Corporate governance practice and level of compliance among firms in Nigeria: Industry analysis

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Abstract
The study evaluates corporate governance practices among selected non-financial quoted firms across industries and analysed the level of compliance with the 2003 code of best practices in Nigeria. A data set on corporate governance mechanism was obtained from the firms' annual reports, the publication of the Nigeria Stock Exchange (NSE) as well as the website of the firms and analysed using descriptive analysis. A corporate governance index was constructed to represent Nigerian corporate governance standard and listed firms were ranked according to the index. The results showed that firms observed between 2003 and 2010 have embedded corporate governance initiatives with an average compliance level of 72.15 percent and a growth rate of 5.83 percent. While the analysis showed a structural shift in corporate governance structure, a slow-down in change of corporate governance practice among firms in Nigeria was however observed

1. Introduction

The financial crisis around the world and the consequent collapse of major corporate institutions in both developed and developing economies has brought to the fore the issue of corporate governance. Today, corporate governance has attracted considerable attention of policy makers and academic researchers across the globe. Emphasis is on the need for the practice of good governance both at the public and private enterprises and this is due to the economic primacy of publicly quoted firms in most national economies. Corporate governance is increasingly understood among policy makers as a value enhancing strategy in a competitive environment and there is a growing consensus globally that corporate governance has a positive link to national growth and development

Corporate governance according to Cadbury Report UK (1992) is defined as the system by which businesses are directed and controlled. It is a system by which corporations are governed and controlled with a view to increasing shareholders values and meeting the expectation of other stakeholders (Zheka 2006). The fundamental objectives of good corporate governance according to the Security and Exchange Board of India (SEBI) Report (2013), is the enhancement of shareholders' value keeping in view the interest of other stakeholders. In other words corporate governance is a general set of custom, regulation, habit and laws that determines how a firm should be run.

Today, pushing for higher governance standard has become a regular campaign with the participation of an increasing number of parties: academics, media, regulatory authorities, corporations, institutional investors, international organizations shareholders right watchdog etc. The issue has necessitated considerable interests on empirical research on the effectiveness of various corporate governance institutions and mechanisms. In fact, particular attention has understandably been drawn to addressing and researching the underlying issues and factors that led to the financial and corporate crisis that characterized both the developed and developing economies. Many nations today have taken numerous initiatives such as the introduction of code of best practice, new listing/disclosure rule, mandatory training for board directors, enforcement of code of governance etc as measures to address and enhance the issue of corporate governance practice. Also, International Organizations such as IMF and OECD are very keen on governance issues. IMF for instance; demands that governance improvement should be included in its debt relief program.

These efforts to ensure good corporate governance practice had also been extended to developing countries. The issue became an important managerial task for many companies. In Nigeria for instance, there is a growing call for effective corporate governance, particularly for public limited liability companies. This call is understandable in view of the importance of effective governance at both micro-economic and economy wide level. Also the need to align with International Best Practices and ensure good corporate governance had led to the issuance and approval of a code of Best Practice for firms in Nigeria by the board of the Security and Exchange Commission and Corporate Affair Commission (CAC) in 2003. The code was designed to entrench good business practices and standards for board of directors, chief executives officer, auditors and different stakeholders of listed companies, induce companies into increased transparency, ease the exercise of shareholders rights by investors, avoid the adoption of mechanisms that hamper the control of corporate governance by the market and advise on ways of ensuring full representation of a multiplicity of the shareholders' interest as regard the decision-making process.

However, with the growing interests in corporate governance in Nigeria and the relative development in Nigeria capital market, corporate governance in Nigeria is seemingly far from perfect as companies' still record incidence of financial scandals resulting from mismanagement and misappropriation of fund (Habeeb 2010). This was also evident with the crash in capital market in 2009-2010 in which companies suffered losses in share value and consequent loss of shareholders' confidence.

