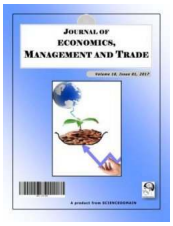

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Prepotency of Nigerian Securities and Exchange Commission Code of Corporate Governance among Public Companies

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Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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ABSTRACT

This study empirically examined the prepotency (i.e. superiority at the level of importance) of the regulatory provisions of the Securities and Exchange Commission's (SEC) Code of Corporate Governance (CCG) for public companies in Nigeria. A stratified random sampling technique was adopted in arriving at a sample size of forty publicly quoted companies in the Nigerian Stock Exchange (NSE). The regulatory provisions of SEC's CCG that were examined in this study as independent variables include Ownership Concentration, Separation of the Position of Chairman from Chief Executive Officer, Board size and Independent Directors. The proxies for companies' performance are Profit Margin, Earnings Per Share, Return on Equity, Return on Asset and Tobins Q. Related literatures were reviewed and the Pearson, Kendall and Spearman rho Matrices respectively were employed for the purpose of analysis and estimates. Findings from the comparison of the correlation co-efficients of Pearson's, Kendall Tau-b's and Spearman's rho Matrices rank the SEC code in order of importance as follows: 1st, Ownership Concentration; 2nd, Board size, 3rd Separation of the Position of Chairman from Chief Executive Officer and 4th, Independent Directors. Recommendations include upscaling the SEC Code of Corporate

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Governance provisions on Board size and separation of the position of Chairman from Chief Executive Officer together with that of Independent Directors to the same level of importance with ownership concentration, for the purpose of risk reduction and foreign capital inflow at the company-level and capital market rebound including the nation's currency appreciation over the prevailing recession in Nigeria.

Keywords: Board size; independent directors; ownership concentration; Securities and Exchange Commission; Corporate Governance.

1. INTRODUCTION

The World Economic Forum in its 2013-2014 Global Competitive Index (GCI) benchmarked Nigeria as the 120th out of 148 countries. Brazil and South Africa ranked 56th and 53rd respectively. South Africa was in a leading position over Nigeria in overall ranking due to its corporate governance record as it ranked highest in the world in three of the corporate governance indices [1].

Interestingly, despite the fact that detailed results from the GCI on specific indicators of corporate governance ranked Nigeria as 131st on ethical behaviour of firms, 106th on board efficacy, 101st on protection of minority shareholders and 57th on investors protection [1], one must note that these specific indicators totally excluded the most common corporate governance indicators in Nigeria which comprised ownership concentration, Board size, Separation of the position of Chairman from Chief Executive Officer and Independent Directors.

However, [2] provided an insight for the poor corporate governance position which Nigeria occupy in the GCI on corporate governance by insisting that unethical business practices, especially corporate hospitality among board of directors of public companies in Nigeria, jeopardized the independence of outside directors which threatens the growth of strong corporate governance practice in Nigeria.

The research objective of this paper therefore is to examine the superiority at the levels of importance of the most common corporate governance indicators (Ownership Concentration, Separation of the Chairman and Chief Executive Officer, Board size and Independent Directors) in Nigeria. The outcome of this study will not only give insights to the importance of these corporate governance indicators, but will also give insights on the limitations of the Global competitiveness index that were excluded in the estimation, and ranking of important indicators that are contained in Nigeria's SEC Code of Corporate Governance.

2. DEFINITION OF CONCEPTS AND THEORETICAL FRAMEWORK

To achieve some measures of clarity in this study, the concepts and theoretical framework used are stated below.

2.1 Securities and Exchange Commission Code of Corporate Governance

The concept "corporate governance" is not strange to the financial and corporate environment in Nigeria. According to [3], Nigeria experienced a myriad of corporate scandals and subsequent failures in the 1990s, especially in the banking sector. This can be attributed to the poor state of corporate governance in the country. This ugly situation led to the loss of public confidence on the corporate world, especially in the financial sector. One major attempt of the government of Nigeria to regain public confidence on corporate entities was the development and promotion of good corporate governance culture through the SEC code of corporate governance for public companies.

