

**TYPE II AGENCY ISSUES AND FIRM VALUE:
THE CASE OF NIGERIAN PUBLIC LISTED
COMPANIES**

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COMPANIES**

by

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LIST OF ABBREVIATIONS

AGM	Annual General Meeting
AICPA	American Institute of Certified Public Accountants
ASEA	African Securities Exchange Association
BOFIA	Bank and Other Financial Institution Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CFO	Cash Flow from Operation
CFR	Cash Flow Ratio
CG	Corporate Governance
ECM	Error Components Model
ED	Executive Director
FASB	Financial Accounting Standard Board
FDI	Foreign Direct Investment
FE	Fixed Effect
FEM	Fixed Effects Model
FIA	Firm Age
FIS	Firm Size
FMOWN	Family Ownership
FRCN	Financial Reporting Council of Nigeria
FV	Firm Value
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product

GLS	Generalized Least Square
IAS	International Accounting Standard
IASB	International Accounting Standard Board
IASC	International Accounting Standard Committee
IASCO	Intern
ISG	International Surveillance Group
IFRS	International Financial Reporting Standard
KSA	Kuwait Stock Exchange
LEV	Leverage
LIQ	Liquidity
LM	Lagrange Multiplier
LSDV	Least-Squares Dummy Variable
MBVR	Market To Book Value Ratio
MCCG	Malaysian Code of Corporate Governance
MD	Managing Director
MLE	Maximum Likelihood Estimation
MSR	Market to Sale Ratio
NAICOM	National Insurance Commission
NASB	Nigerian Accounting Standard Board
NASDAQ	National Association for Securities Dealers
NCCG	Nigerian Code of Corporate Governance
NDIC	National Deposit Insurance Corporation
NYSE	New York Stock Exchange
NSX	Nigerian Stock Exchange
OBS	Observation
OECD	Organization for Economic Corporation and Development
OLS	Ordinary Least Square

PER	Price Earnings Ratio
PSX	Pakistan Stock Exchange
RE	Random Effect
ROA	Return on Asset
ROE	Return on Equity
ROS	Return on Sales
RPTS	Related Party Transactions
RQ	Research Question
SEC	Security and Exchange Commission
TBQ	Tobins Q
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

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ISU-ISU AGENSI JENIS II DAN NILAI SYARIKAT: KES SYARIKAT-SYARIKAT TERSENARAI AWAM NIGERIA

ABSTRAK

Kelaziman masalah agensi jenis II telah menyebabkan rampasan hak kepentingan minoriti yang mengurangkan nilai firma. Oleh itu, masalah agensi jenis II telah dikenalpasti sebagai antara faktor utama yang membawa kepada kejatuhan banyak syarikat. Oleh itu, peraturan menjadi keperluan terutamanya dalam pasaran baru di mana terdapat struktur tadbir urus yang lemah. Maka, kajian ini mengkaji pemboleh ubah pengaruh agensi jenis II (keluarga, ahli lembaga, dan struktur pemilikan tertumpu) ke atas penilaian firma syarikat tersenarai awam Nigeria (NSX). Kajian ini juga mengkaji keadaan yang menyebabkan perampasan hak kepentingan minoriti, dengan itu mengurangkan nilai firma syarikat tersenarai awam Nigeria (NSX). Kajian ini diteruskan untuk menyiasat bagaimana perampasan kepentingan minoriti boleh dikurangkan dan meningkatkan nilai firma syarikat tersenarai awam Nigeria. Kajian ini memperolehi data daripada 106 sampel syarikat bukan kewangan yang disenaraikan di bursa saham Nigeria, berdasarkan ketersediaan laporan tahunan penuh untuk tahun kewangan yang berakhir antara 2012 hingga 2020. Oleh itu, sampel kajian ini terdiri daripada 666 pemerhatian tahun firma. Statistik deskriptif, analisis korelasi, dan regresi berganda digunakan untuk menyelidik data yang dikumpul dengan hubungan antara masalah agensi jenis II dan nilai firma. Kajian ini menjumpai bahawa pembolehubah agensi jenis II (keluarga, ahli lembaga, dan struktur pemilikan tertumpu) adalah negatif dan signifikan mempengaruhi nilai firma syarikat tersenarai awam Nigeria. Hasil selanjutnya mendedahkan bahawa, pemilikan

keluarga dikaitkan secara positif dengan nilai firma apabila ia mencapai perkadaran yang lebih tinggi, manakala pemilikan lembaga dan tertumpu kekal berkaitan negatif dengan nilai firma tanpa mengira perkadaran pemilikan di kalangan syarikat tersenarai awam Nigeria. Selain itu, kajian mendedahkan bahawa RPTS mengurangkan kesan negatif pembolehubah agensi jenis II (keluarga, lembaga, pemilikan tertumpu) ke atas nilai firma. Kajian ini memberikan pandangan yang berguna kepada pembuat dasar. Sebagai contoh, ia memberikan bukti tentang cara masalah agensi Jenis II boleh diminimumkan, ia juga mendedahkan beberapa kelemahan dalam kod tadbir urus korporat Nigeria. Hasil kajian ini menyumbang kepada teori kos transaksi. Penemuan adalah mantap menggunakan regresi kuasa dua terkecil dua peringkat.