A large numbers of studies on corporate governance practices (Haniffa, and Hudaib,(2006); Hart, Oliver (1995); Hermalin, Benjamin, and Weisbach Micheal (2003); Adetunji Babatunde . and Olawoye Olaniran (2009); Ademola Oyejide and Soyibo. (2001); Anderson, Mansi, and Reeb.(2004); Andre,Paaul, Maher Kooli and Jean- Francosis Her (2004)) have been carried out in both developed and developing economies but most studies have focused on the relationship between characteristics of corporate governance and their consequence on performance. In Nigeria for instance, there are few studies on corporate governance (Adetunji et al (2009); Ademola et al (2001)) but the focus has been on the relationship between corporate governance mechanisms and firms' performance measured in terms of profitability, productivity, efficiency etc. One aspect that is completely neglected or omitted in the literature is the study on level of compliance by firms. There is no clear evidence as to the level of compliance with corporate governance mechanism as entrenched in the 2003 code of best practices by listed firms in Nigeria. Literature also reveals that studies in Nigeria are based on some specific corporate governance components and not on overall component of corporate governance. Thus, this study is motivated to provide empirical evidence on the corporate governance practice currently employed in Nigeria and on firms' level of compliance with corporate governance across industries using comprehensive and unique data on corporate governance from 2003-2010.

2. Framework for Corporate Governance in Nigeria

The Nigeria corporate governance legal framework is primarily governed by the Investments and Securities Act (ISA) NO 29 of 2007, the rules and regulations of the Securities and Exchange Commission (SEC) pursuant to the ISA, the Companies and Allied Matters Act (CAMA) 1990 and the Trustees Investments Act 2004. Also a voluntary 2003 code of corporate governance issued by SEC appointed committee. The code outlines best practices with regards to the roles and duties of boards of directors and management, the role and duties of audit committees, and the rights of shareholders. Also, the standards and regulations regarding directors' qualifications, responsibilities, remuneration, orientation, credentials; management succession; and the annual evaluation of board performance must be adopted and publicly disclosed. The code is implemented on a comply-or-explain basis. However, in order to improve enforcement, the commission in 2008 made some of the provisions legally binding. For instance, certain sections of ISA 2007 contain provisions from the code and their inclusion in the ISA has made them mandatory for operators and companies. However, there is no assessment directly addressing Nigeria's compliance with the principles of corporate governance developed by the Organisation for Economic and Cooperation Development.

The principal regulatory agency of the Nigeria capital market is the SEC. It is under the supervision of the Federal Ministry of finance, but remains independent in its regulatory and developmental activities. SEC regulates issues of corporate governance especially with regard to public quoted companies, monitors and supervises the activities of public companies in relation to issuance and trading in securities and sanctions erring practitioners. It has achieved a measure of success in ensuring good corporate governance with regards to the protection of shareholders. Other organizations that are active in corporate governance advocacy in Nigeria include the Lagos Business School (now pan African University), Institute of Directors (IOD) Nigeria, Conventions on Business Integrity (CBI) etc. The IOD and various regulatory authorities for the professions, such as accounting and auditing, have also been at the forefront of public enlightenment and advocacy on issues of good corporate governance.

The primary institution that regulates private sector activities in Nigeria is the Corporate Affairs Commission (CAC) that was established by the Companies and Allied Matters Act (CAMA), which was promulgated in 1990. The functions of the CAC as set out in section 7 of CAMA include administering the Act, regulating and supervising the formation, incorporation, management and winding up of companies, establishing and maintain companies registries and offices; and arranging and conducting investigation into the affairs of any company where the interest of the shareholders and the public so demand. A code of best practices for corporate governance in Nigeria was in 2003 approved by the boards of SEC and CAC. The code is designed to entrench good business practices and standards for boards and directors, chief executive officer, auditors and the different stakeholders of listed companies. The code is also to make provisions for the best practices to be followed by public quoted companies and for all other companies with multiple stakeholders registered in Nigeria in the exercise of power over the direction of the enterprise, the supervision of executive actions, the transparency and accountability in governance of these companies within the regulatory framework and market and for other purposes connected therewith.