SEC [4] defines corporate governance as an arrangement involving a set of relationship between company's management, its board, its shareholders and other stakeholders. It is a mechanism or governance framework through which the objectives of companies are set and the means of attaining those objectives and monitoring performance are determined in order to guarantee the efficient management of the resources and affairs of such companies [5,6,7]. The core components of the code include Ownership Concentration, Board size, Independent Directors and the Separation of the position of the Chairman from the Chief Executive Officer. Corporate

governance, as noted by [8], also includes the relationship among various stakeholders and the goals for which an organization is governed.

2.2 Prepotency

It is the benchmarking or the ranking of the corporate governance code at the levels of importance among public companies in Nigeria. The mechanism of prepotency is by estimating the degree of influence of corporate governance indicators (i.e. Ownership Concentration, Separation of the Chairman from the Chief Executive Officer, Board size and Independent Directors) on public companies' performance proxies (i.e. Return on Equity, Profit Margin, Return on Asset, Earnings Per Share and Tobins Q).

2.3 Public Companies

Public companies are defined by the requirements of the SEC Code of Corporate Governance which such companies must fulfill. The Code of Corporate Governance are as follows: Not more than 2 members of the same family should sit on the board of directors to check interlocking and family directorship; the composition of the board should not be less than 5 or more than 15 persons; board meeting should hold at least once in a quarter and each director must attend at least two-third of such board meetings (as this is the criteria for renomination) Chairman and Chief Executive Officers positions are separate; majority of the directors are to be non-executive and at least one independent; independent directors should be non-executive; multiple directorship is prohibited in the same industry to avoid conflict of interest; the chairman of the board must not be a member of any Committee and External Auditors should be rotated after serving for 7 years and may only be re-appointed after another 7 years [9].

2.4 Theoretical Framework – Shingle Theory (Self Regulation)

This study is anchored on the Shingle Theory. According to [10], the "shingle theory" is based on the assumption that players in the market will do "Fair and Honest business". But business has never been done in a fair and honest manner in the Nigerian securities market. The general impression has been that brokers - dealers which are investment advisers – are thieves. Few of them are in jail because they stole investors' funds. Some brokers have their licenses withdrawn by the regulators. In addition, there have been cases of manipulation of share prices, insider trading and listing infractions by privileged investors and their collaborators. These unethical trade practices arising from self-regulation exposes the limits of the shingle theory and provides the justification for the SEC intervention through corporate governance mechanisms.

3. LITERATURE REVIEW

Previous studies include [9] anecdotal study which benchmarked the Nigerian code of corporate governance with the Organization of Economic Co-operation and Development (OECD), principles of corporate governance to ascertain how the Nigerian codes complied with them on key elements comprising Board composition, Board meeting, interlocking and family directorship, executive and non-executive directors, independent directors, multiple directorship, remuneration of Executive Directors, Board committees, Chairman of Board Committee, insider trading, conflict of interest, accountability and reporting, External Auditors and Separation of Chairman and Chief Executive Officers. Findings from this anecdotal study show that there are disparities between OECD and the Nigerian code at the level of compliance. One of such disparities is how a company that is quoted in the Nigerian Stock Exchange and also operates in one of the sectors regulated by other codes (e.g. CBN Code and Pension Commission Code) can comply with the two codes? For instance, the SEC Code is substantially not mandatory, those of the CBN and PENCOM codes are mandatory. The anecdotal study of [9] recommends the harmonization of the challenges of multiplicity of corporate governance codes in Nigeria.

