Assessment of Corporate Governance Practice among Listed Conglomerate Companies in Nigeria

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Abstract: **This study examines the level of compliance with 2011 SEC code of corporate governance among listed conglomerate companies in Nigeria. Expost-facto research design was used, a corporate governance compliance index was employed and data was extracted from annual report and account of the companies. It was found that corporate governance initiatives are embedded on the boards of listed conglomerate companies in Nigeria and that there is high compliance with SEC code of corporate governance in the listed conglomerate companies in Nigeria. Modern corporation plays a major role in the economic development of any nation, hence the need to ensure good governance of these corporations cannot be overemphasized. Therefore, to avoid the incidence of corporate failure in the listed conglomerate companies in Nigeria, this study recommends 100% compliance with the SEC code of CG in Nigeria. This will go in length to ensure the future survival of these companies.**

Keywords: **Assessment, Corporate Governance and Conglomerate Companies**

I. INTRODUCTION

Background of the Study

The main objective of corporate organizations is to maximize shareholders' wealth therefore the needs to protect the interests of other stakeholders, improve corporate performance and accountability cannot be underestimated; hence corporate governance harmonizes the need to strike a balance at all times between the need to enhance shareholders' wealth and the need to protect the interests of other stakeholders. Further, its objective is to have an environment of trust and confidence amongst those having competing and conflicting interests.

Moreover, financial scandals around the world and the collapse of major companies in the world have brought the need for good corporate governance. A related discussion focuses on the impact of corporate governance on economic efficiency with a strong emphasis on shareholders' welfare. It is also essential for the issuers of securities they invest in, to adhere to good corporate practices which enable the company to attract financial and human capital, perform operations efficiently and perpetuate itself by generating long term economics value for its shareholders while respecting the interest of all stakeholders' and the society at large.

The quest for proper application of corporate governance principles is strengthened by the desire to attract investments, support rapid economic growth, and excellent reward to stakeholders'. Most companies' failures in recent times is attributed to inability to comply with corporate governance principles. Furthermore, capital inflow, development, growth, and high corporate performance in financial and operational terms depends on organization's accountability, integrity and transparency (Joshua, Joshua & Tauhid, 2013). Hence, the quality of corporate governance principles in place affects the performance of individual organizations and the economy at large.

Regulatory authorities in Nigeria (SEC, FRC & CBN) recommend reforms that will improve transparency in financial reporting, thereby increasing corporate practices and reduce information asymmetry. However, previous studies on corporate governance practices in Nigeria (Stephen & Benjamin, 2013; Akinkoye & Olasanmi, 2014; Marshall, 2015; Daniel, 2015; Miko & Kamardin, 2016; and Okike, 2019) did not consider conglomerate companies, however, the Nigerian conglomerate companies play an essential role in the country because of the essential services and products they provides to the individuals and corporate organizations. This sector was neglected by previous studies, particularly in assessing their compliance with corporate governance practice; but, the sector has the potentials to influence economic growth and development, hence the need to carry out a study to provide clear evidence on the level of compliance with 2011 SEC code of corporate governance in Nigeria.

II. LITERATURE REVIEW

2.1 The Concept of Corporate Governance

Corporate governance is defined as the system by which companies are directed and controlled. Governance is giving a lead to the company, monitor and control management decisions to ensure shareholders wealth are maximized and the company achieves its intended purpose and aims (Cadbury Report, 1992). John and Senbet (1998) argue that corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. On the other hand, Shleifer and Vishny (1997) define corporate governance as to how suppliers of finance are assured of getting a return on their investment.

According to Oman (2001), corporate governance is the private and public institution, including laws, regulations, and accepted business practices, which in the market economy; govern the relationship between corporate managers and entrepreneurs and those who invest resources in corporations on the other. Monks and Minow (2004) take a structural view of corporate governance, as they regard CG as a structure within the firm, and stress the importance of accountability as well as the checks and balances set in place within the firm's management.