3. Highlights of the 2003 Code of Best Practice

3.1 Board Structure / Composition and Functioning

The 2003 code emphasizes the structure and responsibilities of the Board of directors. According to the code, the Board of directors is responsible for the affairs of the company in a lawful and efficient manner in such a way as to ensure that the company is constantly improving its value creation as much as possible. Also the Board should ensure that the value being created is shared among the shareholders and employees with due regard to the interest of the other stakeholders of the company. It is also stressed that the Board's functions should include but not limited to the following; strategic planning, selection, performance appraisal and compensation of senior executives, succession planning communication with shareholders ensuring the integrity of financial controls and reports, ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria.

The composition of the Board based on the recommendation of the 2003 code should be made in such a way as to ensure diversity of experience without compromising compatibility, integrity, availability, and independence. The Board should comprise of a mix of Executive and Non-Executive Directors headed by a Chairman of the Board, so however as not to exceed 15 persons or be less than 5 persons in total. Also, emphasis is placed on upright personal characteristics and relevant core competences and experience or knowledge on board matters, a sense of accountability, integrity, and commitment to the task of corporate governance and institution building.

One of the important recommendations of the code is that responsibilities at the top of a company should be well-defined. A Board should not be dominated by an individual and the position of the Chairman and Chief Executive Officer should be separated and held by different persons. In exceptional circumstances where the position of the Chairman and Chief Executive Officer are combined in one individual, there should be a strong non-executive independent director as Vice Chairman of the Board. The Chairman's primary responsibility is to ensure effective operation of the Board and should as far as possible maintain a distance from the day-to-day operations of the company, which should be the primary responsibility of the Chief Executive Officer and the management team.

3.2 Executive Director Compensation

The code emphasizes the full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid director, including pension contributions and stock options where the earnings are in excess of N500, 000. Executive directors should not play an active role in the determination of their remuneration and the remuneration of Executive Directors should be fixed by the Board and not in shareholders' meetings. The code emphasizes the need for remuneration committees, wholly or mainly composed of non executive or independent directors and chaired by a non-executive director, to recommend the remuneration of executive directors. Also the disclosures of directors' remuneration, emoluments and that of the Chairman and highest paid director with other relevant information about stock options and any pension contributions are duly emphasised

3.3 **Disclosure and Financial Transparency**

The code emphasizes overriding need to promote transparency in financial and non-financial reporting. It is the Board's duty to present a balanced, reasonable and transparent assessment of the Company's position. The prime responsibility for good internal controls lies with the Board and the Board should ensure that an objective and professional relationship is maintained with the auditors. External Auditors should not be involved in business relationships with the company. The Board should establish an audit committee of at least three non-executive directors with written terms of reference, which deal clearly with its authority and duties. The directors should report on the effectiveness of the Company's system of internal control in the Annual report. The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary in compliance with the Companies and Allied Matters Act.

3.4. Shareholders' Rights and Privileges

The company acting through the Directors should ensure that shareholders' statutory and general rights are protected at all times. Shareholders should remain responsible for electing Directors and approving the terms and conditions of their directorships The Board should propose a separate resolution at the general meeting on each substantial issue in such a way that they can be voted for in an organized manner and that all shareholders are treated equally; and that no shareholder should be given preferential treatment or superior access to information or other materials. Also boards should use general meetings to communicate with the shareholders and encourage their participation and Shareholders holding more than 20% of the total issued capital of a company should as far as possible have a representative on the Board unless they are in a competing business or have conflicts of interest that warrant their exclusion from the Board. As far as possible, there should be at least one director on the board representing minority shareholders.

4. Data and Methodology

4.1 Data and sources of data

The study used data of various forms ranging from quantitative like; the number of independent director, number of shares held by each director, number of board of director to categorical such as number of shareholder holding more than 25% of the company and ending with qualitative data extraction involving the scoring of corporate governance practice based on wording in the annual report suggesting compliance is being achieved. Data regarding both internal and external corporate governance mechanisms were also gathered from sources such as websites of the companies, filing with Stock Exchange, and the annual financial reports of the selected firms.