TYPE II AGENCY ISSUES AND FIRM VALUE: THE CASE OF NIGERIAN PUBLIC LISTED COMPANIES

ABSTRACT

The prevalence of Type II agency problem has led to the expropriation of minority interest right which reduces the firm value. Therefore, type II agency problems have been identified as some of the key factors that led to the collapse of many companies. Hence, its regulation becomes necessary especially in an emerging market where there is weak governance structure. Thus, this study examined the influence of type II agency variables (family, board, and concentrated ownership structures) on firm value of Nigerian public listed companies. The study also examined the conditions that lead expropriation of minority interest rights, thereby reduces the firm value of public listed companies in Nigeria. The study went on to investigate how expropriation of minority interest can be mitigated and improve the firm values of Nigerian public listed companies. The study obtained data from the sample 106 non-financial companies listed in the Nigeria stock exchange, based on the availability of full annual reports for the financial years ending between 2012 to 2020. Hence, the sample of this study was 666 firm year observations. Descriptive statistics, correlation analysis, and multiple regressions were used to analyse the data collected to investigate the link between type II agency problem and firm value. The study finds that, type II agency variables (family, board, and concentrated ownership) are negatively and significantly affecting firm value of Nigerian public listed companies. The result further reveals that, family ownership is positively associated with firm value when it reaches higher proportion, while board and concentrated ownerships remained negatively related to firm value irrespective of the proportion of ownership among

Nigerian public listed companies. Additionally, the study reveals that RPTS mitigate the negative effect of type II agency variables (family, board, concentrated ownership) on the firm value. The study provides a useful insight to policy makers. For instance, it provides evidence on how Type II agency problem can be minimized, it also exposed some weaknesses in the Nigerian code of corporate governance. The results of this study contribute to the transactional cost theory. The findings are robust using two-stage least-squares regression.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Globally, instances of corporate failures and scandals awakened interests on CG because stakeholders are now aware that even when the financial results of a firm portray high amounts of profitability, the same firm may simultaneously be in a bad state of liquidity. This has further increased research's efforts targeted at finding out the link between CG measures and performance generally. Also, there are regulations in almost all developed countries as well as emerging countries like Nigeria to protect investors' rights so that agency cost is minimized with the reduction of information asymmetry. The integrity of financial reporting can result in increasing or decreasing in the firms' value. The issue is always receiving much attention not only in developing economies but across the globe due to record of high-profile of accounting scandals which involves well-respected companies such as Enron (in Texas), WorldCom (in United State) and Xerox, and majority of these corporate scandals involved firms which had aggressively applied generally accepted accounting principles (GAAP). For example, Enron in the U. S has shifted its liability and losses to non-consolidated special purpose entities. This led to an unexpected nonrecurring charge of \$1.01 billion when it was required to recognize those amounts (Zhou & Chen, 2004; Abou Dargham 2018). It has been detected that controlling shareholders may engage in actions aimed at preserving control at the expense of minority investors, and hence depress firm value (Zhou et al., 2017; Amore et al., 2022), and that became a steady concern among regulators, investors and practitioners. This is because the firm value reduces as a result of their action (Zhao et al., 2023; Han & Wang, 2023).

However, coming down to Nigeria specifically, it records the cases of accounting malpractices such as the Cadbury Nigeria Plc scandal of 2006 involving a deliberate overstatement of its financial position to the tune of between US\$83.33 million and US\$96.15 million is a good reference point (Ajayi, 2006). Other fraudulent financial reporting cases are Lever Brothers Plc, Wema Bank, Afribank Plc, Finbank and Spring bank (Ajayi, 2006; Buallay, Hamdan & Zureiga, 2017). Once more, the Nigerian Security and Exchange Commission, which is the apex regulator of the Nigeria Stock Exchange (NSX) publicly made it known that security prices and accounting numbers had been manipulated (Olisaemeka, 2009; Osaze, 2011). Also, in the year 2018 a heavy borrowing involved the Skye Bank Managing Director/chief executive officer and the non-executive director who committed an insider related borrowings from the bank, taken the loans to fund their acquisitions by which largely linked to the insolvency of the bank and that led to its takeover by a Polaris Bank.

Most of these scandals were resulted from the poor application of corporate governance mechanisms which lead to agency problem. Therefore, in order to control potential agency costs, companies can use various corporate governance mechanisms to better align the interests of managers and owners. So, if this scandals are conflicts of interest that arises due to the lack of alignment of managers' (or boards') incentives with shareholders, or because of limited internal monitoring, therefore, the study expects that weaker governance structures will be positively associated with poor performance which subsequently decreases firm value (Fama & Jensen, 1983a; Ibrahim et al., 2006).

In the realm of corporate governance, agency theory serves as a crucial framework for understanding the dynamics between the stakeholders within organizations. Nigeria, as a developing economy with a diverse corporate landscape,

grapples with multifaceted agency issues that can impede effective decision-making and performance. One prominent challenge is the Type II agency issue, which arises when agents prioritize their personal interests over the objectives of the principals, leading to adverse consequences for the organization and its stakeholders.

The Type II agency issue specifically refers to situations where controlling shareholder engage in actions that deviate from the minority shareholders' interests, it is an agency problem that occurs between controlling shareholders and minority shareholders, which may lead to the expropriation of the minority shareholders. Thus, controlling shareholders could use the implementation of policies and incentives to obtain private benefits over the minority shareholders.

In the context of Nigeria, the Type II agency issue has gained significant attention due to its potential impact on the nation's economic development and investor confidence. As corporations strive to attract both domestic and foreign investments, the prevalence of agency problems can hinder capital inflow and impede the growth of the private sector. Additionally, the Nigerian corporate environment has witnessed instances of high-profile corporate scandals and financial mismanagement, often linked to Type II agency problems. These incidents not only erode the credibility of businesses but also undermine the broader economic progress.