The Organization for Economic Cooperation and Development (OECD, 2004) defined corporate governance as a set of relations between a company's management, its board, its shareholders and other stakeholders. Solomon (2007) defines corporate governance as a system of checks and balances both internal and external, to companies, which ensure that companies are not only accountable to all stakeholders but act in a socially responsible in all areas of their business activity. However, Larcker and Tayan (2011) defined corporate governance as a set of control mechanisms that an organization adopts to refrain its management from the activities that are detrimental to its welfare.

2.2 Empirical Review

Stephen and Benjamin (2013) examine the operational environment of corporate governance and the need for corporate governance to be made compulsory and enforced on limited liability companies and public institutions in Nigeria. The study also advocates the enforcement of the codes of best practices on corporate governance in Nigeria (i.e., Transparency, Due process, Quality of management, Data integrity, and Disclosure Requirements). Similarly, Akinkoye and Olasanmi (2014) evaluated corporate governance practices among selected non-financial quoted firms across industries and analyzed the level of compliance with the 2003 code of CG in Nigeria. Data was obtained from the firms' annual reports and analyzed using descriptive analysis. A corporate governance index was constructed using Nigerian corporate governance standards, firms were ranked based on the index. The findings showed that firms observed between 2003 and 2010 had embedded corporate governance initiatives with an average compliance level of 72.15 percent and a growth rate of 5.83 percent. However, the analysis showed a structural shift in corporate governance structure, and a slowdown in a change of corporate governance practice among firms in Nigeria was observed.

However, Marshall (2015) reviews the historical development of corporate governance codes, their functions on corporate governance practices in Nigeria, and conformity with international best governance practices. The findings reveals that though the Companies and Allied Matters Act (CAMA) is the principal law regulating companies in Nigeria, other regulators complemented its provisions on corporate governance practices through various codes, which added much strength to corporate governance practices in Nigeria. It is observed that for the first time in Nigeria, legislation empowered a regulator-Financial Reporting Council of Nigeria (FRCN) with a statutory duty to formulate a code of corporate governance in Nigeria and to ensure compliance with the same. It is further submitted that Nigeria is well in the right position as the Codes review reveals that all the five codes in existence have addressed issues in their provisions, which is concerned with how the board is monitoring companies in the interest of shareholders and stakeholders. The study adopts the doctrinal method, where the relevant primary and secondary sources were utilized. The study concluded that despite the existence of cases of corporate frauds and mismanagements, the codes made a significant impact in ensuring sound corporate governance practices in Nigeria. The study recommends that CAMA be the supreme law that is amended in line with the changing circumstances, likewise FRCN should collaborate with other regulators for effective discharge of its duties, particularly in the issuance of the National Code of Corporate Governance.

At the same time, Daniel (2015) asserts that three legislations that govern the legal regime of corporate governance in Nigeria are the CAMA, Companies and Allied Matters ACT (CAMA), the Investment and Securities Act (ISA), and Banks and Other Financial Institution Act (BOFIA).These three legislations contain the mandatory provisions on corporate governance in Nigeria.

Miko & Kamardin (2016) assert that corporate governance as one of the recent global issues has attracted the attention of investors, researchers, and regulatory authorities due to the recent collapses of the giant corporation the world over. Reliability on managers and the authenticity of what they are reporting on a period basis has vanished. Hence, corporate governance was introduced to restructure the corporate leadership and management, the study look at the corporate governance development, future prospects, and challenges within the Nigerian context.

In the same vein, Okike (2019) determines the mechanism of corporate governance in Nigeria and examines the roles of the regulatory authorities, shareholders representatives, directors, auditors and the audit committee in the governance process. The study addresses whether the corporate governance mechanisms in Nigeria are adequate to address the changes and challenges in the global corporate scene. The study argues that while there is a case for adherence to global corporate governance standards, the Code of Best Practices adopted in Nigeria must reflect its peculiar nature, it’s socio-political and economic environment, and provides the right assurance to existing and prospective shareholders.

None of the studies reviewed provide a clear evidence on the level of compliance with the 2011 SEC code of corporate governance within the boundary of listed conglomerate companies in Nigeria, hence an addition to the stock of existing empirical studies.