4.2 Population and sample size

The study focused on non-financial firms and there were two hundred and thirty seven (237) listed firms on the stock exchange at the end of 2010 NSE (Nigerian Stock Exchange Web site, 2010). These firms were screened for corporate governance disclosure and firms that did not have corporate governance compliance disclosure in any of the year of the sample period were excluded in order to allow for consistency and comparability of data. A purposive sampling technique was used to select firms that meet the data requirement leading to a sample consisting of 100 listed firms on the Nigerian Stock Exchange and representing a broad range of industry sectors.. The sample excluded all finance-related firms, banks, and insurance and utilities companies due to their differences in the regulatory requirements, financial reporting standard and compliance. Also distressed firms and firms with incomplete information and whose shares were not traded in stock market during the sample period were excluded. .The period chosen and the number of the firms meet the qualification that served the purpose of this study. The sampled firms represented 67% of the number of firms and approximately 71% of total market capitalization of NSE (Nigeria Stock Exchange Web site, 2010).

4.3. Corporate Governance Index (CGI)

In order to analyze the level of compliance, this study used a broad corporate governance index, instead of looking at a single control mechanism, to provide a comprehensive description of firm level corporate governance for a broad sample of listed firms in Nigeria. The corporate governance index was constructed and designed to capture corporate governance commonly practiced by listed firms in Nigeria. Specifically, the criteria were derived from corporate governance guidelines and recommendations of 2003, Code of Best Practices for Corporate Governance issued and approved by the combined Board of Security and Exchange Commission and Corporate Affairs Commission. The corporate governance index was not survey-based. All questions were answered from public information disclosed by listed firms and not by means of potentially subjective or qualitative interview. Sources of information were company filings and annual reports. The corporate governance index served as a broad measure of firm-specific corporate governance quality and reflects different governance attributes which are not legally required but considered as "Good Corporate Governance Practice" by the recommendation of local regulators (SEC and CAC) and by the International Standards".

A composite of 30 questions, covering 5 broad categories; board characteristics, ownership and controlling structure, executive compensation and shareholders right and interest and financial transparency standard were drawn. The number of the question was set so that it would not be neither too small that would not capture the multivariate nature of corporate governance, nor too large, that would render data gathering difficult and subjective. Each question corresponds to yes or no answer. If the answer is "yes", then the value of 1 is attributed to the question; otherwise the value is 0. The index was the sum of the points for each question. The maximum index value was 30. Index categories were simply for presentation purpose and there was no weighing among questions.

The disclosure category contains six (6) governance attributes: disclosure date of financial reports, the utilization of an International Accounting Standard and the quality of the auditing firm. Firms adopting international accounting standards must meet a number of requirements that make them disclose more information and be more transparent. The hypotheses are that firms which produce financial reports by the legally required date, use an international accounting standard and one of the leading global auditing firms are considered to have "good" corporate governance disclosure.

The second category is related to board composition and functioning. The board size is an important control mechanism, because the board of directors´ role is to monitor and discipline firm´s management. The code of best practice on Corporate Governance suggests an ideal board size of 5 to 15 directors. The Security and Exchange Commission recommends one-year consecutive terms for board members, suggesting that shorter terms are more effective than longer terms, because shareholders are more flexible in changing board members if they are not effective in monitoring firm´s management.

In this study, ownership attributes related to "good" ownership and control structures are: the largest shareholder has less than 50% of the voting capital; the controlling shareholders' ratio of cash-flow rights to voting rights is greater than 1; the percentage of voting shares in total capital is more than 80%, and the executives and director subject to stock ownership. The shareholder rights dimension contains three (3) attributes, all of which related to rights granted by the company charter, beyond what is legally required to its shareholders, especially minority shareholders. Nenova (2001) reports that when the law state more rights to shareholders (for example, tag along rights), corporate values tend to rise. The questions are related to the use of arbitration as the vehicle to resolve corporate conflicts, additional voting and tag along rights granted for the minority shareholders, beyond what is legally required.