Addressing the Type II agency issue in Nigeria requires a multifaceted approach that encompasses regulatory reforms, effective corporate governance mechanisms, and improved transparency and accountability standards. Recognizing the unique socio-economic context of the country, policymakers, regulators, and industry stakeholders must collaborate to design and implement solutions that promote ethical behavior, align agent interests with shareholder goals, and enhance overall corporate value.

1.2 Background of the Study

1.2.1 Corporate Governance

Corporate governance has assumed a central place in the continued effort to sanitize corporate reporting and shore up public confidence in financial markets around the world. The issue seems to revolve around putting the right rules, regulations and incentives in place to ensure transparency and accountability in the management of the affairs of corporate entities (Cadbury, 1992). The focus of the CG systems is the agency problem. Effective CG requires the installation of mechanisms to ensure that firm executives respect the rights and interests of shareholders, as well as guarantee them to act responsibly with regard to generation, protection, and distribution of wealth invested in the firm.

Despite the impact of cultural differences on corporate governance, there is evidence suggesting that most of the issues and challenges of corporate governance in a rapidly changing global business environment are similar, irrespective of geographical locations. It is generally believed to affect the performance of corporations across the globe. These can be in form of expropriating minorities' interest right (Liu 2021). Although, enough evidence exists to prove that business culture in Nigeria is among the worst in the world. There is, for instance, near lack of basic infrastructures, corporate frauds, inexperience management, and persistent change in government macroeconomic and fiscal policies, etc. In some other cases, corporate owners and managers deliberately embark on acts that serve more of self than the overall wellbeing of the affected firms (Ujunwa, 2012). These may deteriorate the firms' value due to the perceived information asymmetry consequently threatened the reliability of accounting numbers. Specifically in Nigeria, the Nigerian Accounting Standard Board (NASB) documents that limited financial reporting and disclosures

made by reporting entities have portrayed Nigeria as a risky country for the flow of Foreign Direct Investments (FDIs) (Osinubi 2020). This is because some entities do not provide investors with sufficient economic information that will enable them to understand their risk profiles to permit informed judgments and decisions. In addition, investors consider terrible performances are the key indicators of the Nigerian market was partly attributed to the loopholes in the financial reporting process that might be as a result of weak and/or corporate governance practices.

Therefore, if their contentions are valid, a market premium should exist for relatively well-governed firms (Hashmi et al., 2022; Subhan et al., 2023; Chen et al., 2023). Also, in an effort to prevent companies from failures and improving its value most of the countries across the globe introduced new codes of best governance practices to align managers' interest with that of shareholders for maximizing its wealth as their main objective. For example, the United State of America enacted Sarbanes Oxley Act in 2002, Malaysia introduced its own Malaysian Code of Corporate Governance (MCCG) in the year 1999, the New York Stock Exchange (NYSE) and the National Association for Securities Dealers (NASDAQ) adopted new corporate governance rules for exchange listed firms which were approved by the Securities and Exchange Commission (SEC) in November 2003, Australia in the year 2009, Russian Corporate Governance Code in the year 2002, etc). However, Nigeria in particular introduced the code of CG in the year 2003 by the Securities and Exchange Commission (SEC) to cover all listed companies in the Nigerian Stock Exchange (NSX).

Nigerian corporate governance landscape has been very dynamic. In the year 2003, the Nigerian Securities and Exchange Commission (SEC) the first Code of Best

Practices on corporate governance for the Nigerian public listed companies in addressing corporate reporting challenges, the revision therefore, came up with some amendments with regards to many issues (Ujunwa et al., 2012).

Also, in an attempt to address governance issues, governments of many nations across the globe have promulgated laws and adopt sound accounting standards. The laws serve as tools for monitoring the activities of corporate management and directors against the minority shareholders' expropriation. Therefore, Nigeria were not left behind, as part of her preparation and arrangement for the adoption of IFRS, the federal government through the SEC issued a revised code of corporate governance in 2012 to check corporate reporting challenges. This is in anticipation that, the new code of corporate governance will ensure the "highest standards of transparency, accountability and good corporate governance, without unduly inhibiting enterprise and innovation", and aligning with international best practices.

In addition, taking into consideration the crucial and indispensable role that corporate governance characteristic played in the way quoted companies are managed especially with the emergence of revised version of CG code 2012 and adoption of IFRS as the reporting standard in same year, and another modification of the CG code in the 2018, it has been an issue of discussion in accounting and finance literature whether mechanisms employs by the management in manipulating reported earnings and political connection through RPTS can be minimized with IFRS compliance as well influence of governance amendments.

Furthermore, Nigerian code of corporate governance can serve as a mechanism that can reduce the agency cost arises as a result of the conflict of interest which exists between managers and shareholders, this conflict emanates almost naturally, because

the separation of ownership from control of the modern-day business places the managers at a privileged position that gives them the latitude to take decisions that could either converge with or entrench the value maximization objective of the firm. Thus, managers can use their control over the firm to achieve personal objectives at the expense of stakeholders.

In the same way, a good corporate governance is widely believed to be an important factor in improving the value of a firm in every economy of the world, though the relationship between some corporate governance mechanisms and firm value differs in emerging economies like Nigeria and other developed economies of the world (Almashhadani 2021; Al-Homaidi et al., 2021).