2.3 Theoretical Framework

Two main governance theories are agency theory and Stewardship theory help explain corporate governance;

Agency theory stipulates that the ownership and control of all organisations are vested in different individuals; there is a conflict of interest between shareholders' and management (Aguilera et al., 2008). Previous studies proved that managers may seek to fulfill their self-interests instead of shareholder's interest or worth. Thus, managers cannot be trusted, even though they are often assumed to be rational. In line with this school of thought, Jensen and Meckling (1976) assert that managers do not always pursue shareholders' interests, and corporate governance is, therefore, a useful tool in solving the agency problem with the establishment of the board.

Conflicts arise when a firm's owners perceive that professional managers are not managing the firm in the best interests of the owners, and these conflicts can spill over to other stakeholders of the same firm. According to this theory, superior information available to professional managers who are given full responsibility to run the firm may enable them to act in a manner that will enable them to gain more instead of adding value to shareholders, and people are self-interested rather than self-sacrificing. They cannot be trusted to act in the best interests of others; hence they seek to maximize their utility. Therefore, the agency theory advocates that corporate governance aims to minimize the potential risk of managers acting contrary to the interests of shareholders.

The stewardship theory, also known as the stakeholders'' theory, adopts a different approach from the agency theory. It starts from the proposition that organizations serve a broader social purpose than just maximizing the wealth of shareholders. This theory holds that companies are social entities, it affect the welfare of all stakeholders that interact with a firm and are affected by the achievement of the companies goals and objectives. The stewardship theory perspective suggested that stewards are satisfied, motivated and coercive particularly when organizational objectives are achieved. However, according to agency theory managers may not act in the best interest of all stakeholders hence the theory suggests that corporate governance practices should be well implemented and monitored to facilitate the board's effectiveness and control as well as the CEO. This study is therefore underpinned by agency theory.

III. METHODOLOGY

This study used an expost-facto research design and the population of the study consists of the six conglomerates companies listed on the Nigerian Stock Exchange as of 31 December, 2019. All the six companies were used for broader coverage, and data on corporate governance mechanisms (board size, board composition, ceo-duality, board meetings, board diversity and audit committee independence) was extracted from annual report of the companies understudy, descriptive statistics was used in analyzing the data to ascertain whether corporate governance initiatives are embedded on the corporate culture of the companies under study and assess the level of compliance with the 2011 SEC code of corporate governance. This is in line with previous similar studies for example (Akinkoye & Olasanmi (2014); Daniel (2015); Miko & Kamardin (2016); and Okike (2019)). CG compliance index was used in analyzing the data, the formula is given by $CS\text{j} = \frac{T\sum iM=1\text{ di}}{M\sum in=1\ di}$

Where;

CS = total compliance score

T = total number of items disclosed (di)

J = name of the company under consideration

M < n : where m is the total number of applicable items the company j is to disclosed

IV. DISCUSSION OF RESULTS

4.1. Descriptive Statistics

Table 4.1 provides a summary of statistics for the variables of the study. The summary statistics include measures of central tendencies including mean, minimum, maximum and the standard deviation of all the variables. The table shows the summary statistics of all the variables (board size, board composition, CEO duality, board meeting, audit committee independence, and board diversity) to appreciate the nature of the results effectively.

Table 4.1 Descriptive statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max
Board size	42	7.690	1.569	5	11
Board comp	42	0.677	0.143	0.5	0.909
Ceo duality	42	0	0	0	0
Board meetings	42	4.595	1.106	4	7
Board diversity	42	0.524	0.505	0	1
Auditcom ind	42	0.512	0.043	0.5	0.667
Compliance index	42	0.708	0.102	0.625	1

Source: computed from the annual report of listed conglomerate companies in Nigeria

Table 4.1 shows the mean of 7.5667 for board size, meaning that the average number of directors on the board of the conglomerates' companies understudy is eight members with the minimum and maximum of 5 and 11 respectively, the standard deviation of 1.569 signifies no much variation on the size of the boards and this is in compliance with the code of CG in Nigeria. Board composition has a mean of 0.677, meaning that the average board composition of the companies under study is approximately 67.7% with the minimum and maximum of 0.5 and 0.909 respectively, standard deviation of 0.143 signifies less variation on board composition of the companies understudy. CEO duality has a mean, minimum and maximum of 0 meaning that no CEO duality in the listed conglomerate companies in Nigeria, this is a total compliance with the code of CG as it requires the position of chairman and CEO to be manned by different persons. Board meetings have a mean 4.6, minimum and maximum of 4 and 7 respectively, meaning that the companies hold five meetings annually, and this is in conformity with the requirement of CG that the board should meet at least once in every quarter. Audit committee independence, measured by the number of nonexecutive directors divided by audit committee members, has a mean of 0.512, with the minimum and maximum of 0.5 and 0.667, respectively.

