
DIRECTORS TUNNELING AND PERFORMANCE OF QUOTED CONSUMER GOODS FIRMS IN NIGERIA

Ifediora-Ugochukwu, Martina Amaka

Department of Accountancy

Chukwuemeka Odumegwu Ojukwu University, Igbariam

tinaamakaugo@gmail.com

Abstract

The study examined the relationship between directors tunnelling and performance of quoted consumer goods firms in Nigeria. To achieve the objective, directors tunnelling key proxy variables were used in the study, namely board of director's pay and Chairman's pay while performance which is the dependent variable is represented by earnings per share. Fifteen (15) firms were purposively selected from the Nigerian Exchange Group. The two hypotheses were formulated to guide the investigation and the statistical test of parameter estimates was conducted using Pearson correlation matrix and Ordinary Least Square Method. Ex-post facto research design was adopted and data for the study were obtained from the Nigerian Exchange Group Factbook and the published annual financial reports of the selected quoted consumer goods firms on Nigerian Exchange Group with data spanning from 2014 - 2021. Analyses of data indicate that both the board of director's pay and Chairman's pay were negative, and had insignificant effect on performance of quoted consumer goods firms in Nigeria at 5% level of significance. The study, therefore among others recommends that due to the negative relationship chairman's pay has with performance of consumer goods firms in Nigeria, like in the board of director's pay, we therefore suggest that proper control should be emphasized on the chairman's pay by the shareholders of consumer goods firms in order to prevent fraud.

Keywords: Directors tunnelling, board of director's pay, Chairman's pay, performance.

INTRODUCTION

Background to the study

In organizations with concentrated ownership, controlling investors can extract wealth from minority investors from a variety of perspectives. They can remove cash by selling resources, products, or administrations to the organization through self-managed exchanges, they can obtain advances on favourable terms, they can transfer resources from the recorded organization to other organizations under their control, or they can undermine the interests of minority investors by obtaining additional offers at a specific price (Johnson, La Porta, Lopez-de-Silanes, and Shleifer, 2000).

In organizations with concentrated ownership, controlling investors have the ability to perform seizure using a variety of techniques. According to Johnson, La Porta, Lopez-De-Silanes, and Shleifer (2000), controlling investors are motivated to separate or coerce cash by selling resources, products, or administrations to the organization through exchanges that benefit them. They obtain credit with a potentially more appealing and compelling term and then transfer the resources of a registered organization to another organization over which they continue to have control. Similarly, they may have weakened the interests of minority investors in order to obtain additional offers at reduced costs.

Nonetheless, despite extensive recounted evidence, there is little direct effective proof of the specific exchanges through which seizure occurs. The majority of scholarly writing has attempted to evaluate confiscation in an indirect manner (Bertrand, Mehta, and Mullainathan, 2002). Furthermore, the article provides mixed evidence that minority investors lose value as a result of explicit confiscation activities (Bae, Kang, and Kim, 2002). Directors' tunneling has received a lot of attention from business analysts in the last twenty years, but most scholarly work on directors' tunneling has been focused on a few developed countries such as the United States, the United Kingdom, and China, primarily due to information accessibility.

Several studies have been conducted on the effect of directors' tunneling on the performance of quoted firms, including Nurazi, Santi, and Usman (2015), Qian and Zhao (2011), Guohua, Charles, and Heng (2008), Fried, Kamar, and Yafeh (2018), Mohammad (2015), Kun and Xing (2012), Cheung, Rau, and Stouraitis (2003), Wenqian, Georgakopoulos, Ioannis, and Konstantinos (2011), and others. The majority of these studies were conducted in advanced nations or economies with legal and economic development that differed from developing countries such as Nigeria.

In Nigeria, we discovered that only the work of Nnubia and Obiora (2018) addresses directors' tunnelling and firm performance. They investigated the impact of director tunnelling on the performance of publicly traded companies in Nigeria. The study used return on assets (ROA) as a proxy for performance, and the year of assessment ended in 2018. However, this study will proxy performance with earnings per share and extend the year of assessment to 2021, using 2014 as the base year.