5. Analysis, findings and discussion

5.1. Descriptive Analysis

Descriptive statistics were employed to analyse the basic features of the corporate governance variables. The frequency distribution consists of 100 firms whose stocks are traded on Nigerian Stock Exchange from 2003 to 2010 (see Table I). The study included observation in the sample if in a year, a firm has at least one corporate governance score. Table II panel A presents descriptive statistics on Corporate Governance Index. A review of Table II panel A reveals that a firm can achieve a composite score from 0 to 30. The mean composite governance score increased by approximately 1.25 from 2003 to 2010, the standard deviation and variance declined by 0.198 and 0.533 respectively and the range of scores was 9. This indicates that both the absolute and relative variation in the composite governance score is declining.

Table I : Distribution of Firms

Year	No of firms	Percentage of sample
2003	96	96
2004	97	97
2005	100	100
2006	100	100
2007	100	100
2008	100	100
2009	100	100
2010	100	100

Source: Based on computation of data from NSE Publication (2003- 2010)

Table II: Panel A: Descriptive Statistics CGI (Analysis year by year)

	2003	2004	2005	2006	2007	2008	2009	2010
Mean	21.39	21.36	21.45	21.73	22.10	22.53	22.71	22.64
Standard Deviation	1.51	1.50	1.51	1.38	1.31	1.27	1.17	1.32
Variance	2.28	2.25	2.27	1.89	1.73	1.60	1.38	1.74
Median	21.50	21.00	21.50	22.00	22.00	23.00	23.00	23.00
Maximum	24.00	24.00	24.00	24.00	24.00	25.00	26.00	26.00
Minimum	15.00	15.00	15.00	17.00	18.00	18.00	19.00	17.00
Range	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
N	96	97	100	100	100	100	100	100

Source: Based on computation of data from NSE Publication and firms annual reports (2003- 2010)

The study examined further in table II Panel B the scores of the governance components. The maximum scores of the components vary overtime making comparison difficult. This study thus presented both the raw scores and standardized scores, calculated by dividing the raw scores by the maximum possible value for the component. From table II Panel B, both the mean raw score and standard value for board structure and functioning increases overtime as the maximum score is unchanged. The raw value for the executive compensation category stays approximately the same but the standardized score increases by 4%. Both the mean raw value and standardized score for Shareholder's Rights decreased in 2005 and 2006. The mean value for ownership structure and control increased in terms of raw value and especially the standardized value. Overall, the data presented in the table II, Panel A and B suggest that some structural shifts are occurring in the corporate governance structure and processes within Nigerian firms. These changes might be driven by the firms' desire to improve their reported rating in the media or genuine desire of the management of the firms to improve the overall state of corporate governance in these firms.

Table II: Panel B Components Score (N = 100)

Mean value	2003	2004	2005	2006	2007	2008	2009	2010	% 2003 - 2010
DSFT	5.98	5.90	5.86	5.90	5.92	5.91	5.92	5.92	-0.06
BOD	5.30	5.24	5.21	5.29	5.43	5.59	5.69	5.70	0.40
OWN	2.56	2.57	2.57	2.66	2.78	2.88	2.90	2.87	0.31
EXC	5.61	5.62	5.59	5.69	5.74	5.88	5.94	5.95	0.34
SHA	2.06	2.06	2.00	2.02	2.03	2.05	2.05	2.05	-0.01
Std. values									
DSFT	99%	98%	97.6%	98%	98.6%	98.5%	98.5%	98.6%	-0.004
BOD	66%	65%	65%	66%	68%	70%	71%	71%	0.05
OWN	64%	64%	65%	64%	69.5%	72%	72.5%	72%	0.08
EXC	62%	62%	63%	62%	64%	65%	66%	66%	0.04
SHA	69%	69%	67%	66.7%	67.6%	68%	68%	68%	0.01

Source: Based on computation of data from NSE Publication and firms annual reports (2003-2010)

The summary statistics of the five (5) corporate governance components and the corporate governance index for the sample period are shown in the table III. These also depict a number of features about governance structure of Nigerian firms. The table gives a clear descriptive analysis of the structural shift in the corporate governance processes among the non-financial firms in Nigeria. It shows the level of changes and improvement year by year and average level of compliance. The mean of corporate governance index is 21.996; the maximum is 26, while the minimum is 15. This suggests that average firms' score is 21 of all the corporate governance questions and the maximum score is 26 recorded by a firm in 2009 (see table III Panel A). The mean of ownership and control structure is 2.77 while the maximum is 4.00. This means that the ratio of the Shareholders' voting right, percentage of voting share in total capital and share owned by directors to the total shares outstanding is high. The mean, maximum and minimum of disclosure and financial transparency are 5.88, 6.00, and 3.00 respectively. These also reveal that the ratio of disclosure requirement, the use of accounting standard and the use of audit committee among firms Nigeria is high.