CG compliance index has a mean of 0.708 with the minimum and maximum of 0.625 and 1 respectively, this means that on average the companies under study has complied by 70.8%, with least compliance of 62.5% and a maximum compliance of 100%.

Table 4.2 Compliance disclosure by AG Leventis Company

AGleventis	2012	2013	2014	2015	2016	2017	2018
Board size	8	8	8	8	8	8	7
Board composition	0.75	0.75	0.75	0.75	0.75	0.75	0.86
CEO duality	0	0	0	0	0	0	0
Board meetings	4	4	4	4	4	4	4
Audit comm independence	0.6667	0.6667	0.5	0.5	0.5	0.6667	0.4
Board diversity	0	0	0	0	0	0	1
compliance	5	5	4	4	4	5	5
Compliance index	0.83333	0.83333	0.6666	0.6666	0.6666	0.83333	0.8333

Source: computed from the annual report of listed conglomerate companies in Nigeria

Table 4.2 above shows that the Ag Leventis company has embedded corporate governance on its boards because the code of C.G. said the board of listed companies in Nigeria should be more than five. Moreover, the number of nonexecutive directors should be more than executive directors. And no company should be led by a single person that is the chairman should be different from the CEO, the board should meet at least once in every quarter, it is only onboard diversity where the company has no female director on the board, but the company has complied with C.G. practice 83% in the year 2012, 2013 but the compliance reduced to 66.6% in the year 2014 and 2015 where the audit committee independence reduced to 0.5 from 0.667. However, with this reduction, the company was able to achieve it is 83.3% compliance in the year 2017 and 2018.

Table 4.3 Compliance disclosure by Charllerms Company

Charllerms	2012	2013	2014	2015	2016	2017	2018
Board size	6	6	6	6	6	6	5
Board composition	0.5	0.5	0.5	0.5	0.5	0.5	0.6
CEO duality	0	0	0	0	0	0	0
Board meetings	4	4	4	4	4	4	4
Audit comm independence	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Board diversity	0	0	0	0	0	0	0
compliance	4	4	4	4	4	4	4
Compliance index	0.6666	0.6666	0.6666	0.6666	0.6666	0.6666	0.6666

Source: computed from the annual report of listed conglomerate companies in Nigeria

From table 4.3 above, it is evident that Charllerms Company has embedded corporate governance on its boards because the code of CG said the board of listed companies in Nigeria should be more than five. The number of nonexecutive directors should be more than the executive directors, and no company should be led by a single person that is the chairman should be different from the CEO, the board should meet at least once in every quarter, audit committee independence is 50%, on board diversity the company has no female director on the board but the company has complied with CG practice 66.67% in the year 2012 through the year 2018, this above average.

Table 4.4 compliance disclosure by John holt Company

John holt	2012	2013	2014	2015	2016	2017	2018
Board size	6	6	6	6	6	6	6
Board composition	0.6667	0.6667	0.6667	0.6667	0.6667	0.6667	0.6667
CEO duality	0	0	0	0	0	0	0
Board meetings	4	4	4	4	4	4	4
Audit comm independence	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Board diversity	0	0	0	0	0	0	0
compliance	4	4	4	4	4	4	4
Compliance index	0.666	0.666	0.666	0.666	0.666	0.666	0.666

Source: computed from the annual report of listed conglomerate companies in Nigeria

From the table 4.4 above it is obvious that Johnholt company has embedded corporate governance on its boards because the code of CG said the board of listed companies in Nigeria should be more than five, the number of nonexecutive directors should be more than the executive directors and no company should be manned by a single person that is the chairman should be different from the CEO, the board should meet at least once in every quarter, the company did not comply with audit committee independence and board diversity because the company has no female director on the board, but the company has complied with CG practice 66.7%

throughout the period under study 2012 to 2018, this is equally above average compliance.