Objectives of the Study

The main objective of the study is to examine the effect of directors tunneling on corporate performance of quoted consumer goods firms in Nigeria. The specific objectives of the study include, investigating the:

1. effect of board of director's pay on corporate earnings of quoted consumer goods firms in Nigeria.
2. extent to which the Chairman's payment affects corporate earnings of quoted consumer goods firms in Nigeria.

1.4 Research Hypotheses

1. Board of director's pay have significant effects on corporate earnings of quoted consumer goods firms in Nigeria.
2. Chairman's pay has significant effects on corporate earnings of quoted consumer goods firms in Nigeria.

REVIEW OF RELATED LITERATURE

Directors Tunnelling

Directors' tunnelling is the transfer of company resources away from its shareholders. This can happen in two ways: a controlling shareholder can transfer resources from the firm using the CEO (who he helped appoint) for his own benefit through a self-dealing transaction. Such transactions include illegal theft or fraud, as well as asset sales and contracts with transfer pricing that benefits the controlling shareholder, excessive executive compensation, loan guarantees, and expropriation of corporate opportunities. Second, the controlling shareholder can increase his share of the company without transferring any assets by issuing dilutive shares, right issues, minority freeze outs, insider trading, creeping acquisitions, or other financial transactions that discriminate against minority shareholders. In addition to siphoning assets, profits, or corporate opportunities, the controlling shareholder can expropriate minority shareholders through financial transactions, such as diluting their stakes through a closed subscription to new stock.

Most Nigerian companies have concentrated ownership (block ownership, major shareholder), and these controlling shareholders have the ability to perform expropriation using a variety of methods. According to Johnson, La Porta, Lopez-de-Silanes, and Shleifer (2000), controlling shareholders are more likely to extract or extort cash by selling assets, goods, or services to the company in transactions that benefit themselves. With a potentially more appealing term, they obtain a loan and then transfer the assets of a publicly traded company to another company that remains in control. In exchange, they may have diluted minority shareholders' interest in acquiring additional shares at preferential prices.

According to Johnson et al. (2000), tunneling not only harms minority shareholders' interests but also seriously impedes capital market development (Wurgler, 2000; Bertrand et al. 2002). In Nigeria, most public companies have controlling shareholders (Nnubia and Obiora, 2018), who are in charge and have the authority to appoint and monitor corporate executives. These shareholders have the authority to expropriate minority shareholders and creditors within the limits set by the law. The central agency problem in such firms is not the failure of the Berle and Means (1932) professional managers to serve minority shareholders, but rather the frequent legal expropriation of such minorities and creditors by controlling shareholders (Shleifer and Vishny, 1997).

Board of Director's Pay

Tunnelling can be accomplished through a high compensation scheme for board members. According to Weisbach (2007), CEOs have significant influence over their own pay by

providing different types of incentives to directors. They are powerful agents who can influence the board of directors to prioritize their own interests over the interests of the shareholders they represent.

According to Johnson et al. (2000), director tunnelling is the transfer of company resources by board members away from shareholders. This can happen in two ways: a controlling shareholder can use the CEO (who he helped appoint) to transfer resources from the firm for his own benefit via a self-dealing transaction. Such transactions include illegal theft or fraud, as well as asset sales and contracts such as transfer pricing that benefits the controlling shareholder, excessive executive compensation, loan guarantees, and the expropriation of corporate opportunities. Second, the controlling shareholder can increase his share of the company without transferring any assets by issuing dilutive shares, right issues, minority freeze outs, insider trading, creeping acquisitions, or other financial transactions that discriminate against minority shareholders.

Although the negative effects of large shareholder tunnelling are widely debated, few studies have provided empirical evidence of their magnitude and impact. The earliest international tunnelling studies simply discussed the problem using illustrative case studies (Johnson et al 2000). Later studies indirectly infer the existence of tunnelling, either by linking ownership structure to market valuation of a firm's equity (Bae et al 2002), Bertrand et al (2000) or by observing changes in market value during Asian crises (Lemmon and Lin 2003).

Chairman's Payment

One of the most important considerations in corporate governance is determining how to align shareholders' interests with manager compensation. According to Tosi et al. (2000), managers prefer information asymmetry in their decision-making process because they prefer to pursue their own goals, which frequently differ from those of shareholders. A compensation contract's purpose is to reward managers in such a way that they strive to maximize earnings, ensuring that both managers and shareholders meet their expectations.