Another study on the prepotency of corporate governance code is the World Bank/IFC study that used corporate governance and corporate social responsibilities indices as basic barometers for benchmarking corporate governance practices and for evaluating compliance level. This study found that emerging markets have led the way in raising standards of corporate governance. The Nigerian government, as an example, invited the World Bank/IFC to conduct a corporate governance policy

Table 1. Company performance proxies

Dependent proxies	Method of estimation
Earnings Per Share (EPS)	Profit after interest, tax and preference Nigeria
	No of Equity shares in issue
Return on Equity (ROE)	Profit after Tax
	Total Equity share in issue
Return on Asset	Profit Before Interest and Tax
	Total Assets
Profit Margin	Profit Before Interest and Tax
	Sales Revenue
Tobins Q	Market value of Firm
	Total Assets

Source: Sanda, Mikailu, & Garba [11]

assessment of Nigerian public companies listed on the Nigerian Stock Exchange in 2008. The findings from corporate governance assessment of Nigerian public companies suggest a high degree of compliance with good practices. Public companies by the benchmarking mechanisms are expected to provide information on compliance with standardized template which is scrutinized and verified through on site reviews and off site inspection which is integrated into a score card that provides a snap shot of public companies' ranking in corporate governance practices [1].

From the literature reviewed above, the method of estimation relied on anecdotal methodology devoid of statistical analysis. This may have produced an incorrect conclusion. Furthermore, the findings in the above studies did not provide information about the superiority at the level of importance among the provisions of the corporate governance indictors that were examined. The objective of this research therefore, is to fill the existing gap by statistically examining the prepotency of the SEC Code of Corporate Governance among public companies in Nigeria with the intent of improving on them.

3.1 Model Specification

The model adopted in this study is specified in line with what [8] described as an econometric model that is mostly found in the literature. The model is stated as follows:

$$y = \alpha 0 + \alpha_1 X_{it} + \alpha_2 X_{it} + \alpha_3 X_{it} + \alpha_4 X_{it} + U_{it}$$

where y is the dependent variable, $\alpha_1 X_{it}$, $\alpha_2 X_{it}$, $\alpha_3 X_{it}$ and $\alpha_4 X_{it}$ are the independent variables with their coefficients(α_1, α_2, α_3 and α_4); whereas, $\alpha 0$ is the constant, while U_{it} is the error term. For the purpose of estimation, the independent variables in this study include BSIZE (Board size), CCEO (Separation of Chairman and CEO position), CONCENT (Ownership Concentration), and INDEPT (Independent Directors).

3.2 Data Presentation and Analysis

The data examined in this study were obtained from the Financial Statements of the forty sampled companies as contained in [12].

We compute the correlation matrix for our data using SPSS 16 in order to:

i. Test for multicollinearity, i.e. the correlation among the independent variables, and
ii. Identify the level of importance of the independent variables.

The computed correlation matrixes are shown in Tables 2, 3 and 4.

The computed correlation matrices are shown in Tables 2, 3 and 4. Table 2 shows the correlation matrix for the Pearson's correlation co-efficient, while Tables 3 and 4 show the correlation matrix for Kendall's tau-b and Spearman's rho correlation co-efficient respectively.

The actual data were used in the computation of the correlation matrix for Pearson's correlation co-efficient in Table 2. The computed figures for Tables 3 and 4 are from non-parametric data. Generally, in non-parametric test, the data are

ranked and the ranks are used instead of the actual data. We deliberately included these results for completeness in our comparison of correlation co-efficient especially for observable multicolinearity. From the Pearson's correlation coefficient, the highest multicolinearity is observed between CONCENT and BSIZE with a value of 0.194 with a significance level of 23% while the lowest multicollinearity figure is 0.003 with a significant level of 98.7% is observed between CONCENT and CCEO. These figures lie within the allowable range of -0.7 to 0.7, figures within this range, i.e. -0.7 to 0.7. They are not likely to distort the standard error of estimate and therefore cannot lead to incorrect conclusions as to which independent variables are statistically significant [13].

In the Kendall's tau-b correlation co-efficient, there is a significant multi-correlation of 0.267 with a significant level of 2% between CONCENT and BSIZE. The significant multicollinearity at the 0.01 (2 tailed) level may have been introduced to the data due to ranking process in making the data non-parametric.

However, the value is still within the allowable range of -0.7 to 0.7 and it is not likely to cause any problem in the conclusion drawn from this analysis. Similar argument can be made against the non-parametric result from the spearman's rho correlation coefficient with a high multicollinearity figure of 0.360 at a significance level of 2.3%. This is because the respective multicollinearity figures are negligible.