5.2 Evaluation of corporate governance practices.

The system in Nigeria today is a mixture of the capital market-based system and the bank/institutional based systems. The Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Corporation (NDIC) regulate issue of corporate governance especially with regards to publicly quoted companies, banking and other related sectors. Corporate governance practices among listed firms in Nigeria were analyzed to determine the level of compliance during the sample period. A corporate governance index was constructed to represent Nigerian corporate governance standard and listed firms were ranked according to the index. Table IV describes the components used and all variables are coded yes = 1, no = 0. In the scores column, numerator is number of "1", while the denominator is the total number of variables.

Table IV: Corporate Governance Index

Corporate governance attribute	Scores	Mean%
Disclosure and financial transparency	4689/4800	97.69
Board structure / compensation and function	4305/6400	62.27
Ownership and control structure	2161/3200	67.53
Executive compensation	4563/7200	63.38
Shareholders' Right	1618/2400	67.42

Source: Based on computation of data from NSE Publication and firms annual reports (2003-2010)

There are five categories that comprises the composite score index as shown in Table iv. The maximum composite score that a firm can achieve is thirty (30) points. Out of 30 points, a firm could score six (6) points in the disclosure and financial transparency, eight (8) points on the board structure, four (4) points on the ownership structure, nine (9) points on executive compensation and three (3) points on shareholders' rights. The philosophical principle underlying the codes is that the disclosure of information about corporate governance practices and investors' protection by the firms allows the market to perceive the differences among the policies followed by various firms. Information allows shareholders to distinguish those that adhere to investors' protection and in turn, making shareholders more willing to give the firms funds. Thus, those firms with better practices should find it easier to access capital and at a lower cost as they provide a more certain environment for the investors.

It is of importance to note that the adoption of the principles of the code of best practices in Nigeria as in most other countries is voluntary but the disclosure by firm in their filings in the

NSE is compulsory. All publicly traded firms in the NSE must state in their annual report to the shareholders which of the rules of the code they follow. The disclosed information about the corporate governance practices indicates the mechanisms that firms have for the protection of investors.

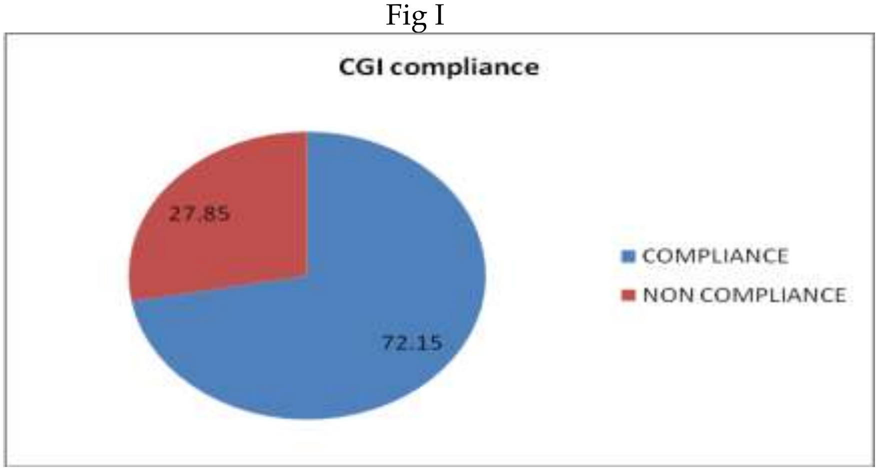
Aggregating the five components constituting the provision of the corporate governance, it is encouraging to note that above 50% of the sample has excellent corporate governance framework in place covering the governance issues and thus, most firms are implementing the requirements of the code. Moreover, on average 74.97 percent of the firms depict clearly the enthusiasm and firms' commitment towards upholding of the wide spectrum of the provision of the 2003 code of best practices. However, there are still some firms found lagging behind in the pursuance of their compliance with much improvement needed to meet the intent of corporate governance practices. Table V and Figure I show the level of CGI compliance. The highest level of compliance is 80 percent while the lowest level of compliance is 52.2 percent of the codes. It is also interesting to report that only five firms out of the 100 firms met 80 percent on average, 66 firms in the sample met more than 70 percent of the code and 29 firms met between 52.5 and 70 percent of the code bringing cumulative percentage of the level of non-compliance with certain aspect of the code to 27.85 percent