Specifically, this study is motivated to revisits the agency problem and firm value relationship in Nigerian institutional setting due the following reasons: First, from the perspective of agency problems relevant to an emerging market economy. In particular, the explanatory power of agency problem on firm value is examined for Nigerian listed firms. This is done to ascertain if any emerging trends in their relationships appear (see. Imade 2019; Uwuigbe et al., 2019; Saidu 2019; Adedeji et al., 2020; Ozili 2020; Okoye et al., 2020; Nwude & Nwude 2021; Kafidipe et al., 2012; Ibrahim & Isiaka, 2023). Previous literature documents the presence of the agency problem in the institutional context of Nigeria, but without a clear channel through type II agency problem occurred (see. Sanyaolu et al., 2021; Herbert et. al., 2021; Clement & Isaac 2022). This is because Nigeria as an emerging African country where majority owners become executives of the firms, and in this way, they promote their own interests at the expense of other shareholders. Therefore, to deter such

agency problem, there is need to clearly assess the channel through which type II agency problem occurs.

Second, prior literatures limit to identifying how corporate governance helps to align and protect the interest shareholders and managers (see. Sanyaolu et. al., 2021; Herbert et al., 2021; Clement & Isaac 2022) without clear evidence on the consequences of types II variable, ignoring channel through which type II agency occurred.

Last, Extant literature confirm that, there are conditions attributes to the expropriation of minority interest by the controlling shareholders (Hu & Sun, 2019; Solarino & Boyd 2020; Gong et al., 2021). This study aims to identify those conditions in Nigerian context.

Consequently, Nigeria represents a good case study for exploring, the channel through which type II agency problem occurs, what are those conditions that lead to expropriation minority shareholders, and how it can be mitigated.

1.2.2 Controlling Shareholders and the Agency Problem in Nigeria.

Controlling shareholders in Nigeria, as in many other countries, hold a significant stake in a company that allows them to exercise a substantial degree of influence and control over its operations and decisions. The features of controlling shareholders in Nigeria can include. First, there are three types of controlling shareholders, the family, board, and the concentrated. Family-owned enterprises have only the profit objective. Board ownership is an ownership by member of the board of directors. Boards members owned shares with two different motives. Thus, shareholders' willingness to actively monitor managers' behaviour, thereby aligned the interests of all shareholders and reduces agency problems or shareholders'

willingness to takeover control, thereby expropriate minorities' right and increases agency problems. Ownership concentration can either contribute to value maximizing activities thereby reducing agency problems, or to accentuate agency conflicts between large shareholders and minority shareholders. Nigeria as developing country is peculiar with exploitation of minorities right will lead lower firm value. Therefore, research on controlling shareholders in Nigeria should be on how to mitigate the agency problem.

Second, controlling shareholders are the primary decision-makers. Some researchers have assumed, either explicitly or implicitly, that chairs of the boards are the primary decision-makers or controllers of firms. However, those who make the final decisions are always the controlling shareholders, especially in family business (families usually delegate control to the chair, a practice). Often, the controlling shareholder is also the chair, but even when she/he is not, she/he is still the primary decision-maker.

Finally, controlling shareholder entrenchment significantly contributes to the agency problem in Nigeria. Since controlling shareholders have large equity stakes, outside investors or boards cannot fire insiders for poor performance, nor can there be an effective market for corporate control (outsiders cannot obtain enough shares to seize control, nor can they seize control of families).

While Nigerian's family enterprise and enterprise owned board members concentrated their ownership and empowers controlling shareholders to discipline managers, to favour their interest, then conflicts with minority shareholders exist. This is how controlling shareholders extract private benefits at the expense of minority shareholders, especially when the ratio of control rights to ownership is very high.

1.2.3 Type II Agency Problem and Firm Value (FV)

The agency problem refers to conflicts of interest that arise between the owners (shareholders) and managers of a firm due to the separation of ownership and control (Dagnino et al., 2019; Ayunitha et al., 2020; Flayyih & Khiari 2023). The Type II agency problem specifically focuses on the divergence of interests between controlling shareholders and minority shareholders (Bin et al., 2018; Wang et al., 2020; Jiang & Kim 2020), often resulting in actions that prioritize the controlling shareholders' benefits over the overall firm value (Parinduri et. al., 2019; Cordeiro et. al., 2020; Jiang & Kim 2020; Sahasranamam et. al., 2020). This phenomenon can significantly impact on firm value and corporate governance practices (Hakimah et al., 2019; Al Farooque et al., 2019; Harun et al., 2020, Puni & Anlesinya 2020). In the Nigerian context, where corporate governance issues have historically been a concern, the Type II agency problem has gained prominence due to its implications for firm value.

Nigeria, as a developing economy, has faced challenges in establishing strong corporate governance practices. Historically, there has been a lack of transparency, weak enforcement of regulations, and inadequate protection for minority shareholders. This environment has fostered conditions where controlling shareholders may exploit their power at the expense of minority shareholders, leading to the Type II agency problem.

Controlling shareholders in Nigerian companies often have significant power to influence decision-making processes due to concentrated ownership¹ structures.

¹ Concentrated ownership refers to the situation where there is the presence of an owner with a large block of shares or an owner of several large blocks of shares in the firms.

Mostly developed countries are characterized with diffuse structure because of their sound and effective regulations that can protect the investors' right while developing and emerging markets are characterized with concentrated structure because of their weak regulations in protecting the investors' right. These shareholders, often family members or well-connected individuals may prioritize their personal interests over the long-term interests of the company and other shareholders. This could lead to actions such as siphoning off company assets, related-party transactions that are not in the best interest of the firm, and manipulations of financial statements to overstate profits. In Nigeria, shareholding comes in the form of ownership in a company by promoter group or family as well as board members. In these cases of firms owned by any or all of these categories agency problem arises due to the wedge between the majority shareholders and the minority shareholders, resulting in Type II agency problem. Therefore, large shareholders are potential controllers of equity agency problems as their increased shareholdings can give them a stronger incentive to monitor firm value and managerial behavior (Demsetz, 1983; Demsetz and Lehn 1985; and Shleifer and Vishny, 1986; Shleifer and Vishny, 1997, La Porta et al., 1998; La Porta et al, 1999; Claessens et al., 2000; Denis and McConnell, 2003). The situation is more prevalent in developing countries where large concentration of ownership is more evident. In those countries there is a higher degree of economic uncertainties coupled with weak legal controls and investor protection, and frequent government intervention; all resulting in poor performance (Ahunwan, 2002; Rabelo and Vasconcelos, 2002; Tsamenyi et al; 2007).