Having established the fact that multicollinearity is not likely to affect our result, we now focus on the level of importance of the individual independent variables namely; BSIZE, INDEPT, CCEO and CONCENT.

Correlation coefficients are not computed for the variable INDEPT because a constant figure of 0 was recorded for all the companies for this study, since none of the sample companies had an independent director. BSIZE recorded slightly inverse linearly correlation of -0.054 and 0.074 with PM and ROA respectively. The positive relationship between BSIZE and ROE, EPS and TOBINS Q were not strong either as the coefficients are respectively 0.065, 0.036 and 0.135. BSIZE does not have any negative correlation coefficient with any of the independent variables in both the Kendall's tau-b and Spearman's rho correlation coefficient as can be seen in Tables 3 and 4.

Interestingly, BSIZE has significant correlation coefficient with TOBIN'S Q in both Kendall's tau-b and Spearman's rho correlation matrix. The correlations coefficients between BSIZE and TOBIN'S Q were .257 and 0.380 both significant at 0.05 α- level of significance. There are slight negative coefficient between CCEO and ROA and TOBIN'S Q with the respective figures being -0.126 and -0.086. Between CCEO and ROE, PM and EPS, the respective correlation coefficients are 0.093, 0.22 and 0.09 from the Pearson's correlation matrix. For the non-parametric analysis, CCEO has slight negative coefficients with PM, ROA and TOBIN'S Q, with the respective coefficients of -0.109 – 0.129 and -0.179 in the Spearman's rho correlation matrix. The pattern is repeated in the Kendall's tau-b correlation matrix with the respective figure being -0.091, -0.107 and -0.148. No significant correlation coefficient is recorded between CCEO and any of the dependent variables.

CONCENT has slight negative correlation coefficients of -0.066 and -0.68 respectively with PM and EPS in the Pearson's correlation coefficient with ROE, ROA and TOBINS Q. The respective figures being 0.055, 0.081 and 0.70, none of these figures is flagged by SPSS as being significant for the study.

In the Kendall's tau-b, CONCENT has the significant correlation coefficients with ROA and TOBINS Q (i.e. 0.277 and 0.237). CONCENT also has significant coefficients with ROA and TOBINS Q in the Spearman's matrix, the significantly positive figures are 0.348 and 0.336. CONCENT has negative correlation coefficient with PM (-0.057) and EPS (-0.004) with a positive coefficient of 0.105 (ROE) in the Kendall's tau-b matrix. CONCENT also has significant correlation coefficient 0.348 and 0.336, respectively with ROA and TOBIN'S Q in the Spearman's rho matrix. Also in the Spearman's rho matrix, CONCENT has slight negative coefficient of -0.030 and -0.005 respectively with PM and EPS and positive coefficient of 0.119 with ROE. Comparing the coefficient in the three matrices (i.e. Pearson's, Kendall's and Spearman), from the above evidence, we can rank the independent variables in order of importance as follows: CONCENT, BSIZE, CCEO AND INDEPT.

