

**PREPOTENCY OF NIGERIA SECURITIES AND
EXCHANGE COMMISSION CODE OF CORPORATE
GOVERNANCE AMONG PUBLIC COMPANIES**

ABSTRACT

The objective of this study is to empirically examine the prepotency (i.e. superiority in the level of importance) of the regulatory provisions of the Securities and Exchange Commission (SEC) Code of Corporate Governance among public companies in Nigeria. The study design is a case study of forty Nigerian companies. A stratified random sampling technique was adopted in arriving at a sample size of forty companies which are publicly quoted in the Nigerian Stock Exchange (NSE). The regulatory provisions of SEC Code of Corporate Governance that were examined in this study as independent variables includes Ownership Concentration (CONCENT), Separation of the Position of Chairman from Chief Executive Officer (CCEO), Boardsize (BSIZE) and Independent Directors (INDEPT). The proxies for companies performance are Profit Margin (PM), Earnings Per Share (EPS), Return on Equity (ROE), Return on Asset (ROA) and Tobins Q. Related literatures on prepotency of corporate governance provisions were reviewed. The method of estimation of the study was the computation of Pearson, Kendell and Spearman rho Matrices respectively using the SPSS 16 in order to establish the superiority in the level of importance of the SEC Code of Corporate Governance. Findings from the comparison of the correlation co-efficients of Pearson's, Kendel Tau-b and Spearman's rho Matrices ranks the SEC code in order of importance as follows: 1st, Ownership Concentration (CONCENT); 2nd, Boardsize (BSIZE), 3rd Separation of the Position of Chairman from Chief Executive Officer (CCEO) and 4th, Independent Directors (INDEPT). Recommendations include upscaling the SEC Code of Corporate Governance provisions on Boardsize 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: Boardsize, Independent Directors, Ownership Concentration, Securities and Exchange Commission, Corporate Governance

Introduction

The World Economic Forum in its 2013-2014 Global Competitive Index (GCI) benchmarked Nigeria 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 (Oteh, 2013).

Though Oteh (2013) disclosure of GCI ranking of specific indicators of corporate governance which ranked Nigeria 131st ethical behaviour of firms, 106th board efficacy, 101st protection of minority shareholders and 57th investors protection but it was in total exclusion of the most common corporate governance indicators in Nigeria comprising ownership concentration, Boardsize, Separation of the position of Chairman from Chief Executive Officer and Independent Directors.

However, Ettah (2008) 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 is to fill the Global competitiveness index limitation which excluded in its estimation, the ranking of SEC Code of Corporate Governance indicators, namely: Ownership Concentration, Separation of the Chairman and Chief Executive Officer, Boardsize and Independent Directors.

Definition of Concept and Theoretical Framework

To achieve some measures of clarity in this study, the concepts and theoretical framework used in this paper are clearly defined and stated respectively hereunder.

64 **Securities and Exchange Commission Code of Corporate Governance**

65 SEC (2003) defined corporate governance as an arrangement involving a set of
66 relationship between company's management, its board, its shareholders and other
67 stakeholders. It is a mechanism through which objectives of the company are set and
68 the means of attaining those objectives and monitoring performance are determined.
69 The core components of the code include Ownership Concentration, Boardsize
70 Independent Directors and the Separation of the position of the Chairman from the
71 Chief Executive Officer. It is also a set of processes, customs, policies, laws and
72 institutions affecting the way a company is directed, administered or controlled.

73 **Prepotency**

74 It is benchmarking or ranking the corporate governance code in the level of
75 importance among public companies in Nigeria. The mechanism of prepotency is by
76 estimating the corporate governance indicators (i.e. Ownership Concentration,
77 Separation of the Chairman from the Chief Executive Officer, Boardsize and
78 Independent Directors) degree of influence on public companies performance proxies
79 (i.e. Return on Equity, Profit Margin, Return on Asset, Earnings Per Share and Tobins
80 Q).

81 **Table 1: Company Performance Proxies**

Dependent Proxies	Method of Estimation
Earnings Per Share (EPS)	<u>Profit after interest, tax and preference Dividend</u> No of Equity shares in issue
Return on Equity (ROE)	<u>Profit after Tax</u> Total Equity share in issue
Return on Asset (ROA)	<u>Profit Before Interest and Tax</u> Total Asset
Profit Margin (PM)	<u>Profit Before Interest and Tax</u> Sales Revenue
Tobins Q (TOBIN)	<u>Market value of Firm</u> Total Asset

82 Independent Variables: BSIZE(Boardsize), CCED(Separation of Chairman and CEO position), CONCENT
83 (Ownership Concentration), INDEDT (Independent Directors)

84 **Source:** Sanda, A., Mikailu, A. S. and Garba, T. (2005) Corporate Governance
85 Mechanisms and Financial Performance in Nigeria. African Economic Research
86 Consortium. (AFRC) Paper 149. Nairobi.

87
88 **Public Companies**

Public companies are defined by the requirements of the SEC Code of Corporate Governance which such companies must fulfill: 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 and more than 15; board meeting is at least once a quarter and each director must attend at least two-third as it is the criteria for renomination; Chairman and Chief Executive Officer position are separate; majority of directors are to be non-executive and at least one independent; independent directors are non-executive; multiple directorship is prohibited in the same industry to avoid conflict of interest; chairman of the board must not be member of any Committee and External Auditors must be rotated by serving for 7 years and may only be re-appointed after another 7 years (Idornigie, 2010).

Theoretical Framework – (Shingle Theory (self regulation))

According to Abati (2010), 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 who otherwise should be in jail. These unethical trade practices arising from self-regulation exposes the limit of the shingle theory and provided the justification for the SEC intervention through corporate governance mechanisms.