Furthermore, concentrated ownership was identified as a channel through which conflict of interest between controlling and minority shareholders occurs (Jensen & Meckling, 1976a; Shleifer & Vishny, 1986; Lucas-Pérez et al., 2015), which

reduces firm value (Filatotchev & Nakajima, 2010). However, this conflict varies substantially and robustly in terms of effect sizes and direction based on the type of company ownership, therefore there is substantial degree of heterogeneity in the effects within ownership types (Hu & Sun , 2019; Solarino & Boyd 2020; Gong et al., 2021), depending on some conditions (Solarino & Boyd 2020). But the conditions for such variation and/or heterogeneity is yet to be covered by the extant literatures. Now the question here is that what are those conditions? And which form of ownership are more effective in improving corporate value? Answering these questions can prepare the grounds for improving the firm value, so as to enable decision makers to identify ownership structure that bring optimal value to economic units.

Therefore, type II agency problem can have detrimental effects on firm value. When minority shareholders perceive that their interests are being disregarded, they might be less inclined to invest in or hold shares of the company. This lack of confidence can lead to reduced stock prices, decreased trading volumes, and a higher cost of capital for the firm. In turn, these factors can limit the firm's ability to raise funds for growth and expansion, thereby hampering its overall value and competitiveness.

While Nigeria has made efforts to improve its corporate governance landscape, challenges remain in enforcing regulations effectively. The Companies and Allied Matters Act (CAMA) was recently revised to address some governance issues, but implementation and enforcement gaps persist. In cases where legal remedies are available, the slow judicial process can deter minority shareholders from pursuing their rights.

Thus, this study is motivated by many issues. First, Many Nigerian firms have concentrated ownership, often with family or closely held ownership structures. More than, 60% of the listed companies are owned by individual or group individuals which concentrated to either families or board members (Babatunde & Olaniran 2009), and most of these companies have lower firm value. Family owners might prioritize personal interests over maximizing shareholder value, leading to agency conflicts. Second, Nigeria permit ownership by various wealthy families and rich individuals which led to greater number of individual shareholders with large direct equity holding (Ozili & Uadiale 2017).

Third, existence of severe asymmetric information environment between controlling owners and other minority shareholders in emerging market economies (Laidroo, 2009). While separation of ownership and control is one of the main reasons for the existence of agency problems (Jensen and Meckling, 1976a), in Nigeria, controlling (or large) shareholders are often owners (Ozili & Uadiale 2017), and they influence the production of accounting information and influence managers to divert corporate profits to themselves as private control benefits while minority shareholders suffered, which subsequently reduces firm value. Last, forms of ownership are the strongest channel upon which type II agency problem occurred. Nigeria is characterized with concentrated ownership due its poor investor protection and weak regulations in protecting the investors' right. Thus, the percentage of concentrated shareholding played a significant role in firm value.

Therefore, this study is curios to investigate the case of Nigeria to examine the influence of differing conditions of type II agency problem on firm value with focus

on families, boards and concentrated ownership because they important channel through which exploitation of minorities right occurred in Nigerian context.

1.2.4 Related Party Transactions (RPTS) and Firm Value (FV)

Public companies aim to maximize the firm value for its owners (Salaudeen & Ejeh, 2018), and to achieve this many policies need to be implemented (Murinda et al., 2021). One of this is, separation between owners and management, as a step to increase firm value (Griffith, 1999). In Nigeria, companies are governed by board of directors, shareholders, and management, of which agency problem exist among the three organs due to the nature of the ownership. Owners can be divided into majority and minority owners. Majority ownership is a condition where a shareholder owns more than 50% of the company's total shares, either directly or indirectly (Nasir & Morina, 2018). Many companies in developing markets, including Nigeria, are characterized by a high level of concentrated ownership to a certain group of shareholders (Herbert & Agwor 2021; Al-Ahdal et al., 2023). In Nigeria the most concentrated ownership is grouped into family and board ownerships (Salaudeen & Ejeh, 2018). Thus, RPTs can cover chance related to the improvement of one party at the expense of other parties, which may lead to many issues like expropriation of minorities for the gain of majorities by the administrators, directors or shareholders in control.

In this situation, agency problems arise when two transaction partners have competing interests (Solarino & Boyd 2020). Specifically, Type II agency problem occurs when two parties (controlling and non-controlling) hold equity positions. In this scenario controlling shareholders acts opportunistically against noncontrolling shareholders (Young et al., 2005). The concentration of ownership in Nigeria develops

a new perspective on agency problem in which the main issue is the conflict of interests between controlling and minority shareholders.

One method often suspected of eroding minority owners is related party transactions (Hendratama & Barokah, 2020). The company's affiliates can be shareholders of the company, other companies with the same shareholders, or subsidiaries. The transactions carried out can be in the form of sales transactions of goods or services that increase the value of goods or services or a financing transaction that increases the value of accounts payable.