Table 2. Pearson's correlation co-efficient

		ROE	PM	ROA	EPS	TOBIN	BSIZE	INDEPT	CCEO	CONCENT
ROE	Pearson Correlation	1	.653**	-086	.672**	.090	065	a	093	.055
	Sig. (2-tailed)		.000	.600	.000	.579	.691		.568	.736
	N	40	40	40	40	40	40	40	40	40
PM	Pearson Correlation	653**	1	.326*	.577**	-.190	-054	a	022	-.066
	Sig (2-tailed)	.000		.040	.000	.239	.739		.891	.685
	N	40	40	40	40	40	40	40	40	40
ROA	Pearson Correlation	-086	.326*	1	.011	-.091	-.074	a	-.126	.081
	Sig (2-tailed)	.600	.040		.946	.578	.651		.440	.621
	N	40	40	40	40	40	40	40	40	40
EPS	Pearson Correlation	.672**	.577**	.011	1	-.217	.036	a	.097	-.068
	Sig (2-tailed)	.000	.000	.946		.178	.823		.552	.676
	N	40	40	40	40	40	40	40	40	40
TOBIN	Pearson Correlation	.090	-190	-.091	-.217	1	.135	a	-.086	.070
	Sig (2-tailed)	.579	.239	0578	.178		.405		.599	.670
	N	40	40	40	40	40	40	40	40	40
BSIZE	Pearson Correlation	.065	-054	-.074	.036	.135		a	.069	.194
	Sig (2-tailed)	.691	.739	.651	.823	.405			.671	.230
	N	40	40	40	40	40	40	40	40	40
INDEPT	Pearson Correlation	A	a	a	A	a	A	a	a	a
	Sig (2-tailed)									
	N	40	40	40	40	40	40	40	40	40
CCEO	Pearson Correlation	.093	.022	-.126	.097	-.086	.069	a	1	.003
	Sig (2-tailed)	.568	.891	.440	.552	.599	.671			.987
	N	40	40	40	40	40	40	40	40	40
CONCENT	Pearson Correlation	.055	-066	.081	-.068	.070	.194	a	.003	1
	Sig (2-tailed)	.736	.685	.621	.676	.670	.230		.987	
	N	40	40	40	40	40	40	40	40	40

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

a. Cannot be computed because at least one of the variables is constant

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

Table 3. Kendall's Tau-b Correlation Coefficient

		ROE	PM	ROA	EPS	TOBIN	BSIZE	INDEPT	CCEO	CONCENT
ROE	Correlation Coefficient	1.000	.380**	.083	.343**	.126	.168		`.058	.105
	Sig. (2-tailed)		.001	.455	.002	.253	.144		.664	.339
	N	40	40.	40	40	40	40	40	40	40
PM	Correlation Coefficient	.380	1.000	.044	.503**	.031	.038		-.091	-.057
	Sig (2-tailed)	.001		.692	.000	.780	.741		.495	.608
	N	40	40	40	40	40	40	40	40	40
ROA	Correlation Coefficient	-083	.044	1.000	.043	-.187	.143		-.107	.277*
	Sig (2-tailed)	.455	.692		.700	.091	.216		.420	.012
	N	40	40	40	40	40	40	40	40	40
EPS	Correlation Coefficient	.343	.503*	.043	1.000	-.187	.124		.082	-.004
	Sig (2-tailed)	.002	.000	.700		.091	.283		.535	.972
	N	40	40	40	40	40	40	40	40	40
TOBIN	Correlation Coefficient	.126	0.31	.123	-.187	1.000	.257		-.148	.237*
	Sig (2-tailed)	.253	.780	.268	.091		.026		.264	.032
	N	40	40	40	40	40	40	40	40	40
BSIZE	Correlation Coefficient	.168	.038	.143	.124	.257*	1.000		.035	.267*
	Sig (2-tailed)	.144	.741	.216	.283	0.26			.802	.020
	N	40	40	40	40	40	40	40	40	40
INDEPT	Correlation Coefficient									
	Sig (2-tailed)									
	N	40	40	40	40	40	40	40	40	40
CCEO	Correlation Coefficient	.058	-.091	-.107	.082	-.148	.035		1.000	-.131
	Sig (2-tailed)	.664	.495	.420	.535	.264	.802			.321
	N	40	40	40	40	40	40	40	40	40
CONCENT	Correlation Coefficient	.105	-.057	.277*	-.004	.237*	.267*		-.131	1.000
	Sig (2-tailed)	.339	.608	.012	.972	.032	.020		.321	
	N	40	40	40	40	40	40	40	40	40

Independent Variables: BSIZE (Board size), CCEO (Separation of Chairman and CEO position), CONCENT (Ownership Concentration), INDEPT (Independent Directors)