Performance

The concept of performance is contentious in finance and accounting, owing to its multidimensional meanings. A company's profitability is calculated based on its gains over its operating years. Performance can be studied from two perspectives: monetary and organizational (the two are interconnected); a company's performance can be measured using variables such as productivity, returns, growth, or even customer satisfaction (Nnubia, 2017). In this study, performance is proxied by earnings per share (EPS).

Agency Theory

Agency theory is one of the theoretical principles that governs the relationship between the shareholder (principal) and the director (agent). It was created by Jensen and Meckling in 1976. Agency theory is the dominant theory in accounting and auditing. According to Tricker (2012), contractual mechanisms such as corporate governance are used to monitor management and address the separation of ownership and control. According to the agency view, management is viewed as self-interested actors who act opportunistically, favoring their own interests over those they represent, even if these actions are harmful to owners (Jensen and Meckling, 1976).

Thus, two mechanisms are identified to curb this behaviour: contractual mechanisms to align management goals with the principal, and information systems introduced to reduce information asymmetry between owners and management, which can also limit opportunistic behaviour by making management aware that they cannot deceive the monitors (Cohen et al., 2008). The agency perspective views independence from management and expertise as the primary and central characteristics of a monitor (Cohen et al., 2008).

Table 2.1: Summary of the Empirical Studies

S/N	Author	Topic	Variables	Methodology	Findings
1	Nnubia, Okegbe and Egbuziem (2023)	Board Characteristics and Tunnelling: An Empirical Analysis of Consumer goods companies in Nigeria	Board size, board independent, director's pay.	Pearson correlation method	Board size is positive and has insignificant effect on tunnelling of quoted consumer goods companies in Nigeria; while board independent is negative, but does not have any significant effect on tunnelling of quoted consumer goods companies in Nigeria.
2	Fried, Kamar and Yafeh (2018)	Effect of minority veto rights on controller tunnelling in Israel.	minority veto rights and controller tunnelling	regression.	They find that the reform curbed the pay of controller executives and led some controller executives to quit their jobs, or work for free, in circumstances suggesting their pay would not have received approval.
3	Nnubia and Obiora (2018)	Effect of director's tunnelling on firm performance of quoted companies in Nigeria.	Board of director's pay, Chairman's pay, Director's equity holding, asset utilization (Performance).	Ordinary Least Square Method	Chairman's pay and Director's equity holding has negative significant effect on the dependent variable – asset utilization (Performance); whereas Board of director's pay is positive and has no significant impact on the asset utilization (Performance).
4	Nurazi, Santi and Usman (2015)	The relationships between corporate governance variables and tunnelling activities in Indonesia.	SINGLE ownership, family ownership, STATE ownership, LEVERAGE, TUNNELING,	regression.	They find that several corporate governance variables contribute to explaining the phenomenon of tunnelling in Indonesia. They find that firms with family and state

			institutional (INST) ownership.		ownership tend to experience tunnelling.
5	Hyungseok and Woochan (2015)	Executive compensation when a firm is a business group member.	The study used industry stock return, return on assets, firm size, stock option, change in ROA as independent variable while related party transaction as dependent variable.	ex post facto design.	The finding reveals that director's cash compensation in a group is positively linked to corporate resource being tunneled from one member to another. It also find strong link between cash compensation and stock performance.
6	Ridwan, Fitri and Berto (2015)	Tunneling: evidence from Indonesia Stock Exchange	Board size, outsider's directors, group and big five ownership, ownership structure.	longitudinal design and made use of multiple regression.	The finding reveals that firms with family and state ownership experience tunneling than others. The study also finds that family, state and leverage ownership structure has positive effect on tunneling.
7	Mohammad (2015)	Effect of executive incentives on firm performance.	The study used equity based director's pay, firm performance and risk taking.	Ex-post facto design was used. The data collected were analyzed using descriptive statistics, correlation and multiple regressions.	The study finds that equity based director's pay is positively related to firm performance and risk taking. The finding provides evidence to support the equity based director compensation as a tool for reducing agency conflict.
8	Chena, Wanga and Lin (2014)	The role of the network centrality of independent directors in restraining tunnelling behavior by controlling shareholders in the Chinese capital market.	Tunnelling behavior by controlling shareholders, network centrality of independent directors,	Regression.	The shows that tunnelling behavior by controlling shareholders is negatively related to the network centrality of independent directors and that this relationship is stronger when non-operating fund occupation is used as the measure of tunneling. The results of our study