This can be done in a number of ways, including price transferring which favors the shareholders, assets transferring of a firm to its controlling shareholder at the prices, which are nonmarket and loan guarantees where the assets of firms are used as collateral. Each of these transactions involves the transfer of an advantage from the company to the majority shareholder, sometimes at the expense of the minority shareholders (Rafay, 2022). While in some instances it is an efficient step that simplifies the negotiation process, lowers transaction costs, and minimizes risk (Hendratama & Barokah, 2020). So, the conclusion is that Related Party Transactions may reduce (Detrimental) and increase (Beneficial) the firm value (Abigail & Dharmastuti, 2022).

Consequently, the full disclosure of related party transactions is essential because it allows an investor to determine the level of interaction between a parent company and its associated holdings. An in-depth study of related party transactions is becoming increasingly essential to understand the relationship between specific operational related party transactions and firm value. Furthermore, as these transactions can result in either the creation of wealth or destruction of wealth, it is also necessary to determine the type of transactions, that ultimately benefit investors

and those that exploit them. For this reason, many companies continue to apply the related party transaction policy because the market also seems to view that not all related party transactions reduce the firm value based on the nature of the transaction (Kohlbeck & Mayhew, 2010).

Cheung et al. (2006) argue that related party transactions can be categorized as transactions that can reduce the firm value and transactions that can add value to the company. Therefore, it is clear that research regarding related party transactions must consider both non-beneficial and beneficial. Thus, related party transactions that are beneficial are associated with higher firm value (Chen et al., 2009). Furthermore, several types of related party transactions can add value to the company (Sharkar et al., 2007). For example, if the company obtains loans or cash directly from affiliates, they have high probability of benefiting from a related party transaction (Cheung et al., 2006, 2009). Recently, Fooladi and Farhadi (2019) proves that related party transactions are beneficial to the company. Since, transactions with subsidiaries are considered to add value to the company because the books of accounts of subsidiaries are usually consolidated with the company. Thus, the present study argues that presence related party transactions indirectly can mitigate type II agency problem, thereby increasing the firm value. This study aims to determine that whether or not agency problems are mitigated in Nigerian listed companies engaged in related party transactions.

Thus, going by the view of Hendratama and Barokah (2020) RPTs can be used as a means of mitigating Type II agency problem and enhance firm value in the Nigerian context. This is because related parties often have established market presence and networks. RPTs can provide minority shareholders with access to these markets, customers, or distribution channels that they might not have had otherwise.

This expanded market access can lead to increased sales and revenue, ultimately boosting firm value. Thus, it is an efficient step because it simplifies the negotiation process, lowers transaction costs, and minimizes risk (Hendratama & Barokah, 2020).

Therefore, extant literature considers related party transactions as beneficial that can be associated with higher firm value. Then the present study posits that with a number of related party transactions, the expropriation of minority shareholders can be mitigated.

Consequently, the present study believes in type II agency problem and firm value need to be moderated. This is due to the intricate dynamics of agency relationships, which stem from the divergence of interests between controlling shareholders and minority shareholders has garnered substantial attention.

1.2.5 Firm Value in Nigeria

Firm value has attracted great attention of prior and current researchers in Nigeria (Ehikioya 2009; Uwuigbe et al 2012; Emeka-Nwokeji 2017; Ayuba et al 2019; Ozili et al 2020; Coleman & Wu 2021), as it can tell a lot about the effectiveness of an organization and reflect the growth of that organization in the long-term (Sampurna & Romawati, 2020; Shah & Khalidi, 2020). Rational investors look at this indicator as a signal for making investment decisions because of the significant correlation between firm value and earnings (Collins et al., 1997; Burgstahler & Dichev, 1997). A company to increase its firm value is very important, because it can increase the prosperity of its shareholders (Putri & Wiksuana 2021). High firm value is not only useful for short-term company interests, but also useful for the company's future prospects (Fachrudin, 2018), which subsequently decrease the local investment and discourage foreign direct investment, thereby reduced the country's gross domestic product (Ausloos et al 2019). This resulted in a decline in both foreign private investment and foreign

portfolio investment and therefore, slowed down growth in all sectors of the economy including the capital market and money market (Ezeanyejì & Maureen 2019). Nigeria records drastic decrease in tax revenue as result of poor financial reporting for the companies' firms value. Figure 1.1 report a decrease in the collection due to poor performance of listed companies over a time.