Table 4. Spearman's rho correlation coefficient

		ROE	PM	ROA	EPS	TOBIN	BSIZE	INDEPT	CCEO	CONCENT
ROE	Correlation Coefficient	1.000	.490*	.132	.430**	.180	.246		`.070	.119
	Sig. (2-tailed)		.001	.416	.006	266	.127		.670	.464
	N	40	40.	40	40	40	40	40	40	40
PM	Correlation Coefficient	.490**	1.000	.078	.684**	.021	.057		.109	-.030
	Sig (2-tailed)	.001		.633	.000	.899	.727		502	.853
	N	40	40	40	40	40	40	40	40	40
ROA	Correlation Coefficient	.132	.078	1.000	.066	.138	.202		-.129	.348*
	Sig (2-tailed)	.416	.633		.688	.394	.211		.427	.028
	N	40	40	40	40	40	40	40	40	40
EPS	Correlation Coefficient	.430**	.684*	.066	1.000	-.262	.170		.099	-.005
	Sig (2-tailed)	.006	.000	.688		.103	.295		.542	.976
	N	40	40	40	40	40	40	40	40	40
TOBIN	Correlation Coefficient	.180	0.21	.138	-.262	1.000	.380*		-.179	.336*
	Sig (2-tailed)	.266	.899	.394	.103		.016		.269	.034
	N	40	40	40	40	40	40	40	40	40
BSIZE	Correlation Coefficient	.246	.057	.202	.170	.380*	1.000		.040	.360*
	Sig (2-tailed)	.127	.727	.211	.295	.016			.806	.023
	N	40	40	40	40	40	40	40	40	40
INDEPT	Correlation Coefficient									
	Sig (2-tailed)									
	N	40	40	40	40	40	40	40	40	40
CCEO	Correlation Coefficient	.070	-.109	-.129	.099	-.179	.040		1.000	-.159
	Sig (2-tailed)	.670	.502	.427	.542	.269	.806			.327
	N	40	40	40	40	40	40	40	40	40
CONCENT	Correlation Coefficient	.119	-.030	.348*	-.005	.336*	.360*		-.159	1.000
	Sig (2-tailed)	.464	.853	.028	.976	.034	.023		.327	
	N	40	40	40	40	40	40	40	40	40

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

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

4. CONCLUSION AND RECOMMENDATIONS

Findings from correlation matrices coefficient indicate that the SEC Code of Corporate governance code in the order of importance is as follows: 1st, Ownership Concentration (CONCENT); 2nd, Board size (BSIZE); 3rd, Separation of the position of Chairman from Chief Executive Officer (CCEO) and 4th, Independent Directors (INDEPT) among public companies in Nigeria. The foremost position of Ownership Concentration (CONSENT) in the ranking of corporate governance indicators among the others is supported by [14,15]. Their suggestions affirm that large shareholders have incentives to monitor and influence control activities of managers resulting in a higher firm value. The 2nd position of Board size (BSIZE), coming after CONCENT in rank, is also supported by [16,17] who, in their study, document that an inverse relationship exist between Board size (BSIZE) and firm corporate value for large and small companies respectively. [18] also argues in support of the findings of this study by stating that corporate boards become ineffective as they grow in size. Larger boards are believed to be slow to taking decisions for challenges which require prompt action. [19] also found that firm value increases when small boards meet often.

The suggestion of [20] that the combination of the two positions in an individual represent an undue concentration of power leading to unwholesome corporate governance practices also support the findings of the 3rd position of CCEO in the ranking of corporate governance indicators in this research. This is also supported by the prevalence of weak institutional arrangement in enforcing corporate governance codes in Nigeria. This study was unable to compute correlation coefficient for Independent Directors (INDEPT) because all the forty companies examined in this study defaulted in appointing Independent Directors.

It is noteworthy however that the observation of [2] regarding the presence of high inclination for corporate hospitality among board of directors of public companies which threatens the independence of outside directors is in agreement with the findings of the 4th position of Independent Directors in the ranking of corporate governance indicators in this research. Given the above, this study therefore recommends that the SEC Code of Corporate Governance provisions on Board size, separation of the position of the Chairman and Chief Executive Officer together with that of Independent Directors, should be up scaled to the same level with ownership concentration among public companies for risk reduction and foreign capital inflow at the company level and capital market rebound including the nation's currency appreciation over the prevailing recession in Nigeria.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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