					show that board networks can help independent directors to restrain tunnelling behavior by large shareholders, which plays a positive role in corporate governance.
9	Ying and Wang (2013)	The motivation behind controlling shareholders' propping acts and subsequent wealth-transfer behavior and how both affect firm performance.	maintenance of shell resources and qualification for refinancing, propping behavior and tunnelling.	OLS.	They find that such institutional motivators as the maintenance of shell resources and qualification for refinancing have a significant effect on the propping behavior of controlling shareholders of Chinese listed firms and that such behavior is often followed by more serious tunneling when shareholders are driven by these motivators.
10	Kun and Xing (2012)	Controlling shareholder tunneling and executive compensation: evidence from China.	Executive compensation and firm performance.	pooled cross sectional regressions using levels specification and changes specification.	The study finds that if good director's incentives scheme are adopted, controlling shareholders who obtain private benefit from companies will have less incentive to do so.
11	Wenqian, Georgakopoulos, Ioannis and Konstantinos (2011)	Impact of director's payment on firm performance: evidence from financial enterprises in China.	Firm size and ownership, non-performing loan ratio, change in compensation.	ex-post facto and made used of panel regression.	The findings reveals that: • Non-performing loan ratio and ROE has positive significant effect on director's compensation. • Change in compensation has no effect on bank performance.
12	Qian and Zhao (2011)	Effects of strengthening shareholder rights on tunnelling in China.	Shareholder rights and tunnelling.	OLS	Their difference-indifferences estimations show that firms adopting cumulative voting experience a significant decrease in tunneling activities by controlling shareholders relative to

					firms that do not follow this voting mechanism.
13	Guohua, Charles and Heng (2008)	Tunneling in China: the remarkable case of inter - corporate loans	The study used inter - corporate loans (proxy for director tunneling, and ownership structure	panel regression approach	The study finds that the incentives to tunnel diminish as controlling shareholder ownership increase.

METHODOLOGY

Research Design

The study adopted ex post facto research design. The reason for this is because the data used were secondary data. The secondary data used for this study were obtained from the internet, annual financial reports and Nigerian Exchange Group over a period of 2014 to 2021. Panel data were used. The study sought to analyse with the available data on the relationship between the directors' tunnelling and firm earnings.

The population of this study consist of the total number of consumer goods companies quoted on the Nigerian Exchange Group (XGN). The study population is considered finite; and the population size of consumer goods companies quoted on the Nigerian Exchange Group amounted to 21. Sample of fifteen (15) companies were purposively selected based on availability of the required data, using the judgmental sampling method.

Method of Data Analysis

The secondary data collected were analysed using descriptive statistics, correlation and OLS regression analysis. The descriptive statistics were used to evaluate the characteristics of the data such as Mean, maximum, minimum, and standard deviation and also checks for normality of the data. The correlation analysis was used to evaluate the relationship between the variables and to check for multi-collinearity. The ordinary regression analysis will be used to evaluate the effect of the independent variables on the dependent variable. It reveals the degree of influence and effect the independent variables has on the dependent variable.

Model Specification

The model for the study was premised on the main objective and anchored on the sub-objective. The model was adopted from the work of Nnubia and Obiora(2018) and modified to suite the independents variables used in this study.