Table 4.5 compliance disclosure by SCOA Company

Scoa	2012	2013	2014	2015	2016	2017	2018
Board size	10	10	10	10	10	10	10
Board compositio n	0.8	0.8	0.8	0.8	0.8	0.8	0.8
CEO duality	0	0	0	0	0	0	0
Board meetings	4	4	4	4	4	4	4
Audit comm independen ce	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Board diversity	1	1	1	1	1	1	1
compliance	5	5	5	5	5	5	5
Compliance index	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3

Source: computed from the annual report of listed conglomerate companies in Nigeria

From the table 4.5 above it is obvious that Scoa company has embedded corporate governance on its boards because the code of CG said the board of listed companies in Nigeria should be more than five, the number of nonexecutive directors should be more than the executive directors and no company should be manned by single person that is the chairman should be different from the CEO, the board should meet at least once in every quarter, on board diversity the company has number of female director on the board however the company did not complied with audit committee independence but the company has complied with CG practice 83% throughout the period under study 2012 to 2018 and this good.

Table 4.6 compliance disclosure by UACN Company

UACN	2012	2013	2014	2015	2016	2017	2018
Board size	8	8	8	8	8	8	8
Board compositio n	0.5	0.5	0.5	0.5	0.5	0.5	0.5
CEO duality	0	0	0	0	0	0	0
Board meetings	7	7	7	7	6	7	7
Audit comm independen ce	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Board diversity	1	1	1	1	1	1	1
compliance	5	5	5	5	5	5	5
Compliance index	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3

Sources: computed from the annual report of conglomerate companies in Nigeria

From the table 4.6 above it is obvious that UACN company has embedded corporate governance on its boards because the code of CG said the board of listed companies in Nigeria should be more than five, the number of nonexecutive directors should be more than the executive directors and no company should be manned by single person that is the chairman should be different from the CEO, the board should meet at least once in every quarter, on board diversity the company has number of female director on the board however the company did not complied with audit committee independence but the company has complied with CG practice 83% throughout the period under study 2012 to 2018 and this good.

Table 4.7 compliance disclosure by TRANSCORP Company

TRANSCO RP	2012	2013	2014	2015	2016	2017	2018
Board size	9	8	7	7	8	9	11
Board composition	0.89	0.86	086	0.86	0.5	0.89	0.91
CEO duality	0	0	0	0	0	0	0
Board meetings	6	5	5	4	6	4	4
Audit comm independenc e	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Board diversity	1	1	1	1	1	1	1
compliance	5	5	5	5	5	5	5
Compliance index	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3	0.833 3

Sources: computed from the annual report of conglomerate companies in Nigeria

From the table 4.7 above it is obvious that Transcorp company has embedded corporate governance on its boards because the code of CG said the board of listed companies in Nigeria should be more than five, the number of nonexecutive directors should be more than the executive directors and no company should be manned by single person that is the chairman should be different from the CEO, the board should meet at least once in every quarter, on board diversity the company has a number of female director on the board however the company did not complied with audit committee independence but the company has complied with CG practice by 83% throughout the period under study 2012 to 2018 and this good.

V. CONCLUSION AND RECOMMENDATIONS

Corporate governance is essential for economic development; it helps corporate organizations source finance from external sources at a competitive rate. It was introduced in many nations, including Nigeria, the aim is to restructure corporate leadership and management. This study assess the corporate governance practice among the listed conglomerates' companies in Nigeria, based on the findings the study concludes that corporate governance initiatives are embedded on the boards of listed conglomerate companies in Nigeria and that there is high compliance with the 2011 SEC code of corporate governance in the listed conglomerate companies in Nigeria. Modern corporation plays essential role in the economic development of any nation, and the need to ensure good governance of these corporations cannot be underestimated. Therefore to avoid the incidence of corporate failure in the listed conglomerate companies in Nigeria, this study recommends 100% compliance with the code of CG in Nigeria as this will go in length to ensure the future survival of these companies.

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