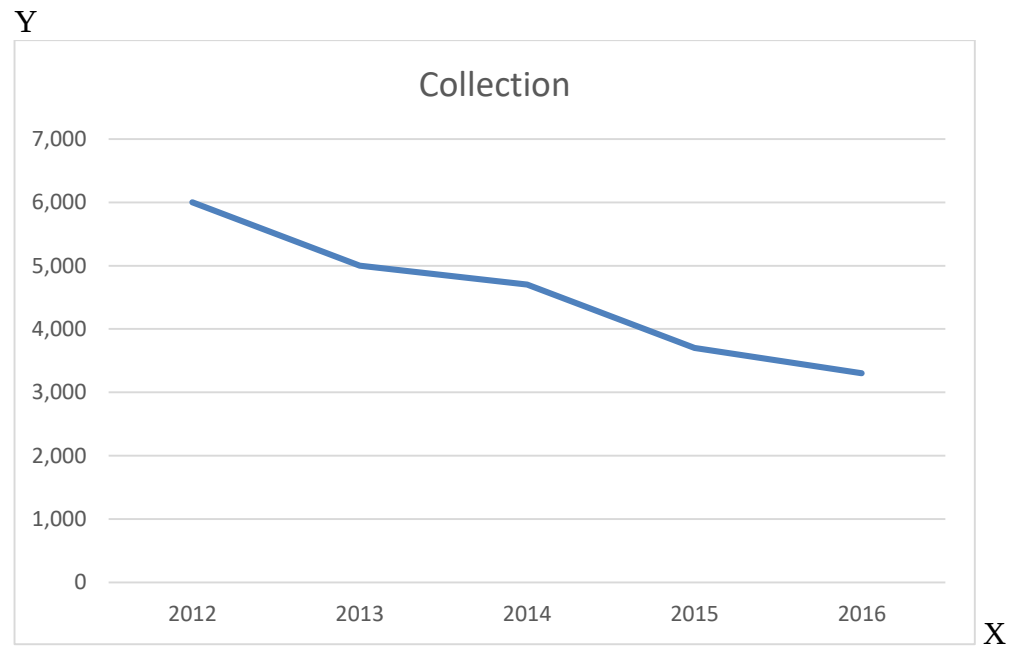


Figure 1.1 Collection from the Listed Companies

Source: Planning, Research and Statistics Department, FIRS 2023

Therefore, in an effort to increase listed companies' performance and firm value, of course there will be problems that occur between companies' shareholders, which are called agency problems. A company that has an unstable firm value will be judged to have decreased by investors so that it is difficult for the company to get additional funds because it will lose the trust of other investors (Putri & Wiksuana 2021).

In Nigeria, investors, both domestic and international, are strongly interested in the performance and value of firms (Adedeji, et al., 2020; Nwanji et al., 2021; Coleman & Wu 2021). Therefore, investigating firm value helps investors make

informed decisions about where to allocate their capital (Blankespoo et al., 2020). This, in turn, can impact capital flows, investment trends, and the development of the Nigerian financial markets. Firm value is often linked to the quality of corporate governance practices within companies (Puni & Anlesinya 2020). Increasing interest of investors and global awareness on risks associated with particularly the poor firm value, puts pressure on firms to increase their efforts and focus on enhancing firm value (Adedeji et al 2020). Investors and policy makers increasingly expect the firms to be keen on all these fronts, take necessary mitigation measures and report effectively. Firms report their performance on these risks broadly through agency issues. Therefore, exploring firm value in Nigeria can shed light on the effectiveness of corporate governance mechanisms and their impact on firm value. Also, the stability of the financial system in Nigeria depends on the health of individual firms. Thus, investigation on firm value helps assess the overall financial stability of the country by examining the financial health and performance of its key businesses (Mukhtaruddin 2019).

1.3 Problem Statement

The Nigerian Government through the Securities and Exchange Commission, initiated efforts at improving the country's corporate governance practice to encourage the Nigerian Listed Companies (NLCs) towards increasing firm value (Odewale 2020). Nigeria records drastic growth in poor financial reporting for the companies' firms value, as the of financial scandal relating to financial statement which prompt a decline in the market value of the firm and less of revenue for the company, thus, investors begin to lose trust in the companies and the companies would find it difficult to obtain the financial resources needed (Uwuigbe et al., 2019). Nigeria had recorded

a significant accumulation of reporting financial scandal which is getting the continuous attention of policymakers, media, investors and academic scholars (Herbert, et al., 2016). For example, the case of Mrs. Cecilia Ibru. In 2009, Mrs. Cecilia Ibru, the CEO of Oceanic Bank, allegedly obtained documents proving that funds paid to the company were for the project and awarded a contract to build the bank's corporate headquarters. Later, it was discovered that a document from Waves Ltd, a company owned by Ibru's Son, who was a director in the bank, allegedly showed that it owned the building while Oceanic would only be a tenant. This was true even though it was later discovered that the land on which the property is being built is reportedly family property, despite the fact that the aforementioned property is still under construction, Oceanic Bank has already paid Waves Ltd. \$22 million (N3.4 billion) for ten years of rent on the unfinished structure (Nwande 2021). This clearly shows how firms' value is tampered, which support the harmful effect of RPT. Also, another firm value case happened in Skye Bank, where the central bank of Nigeria (CBN) causes the entire board and senior management of Skye bank to vacate their offices whose are notorious for insider related dealings. This led to spending of \$366m by the Asset Management Corporation to rescue the Skye bank from failure (Zechariah 2018; Onodi & Onuche 2021). Therefore, Skye's license was cancelled by CBN, and its assets and liabilities were transferred to Polaris Bank, a bridge bank that had just received a license. Again, Oando PLC was with false disclosure, market abuses, misstatement in financial statement, internal control failures, corporate governance lapses by key board members specifically Jubril Adewale Tinubu and Godwin Omamofe who owned large portion of the company's shares (Ofurum & Gabriel 2019), which is lead to poor firm value.

The decline in firms' value by the Listed Companies is increasing the corporate failure and collapse of many firms, creating internal financing resistances by making current investors less-confident (Fabrizi 2018). Moreover, poor firm value is increasing the agency cost of the stakeholders (Harford et al., 2017), and creating external financing frictions (Dhaliwal et al., 2015), by making potential investors less-confident both within and outside Nigeria. Hence, it is vital to investigate how a decrease in the firm value of the Nigeria Listed Companies occurred. The following are the possible causes of this problem.

First, there were allegations of mismanagement, insider lending, and fraud by top executives, which ultimately affect the firm value and led to the collapse of some corporations (Bhasin 2013; Vithiatharan, & Gomez 2014; Gupta & Gupta, 2015; Roden et al., 2016; Raval 2018; Evana et al., 2019; Cole et al., 2021; Ghafoor et al., 2022; Ramasubramanian 2023). These issues were partly attributed to the lack of effective corporate governance mechanisms and regulatory oversight (Lim & Yen, 2011; Karolyi 2012; Raelin & Bondy 2013; Leventis et al., 2013; Pamungkas et al., 2018; Girau et al., 2022). This issue can be linked corporate governance practices which have often been criticized in Nigeria for not adequately aligning the interests of all shareholders (Clement & Isaac, 2022; Ososuskpor & Ekienabor, 2023).

