing, L., Lu, T., Rau, P.R. & Stouratis, A. (2009a). Tunneling and propping up: An analysis of related party transaction by Chinese Listed Company. *Pacific Basin Finance Journal* 17: 372-393.

[20] Cheung, Y.L., Qi, Y., Rau, P.R. & Stouraitis, A.(2009b). Buy high, sell low: How listed firm price asset transfer in related party transaction. *Journal of Banking and Finance* 33: 914-924.

[21] Claessens, S., Djankov, S., Fan, J. & Lang, L. (2000). Expropriation of minority shareholders: Evidence from East Asia. Policy Research Working Paper. The World Bank.

[22] Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, *16*(1), 49–64.

[23] Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and

control. *Journal of Law and Economics*, *26*(2), 301–325.

[24] Faccio, M. & Stolin, D. (2006). Expropriation vs proportional sharing in corporate acquisition. *Journal of Business* 79: 1414-1444.

[25] Filatotchev, I., Jackson, G. & Nakajima, C. (2013). Corporate governance and national institutions: A review and emerging research agenda. *Asia Pacific Journal of Management* 30: 965-986.

[26] Gao, L. & Kling, G. (2008). Corporate governance and tunneling: Empirical evidence from China. *Pacific Basin Finance Journal* 16: 591-605.

[27] Gibson, M.S. (2003). Is corporate governance ineffective in emerging markets? *The Journal of Financial and Quantitative Analysis* 381: 231-250.

[28] Gilson, R.J. & Gordon, J.N. (2003). Controlling shareholders. Columbia Law School Working Paper No. 228.

[29] Gomes, A. & Novaes, W. (2001). Sharing of control as a corporate governance mechanism, Working Paper, Social Science Research Network.

[30] Goranova, M. (2007). *On the both sides of the deal: How does overlapping institutional ownership affect merger and acquisition*. PhD Thesis, Sofia University, Bulgaria.

[31] Gunarsih, T. (2002). *Struktur corporate governance dan kinerja perusahaan: Pengaruh struktur kepemilikan dan strategi diversifikasi terhadap kinerja perusahaan*. Unpublished PhD thesis, Universitas Gadjah Mada.

[32] Gujarati, D. N. (2003). *Basic Econometrics* (4th editio). New York: Mc Graw Hill.

[33] Haniffa, R. M., & Cooke, T. E. (2005). The impact of culture and governance on corporate social reporting. *Journal of Accounting and Public Policy*, *24*(5), 391–430.

[34] Hoechle, D. (2007). Robust standard errors for panel regressions with cross-sectional dependence. *Stata Journal*, *10*(3), 288–308.

[35] Haβ, L.H., Johan, S. & MÜller, M.A. (2016). The effectiveness of public enforcement: Evidence from the resolution of tunneling in China. *Journal Business Ethics* 134: 649-668.

[36] Hosseinyan, N., Hashim, F. & Isa, S.M. (2016). The role of corporate governance on the relationship between related party transaction and firm value. *International Conference on Management, Leadership & Governance*.

Kidmore End: Academic Conferences International Limited, 282-290.

[37] Indonesia Stock Exchange (IDX). 2009.,*IDX Fact Book 2009*. IDX, Jakarta.
[38] Indonesia Stock Exchange (IDX). 2010.,*IDX Fact Book 2010*. IDX, Jakarta.
[39] Indonesia Stock Exchange (IDX). 2011.,*IDX Fact Book 2011*. IDX, Jakarta.

[40] Jennings, W.W. (2005). Further evidence on institutional ownership and corporate value. *Advances in Financial Economics* 1: 167-207.

[41] Jia, N., Shi, J. & Wang, Y. (2013). Coinsurance within business groups: Evidence from related party transactions in an emerging market. *Management Science* 59: 2295-2313.

[42] Jian, M. & Wong, T.J. (2003). Earnings management and tunneling through related party transactions: Evidence from Chinese Corporate Groups. Working Paper, University of Science and Technology, Hongkong.

[43] Johnson, S., La Porta, R., Lopez-de-Silanes, F. & Shleifer, A. (2000). Tunneling. *The American Economic Review* 90: 22-27.

[44] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360.

[45] Johnson, S., & Mitton, T. (2003). Cronyism and capital controls: evidence from Malaysia. *Journal of Financial Economics*, *67*(2), 351–382.

[46] Krejcie, R. V, & Morgan, D. W. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, *30*, 607–610.

[47] Liang, Q., Xu, P., & Jiraporn, P. (2013). Board characteristics and Chinese bank performance. *Journal of Banking & Finance*, *37*(8), 2953–2968.

[48] Liao, L., Luo, L., & Tang, Q. (2014). Gender diversity, board independence, environmental committee and greenhouse gas disclosure. *The British Accounting Review*, 1–16.

[49] Linck, J., Netter, J., & Yang, T. (2008). The determinants of board structure. *Journal of Financial Economics*, *87*(2), 308–328.

[50] Osamwonyi, I. O., & Tafamel, E. A. (2013). Firm performance and board political connection : evidence from Nigeria. *European Journal of Business and Management*, *5*(26), 83–96.

[51] Oso, L., & Semiu, B. (2012). The concept and practice of corporate governance in Nigeria: The need for public relations and effective corporate

communication. *Journal Communication*, *3*(1), 1–16.

[52] Poon, W., Yap, A. K., & Lee, T. (2013). The outcome of politically connected boards on commercial bank performance in Malaysia. *Modern Applied Science*, *7*(1), 35–50.

[53] Raheja, C. G. (2005). Determinants of board Size and composition: A theory of corporate boards. *Journal of Financial and Quantitative Analysis*, *40*(2), 283–306.

[54] Rossouw, G. J. (2005). Business ethics and corporate governance in Africa. *Business & Society*, *44*(1), 94–106.

[55] Tu, G., Lin, B., & Liu, F. (2013). Political connections and privatization: Evidence from China. *Journal of Accounting and Public Policy*, *32*(2), 114–135.

[56] Ujunwa, A., Salami, P. O., & Umar, A. H. (2013). CEO duality and firm performance: An integration of institutional perceptive with agency theory. *International Journal of Social, Management, Economics and Business Engineering*, *7*(1), 97–103.

[57] Wan Hussin, W. N., Che-Adam, N., Lode, N. A., & Kamardin, H. (2005). Determinants of early adoption of FRS 114 (segment reporting) in Malaysia. *Asian Academy of Management Journal*, *10*(2), 1–20.

[58] Westphal, J. D. (1999). Collaboration in the boardroom: Behavioural and performance consequences of CEO board social ties. *Academy of Management Journal*, *42*(1), 7–24.