Literature Review

Previous studies include Idornigie (2010) 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 the anecdotal study shows that there are some disparities between OECD and the Nigerian code in the level of compliance. Some of such difficulties includes how a company that is quoted in the Nigerian Stock Exchange and also operating in one of the sectors regulated by other codes (e.g. CBN Code and Pension Commission Code) comply with the two codes? While for instance the SEC Code is substantially not mandatory, that of the CBN and PENCOM codes are mandatory. Idornigie (2010) anecdotal study recommends the harmonization of the challenges of multiplicity of corporate governance codes in Nigeria. The study failed to establish the level of importance among the provision of the SEC code of corporate governance.

Other studies on the prepotency of corporate governance code include the World Bank/IFC using corporate governance and corporate social responsibilities indices as basic barometer for benchmarking corporate governance practices and evaluating compliance level in their study found that emerging markets have led the way in raising standards of corporate governance. The Nigerian government, as an example, invited the IFC/World Bank to conduct a corporate governance policy 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 practice. 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 snapshot of public companies, ranking in corporate governance practices (Oteh, 2013). Findings in this study was also in default of establishing the level of importance among SEC code of corporate governance.

From the literature reviewed above, the method of estimation relied on anecdotal methodology in nature and devoid of statistical analysis which may have produced an incorrect conclusion. Furthermore, the findings in the above studies did not provide information about the superiority in the level of importance among the

provisions of the corporate governance indicators that were examined. The objective of this research is therefore to fill the gap by statistically examining the prepotency of the SEC Code of Corporate Governance among public companies in Nigeria with intent of improving on them.

Materials and Methods

The data examined in this study were obtained from the Financial Statements of the forty sample companies as contained in the Nigerian Stock Exchange (2010/2011) FACTBOOK. (2011)

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. (See table I)
- ii. Identify the level of importance of the independent variables

The computed correlation matrixes are shown in Tables 2.1, 2.2 and 2.3 below.

Table 2.1: 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)

176 **Table 2.2: Kendell's Taub-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

177

178 **Table 2.3: 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

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

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

181 The computed correlation matrices are shown in Tables 2.1, 2.2 and 2.3 above.

182 Table 2.1 shows the correlation matrix for the Pearson's correlation co-
 183 efficients, while Table 2.2 and Table 2.3 show the correlation matrix for Kendel's tau-
 184 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 2.1. The computed figures for Table 2.2 and Table 2.3 are from non-parametric data. Generally, in non-parametric test, the data are ranked and the ranks used instead of the actual data. We deliberately included these results for completeness in our comparison of correlation co-efficient especially for observable multicollinearity. From the Pearson's correlation coefficient, the highest multicollinearity 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 are not likely to distort the standard error of estimate and therefore not lead to incorrect conclusions as to which independent variables are statistically significant (Mason et al, 1999).

In the Kendell's tau-b correlation co-efficient, there is a significant multicorrelation 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 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 also because the respective multicollinearity figures are negligible.

Having established the fact that multicollinearity is not likely to affect our result, we now focus attention 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 Kendell's tau-b and Spearman's rho correlation coefficient as can be seen in Tables 2.2 and 2.3.

Interestingly, BSIZE has significant correlation coefficient with TOBIN'S Q in both Kendell'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 Kendell'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 (-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 Kendell's tau-b, CONCENT has the significant correlation coefficients respectively 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 significant 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 Kendell'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 (-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, Kendell's and Spearman), we can from evidence above rank the

independent variables in order of importance as follows: CONCENT, BSIZE, CCEO AND INDEPT.

Conclusion and Recommendations

Findings from correlation matrices coefficient indicates that the SEC Code of Corporate governance code in the order of importance is as follows: 1st, Ownership Concentration (CONCENT); 2nd, Boardsize (BSIZE); 3rd, Separation of the position of Chairman from Chief Executive Officer (CCEO) and 4th, Independent, Directors (INDEPT) among public companies in Nigeria. The study recommends that the SEC Code of Corporate Governance provisions on Boardsize, 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.

REFERENCES

- Abati, R. (2010). "The Capital Market Crisis. An Investor's Concern. *The Guardian*. 28 (11621). p. 16.
- Ettah, L. E. (2008). "Composition, Size and Diversity: Multiple Roles of Corporate Board" Paper presented at the 32nd Conference of the Institute of Chartered Secretaries and Administrators. ICSAN. Chelsea Hotels and Towers. Abuja. November 6th and 7th.
- Idornigie, R. O. (2010). "Enhancing Corporate Value through the Harmonization of Corporate Governance Codes. A Paper presented at the 34th Annual Conference of ICSAN. Sheraton Hotels and Towers. Ikeja. September 22nd and 25th.
- Mason, R. D. Lind, D.A. and Marchal W. G. (1991). *Statistical Techniques in Business and Economics*. Boston: Irwin/McGraw.
- Nigeria Stock Exchange (2011). *Nigeria Stock Exchange 2011/2012 FACTBOOK*, Lagos, Eslia Communications
- Oteh, A. (2013). Enhancing Competitiveness through World Class Corporate Governance. A paper presented at the 37th Annual Conference of the Institute of Chartered Secretaries and Administrators. ICSAN., Ikeja. Sheraton Hotels and Towers. November 6th and 7th.

- 279 Sanda, A. Mikailu, A. S. and Garba, T. (2005). Corporate Governance Mechanisms
280 and Financial Performance in Nigeria. African Economic Research Consortium
281 (AFRC) Paper 149. Nairobi.
- 282 SEC Code (2003). www.sec.gov.nig.