Second, in Nigeria most of the listed companies are significantly owned by an individual, group of family or board members (Moses, 2021; Okudo, & Ndubuisi, 2021; Samuel, & Edogbanya, 2022; Tnushi et al., 2023), of which most of these owners become executives of the firms and they participate in managing the companies (Ironkwe & Emefe, 2019; Abiodun 2020). Thus, in this way, they promote their own interests at the expense of other (Minority) shareholders (Surroca et al., 2020; Eidt et

al., 2020; Al Farooque et al., 2020; Lu & Zhu, 2020), which also affect firm value. However, it is remarkably observed that, developed and emerging Asian countries have a clear direction of the effectiveness of corporate governance mechanisms in mitigating the agency conflicts and enhancing firm value through type II agency channel. For, example, in Italy convergence of interests among majority shareholders and minority shareholders exacerbate agency problems which are contingent on ownership concentration and family control (De Massis et al., 2018; Dagnino et al., 2019). In Indian Market, agency issues are reduced through concentrated and family ownership (Purkayastha et al., 2019; Purkayastha et al., 2022; Purkayastha et al., 2022). Similarly, family and board ownership compliment firm value in United States (Barbera et al., 2022). In Malaysia family ownership lead to severe type II agency problem which confirms the expropriation of minority shareholders rights (Basheer et al., 2021).

However, in Nigeria the reverse is the case, currently there is no clear direction of the consequences to the firm value. Prior literatures limit to identifying the effect of firm value on how the interest of minority shareholders' is abused not only minority shareholders but also Nigerian corporations (Ojogbo & Nwano 2019), without clear evidence on the consequences of types II variables on firm value. Another stream of studies investigates how corporate governance helps to align and protect the interest of all the shareholders and enhance firm value (Sanyaolu et al., 2021; Herbert et al., 2021; Clement and Isaac 2022), but they ignored any of the firm value through type II agency. Although, some studies tried to cover ownership concentration (Oluwagbemiga et al., 2014; Ogunsanwo 2019; Ironkwe and Emefe 2019; Alhassan & Mamuda 2020; Etale & Yalah 2022), but authors focused on either concentration or separation of controlling interest and non-controlling interest. Also, these studies

emphasize on either the alignment of managers and shareholders' interests which is not true channel upon which type II agency problem occurred or mere assessment of the ownership structure impact on the performance, without exploring how agency conflicts can be mitigated, thereby enhancing firm value. Recently, Samuel and Edogbanya (2022) evidenced the moderating effect of only one channel of type II agency problem on firm value. The study was limit to principal-agent issues without deepen into principal-principal issues, which also peculiar Nigerian business environment. Hence, there is need for the present study.

Third, Nigerian economy has been characterized by high level of information asymmetries and concentrated ownership (Shettima 2020; Okafor et al., 2023, Nwokediuko 2023). These defects the goal of shareholders' maximisation (Davis 2021), and growth of firm values (Foss et al., 2021), which make business activities riskier ventures (La Porta, 1998). As highlighted above, ownership in Nigerian corporations is highly concentrated. La Porta et al., (1996) have suggested on the basis of empirical studies that, in countries with concentrated ownership, exploitation of minority shareholders tends to be the basic problem, but controlling shareholder has the conditions for such exploitation (Solarino & Boyd 2020). Therefore, the major challenge of corporate governance in Nigeria is restricting such exploitation and exploring the conditions for such exploitation, which affect the firm value.

Furthermore, Nigeria like other developing countries is facing pressures to become more integrated into the global economy. What integration requires in practical terms is adopting programs of economic liberalization and deregulation. As a result of these pressures, the government has introduced reforms in several key areas related to corporate governance, such as removal of ownership restriction, investors

and strategic partners are allowed to hold up to 40% of the shares of companies among other (Ahunwan, 2021). Currently, 63% of the listed companies are owned by individual or group individuals which concentrated to either families or board members (Babatunde & Olaniran 2009), without any significant evidence to support the idea that firm value is improved, and most of the companies with agency problem have lower firm value (Jiang & Kim, 2020). Thus, poor reporting of firm value through expropriation of minority ownership exists. Following these reforms, there are many incidences among listed companies in Nigeria which confirm the existence of expropriation of minority shareholders' right (Pourmansouri, et al., 2022; Ghafoor et al., 2022; Tran et al., 2023; Urtiaga et al., 2023). For example, Oando, an integrated oil and gas company, faced a series of controversies and financial irregularities. The Securities and Exchange Commission (SEC) in Nigeria launched an investigation into Oando's affairs, alleging corporate governance breaches and financial mismanagement. This led to a suspension of trading in the company's shares on the Nigerian Stock Exchange (NSX). The investigation highlighted governance and transparency issues often associated with family-owned companies in April 2021, the Central Bank of Nigeria (CBN) removed the entire board of directors and management team of First Bank of Nigeria Limited, one of the country's oldest and largest banks. This move was attributed to corporate governance and regulatory concerns, particularly regarding the tenure of the bank's CEO and the appointment of a new one without proper regulatory approval. The incident highlighted governance and management issues in a family-controlled bank. Again, Nigeria's oil and gas industry is another area where concentrated ownership has led to poor performance. There have been concerns about lack of transparency and accountability in the allocation of oil licenses and contracts. Some companies with close ties to powerful individuals have