The Nnubia and Obiora (2018) model is as follows:

$$ASUT = f(DPAY, CPAY, DEQH) \quad - \quad - \quad - \quad -I$$

$$ASUT_{it} = \beta_0 + \beta_1 DPAY_{it} + \beta_2 CPAY_{it} + \beta_3 DEQH_{it} + u \quad - \quad -II$$

Where,

ASUT = Asset utilization

DPAY = Director's pay

CPAY = Chairman's pay

DEQH = Director's equity holding

U = the error term

β_1 - β_3 = the independent variable coefficients

The model for the study is anchored on the objective. Therefore, the above model was adopted and modified as follows:

$$EPS = f(DPAY, CPAY) \quad - \quad - \quad - \quad -III$$

This can be econometrically express as

$$EPS_{it} = \beta_0 + \beta_1 DPAY_{it} + \beta_2 CPAY_{it} + u \quad - \quad -IV$$

Where,

EPS = Earnings per share

DPAY = Director's pay

CPAY = Chairman's pay

U = the error term

β_0 = the intercept

β_1 - β_2 = the independent variable coefficients

Variable Description

The study used a panel data collected from the quoted consumer goods companies in Nigeria within the period covering 2014 – 2021. The variables and their proxy were operationlized as follow:

Variables	Measures
Earnings per share (EPS)	earnings per shareas appeared in the annual reports
Director's pay (DIPAY)	Director's pay / operating expenses (Nnubia & Obiora (2018)
Chairman's pay (CHPAY)	Chairman's pay / Staff cost (Nnubia & Obiora (2018))

PRESENTATION AND DATA ANALYSIS

The summary of the analysis result and its corresponding interpretations of the effect of directors tunnelling on performance of quoted consumer goods companies in Nigeria are presented below.

4.1 Descriptive Statistics

VARIABLES	EPS	DPAY	CPAY
Mean	5.317750	0.167650	0.338775
Median	6.010000	0.142000	0.300000
Maximum	252.5000	0.490100	0.890100
Minimum	-691.0000	0.070100	0.101000
Std. Dev.	71.39321	0.071023	0.172959
Skewness	-7.431694	2.216505	1.720654
Kurtosis	78.03071	9.396233	5.816604
Jarque-Bera	29252.64	302.8169	98.87930
Probability	0.000000	0.000000	0.000000
Sum	638.1300	19.99800	40.52100
Sum Sq. Dev.	606541.9	0.600261	3.559874
Observations	120	120	120

Source: Researcher summary of descriptive statistics (2025)

Table 4.1 above shows the mean (average) for each variable, their maximum values, minimum values, standard deviation. The result provides some insight into the nature of the selected firms' data used for the study. Firstly, it was observed that over the period under review, the sampled companies have positive average earnings per share (EPS) of 5.317750, and this means that the selected firms has a positive earnings (performance) in the period of the study. The table also reveals a positive average value of 0.167650for DPAY, and 0.338775for CPAYfor the selected firms used in the study. The maximum value of DPAY is 0.490100and its minimum value is 0.070100, maximum value for CPAY is 0.890100 and its minimum value is 0.101000. The large differences between the maximum and minimum value shows that the firm's data used for the study are homogeneous.

4.2 Correlation Analysis

VARIABLES	EPS	DPAY	CPAY
EPS	1.000000	-0.011737	-0.027713
DPAY	-0.011737	1.000000	0.143765
CPAY	-0.027713	0.143765	1.000000

Source: Researcher summary of correlation analysis (2025)

The correlation matrix is to check for multi-collinearity and to explore the association between each explanatory variable and the dependent variable. The findings from the correlation matrix table (table 4.2 above) shows that earnings (EPS) has a negatively associated with DPAY (-0.011737), and CHPAY (-0.027713). DPAY has a strong positive association with CPAY (0.143765). In checking for multi-collinearity, the study observed that no two explanatory variables were perfectly correlated.

4.3 Regression Analysis

Table 4.3: Earnings (EPS) Model

Dependent Variable: EPS
Method: Panel Least Squares
Date: 01/04/25 Time: 06:46
Sample: 2014 2021
Periods included: 8
Cross-sections included: 15
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.34807	19.96863	0.518216	0.6053
DPAY	-7.958198	93.86901	-0.084780	0.9326
CPAY	-10.96939	38.54562	-0.284582	0.7765
R-squared	0.700829	Mean dependent var		5.317750
Adjusted R-squared	-0.706250	S.D. dependent var		71.39321
S.E. of regression	71.97096	Akaike info criterion		11.41508
Sum squared resid	606038.8	Schwarz criterion		11.48477
Log likelihood	-681.9051	Hannan-Quinn criter.		11.44338
F-statistic	0.048560	Durbin-Watson stat		2.377949
Prob(F-statistic)	0.952620			

Source: Researcher summary of Regression Analysis (2025)

The R-squared which is the co-efficient of determination or measure of goodness of fit of the model, tests the explanatory power of the independent variables in any regression model. From our result, the R-squared (R^2) is 70% in the Model. This showed that our model displayed a good fit because the R^2 is closer to 100%, these explanatory variables can impact up to 70% out of the expected 100%, leaving the remaining 30% which would be accounted for by other variables outside the models as captured by the error term.

The F-statistics measures the overall significance of the explanatory parameters in the model, and it shows the appropriateness of the model used for the analysis while the probability value means that model is statistically significant and valid in explaining the outcome of the dependent variables. From table 4.3 above, the calculated value of the f-statistics is 0.048560 and its probabilities are 0.952620 which is greater than 0.05. We therefore accept and state that there is insignificance relationship between the variables. This means that the parameter estimates are statistically insignificant in explaining the relationship in the dependent variable.

The t-statistics helps in measuring the individuals' statistical significance of the parameters in the model from the result report. It is observed from table 4.3 above that DPAY and CPAY with its values as -0.084780 and -0.284582 respectively are not statistically significant at 5%.

Our model is free from the problem of autocorrelation because the Durbin-Watson value is 2.377949 which are approximated as 2.

The a priori criteria are determined by the existing accounting theory and states the signs and magnitude of the variables from the result. DPAY has negative sign and its values are -0.084780. In the model, this implies that decrease in DPAY decreases the earnings (performance) by 0.085. CPAY also has negative sign and its values are -0.284582. In the

model, this implies that decrease in CPAY also decreases the corporate earnings (performance) by 0.285.

Hypotheses Testing

H₀₁: Board of director's pay does not have significant effects on the performance of quoted firms in Nigeria.

From the result of our test in table 4.3 above, we found out that the value of our t-test for DPAY is -0.084780 with a probability of 0.9326. This probability value is greater than the desired level of significant of 0.05. We accept the null and reject the alternative hypothesis, which says that board of director's pay does not have significant effects on the performance of quoted consumer goods firms in Nigeria. Thus, board of director's pay is negative and has insignificant effect on performance of quoted consumer goods firms in Nigeria at 5% level of significant. This means that decrease in the board of director's pay will has no effect on performance of quoted consumer goods firms in Nigeria.

H₀₂: Chairman's pay does not have significant effects on the performance of quoted firms in Nigeria.

In the result of our test in the table 4.3 above, we found out that the value of our t-statistics for CHPAY is -0.284582 with a probability of 0.7765. This probability value is greater than the desired level of significance of 0.05. We therefore, reject the alternative and accept the null hypothesis, which says that chairman's pay does not have significant effects on the performance of quoted consumer goods firms in Nigeria. Thus, chairman's pay is negative, but does not have any significant effect on performance of quoted consumer goods firms in Nigeria at 5% level of significant. This means that decrease in the chairman's pay will has no effect on performance of quoted consumer goods firms in Nigeria.

Conclusion and Recommendations

Based on the result, the analysis reveals that both board of director's pay and chairman's pay has negative relationship with performance which are statistical insignificant at 5% level. Thus, they have no statistical significant effect on performance of consumer goods companies in Nigeria. This confirms with the study of Nnubia and Obiora (2018) which revealed that director's pay does not has statistically significant on assets utilizations.

Based on the results and conclusions, the following recommendations were made;

Due to the negative relationship board of director's pay and chairman's pay has with performance of consumer goods firms in Nigeria, Management and controlling of board of director's pay is therefore an important factor to be considered in enhancing or boosting the performance of consumer goods firms in Nigeria. It is therefore necessary that adequate management and controlling of board of director's pay and chairman's pay should be pursued by the shareholders of the consumer goods firms in Nigeria. This can be achieved by specifying the terms and conditions of the board of director's and chairman's pays in the annual general meeting of the shareholders.

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