Table V: CGI % Level of Compliance on average

No of Firms	Level CGI	Range %
5	80 percent	
66	> 70 percent	79.58 – 70.83
29	< 70 percent	52.50 – 70

Source: Author's Computation from CGI Questions

Fig I



Pie chart on CGI Compliance level

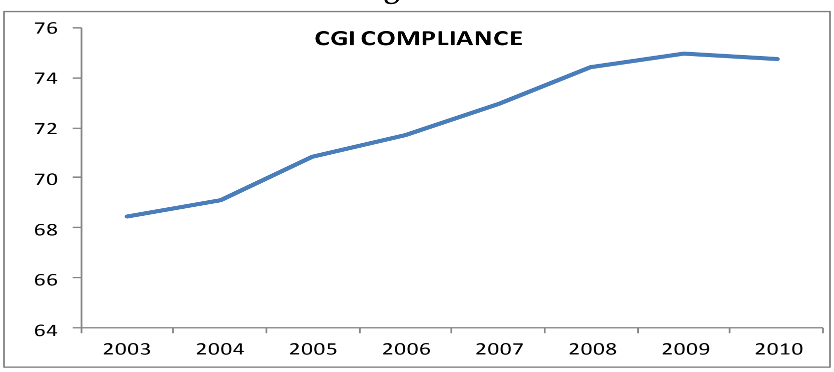
The study also analyzed further the level of corporate governance compliance year by year. Table VI and figure II show that the level of compliance with the recommendation of the 2003 code of best practices increased by 5.83 percent in 2010. In 2003, firms with publicly traded securities in Nigeria met 69.1 percent of all the codes while that number was 71.73 percent two years after. The sample period 2003 - 2010 saw smaller increase leaving the total compliance close to 75 percent at the end of the period. Compliance increased only by 3.87 percent from 2003 – 2006, suggesting a slow-down in change of corporate governance practice. The seemingly large level of compliance in 2003 could mean some firms may have been confused on the exact meaning of the code or that the code introduced some pressure for firms to change quickly.

Table VI: CGI Compliance on average 2003-2010

Year	2003	2004	2005	2006	2007	2008	2009	2010
GCI	69.1	70.83	71.73	72.97	74.4	74.97	74.73	74.93
%				3.87				5.83

Source: Based on computation of data from NSE Publication and firms annual reports (2003-2010)

Fig II



The study shows further the level of structural changes by showing the level of compliance by firms with specific recommendation separately (Table VII and Figure III). The questions of the index were grouped in five sections from which sub-indices were created. The five sub-indices and the percentage of compliance level which ranges from 67.42 to 97.69 percent compliance level are shown in the Figure III. The table shows further the level of structural changes in the corporate governance practices and processes in Nigeria In 2003, five (5) firms complied with 80 percent or more of the principles while 24 firms complied with less than 70 percent. The level of compliance increased overtime as the number of firms with more than 80 percent level of compliance increased to 26 firms by year 2010 while less than 7 firms had compliance level of a range between 50 and 70 percent. This suggests that corporate governance practice which has gained substantial ground in developed economies has begun to make inroads into emerging market like Nigeria. Today, it has become a part of the regulatory framework for Nigeria listed companies.

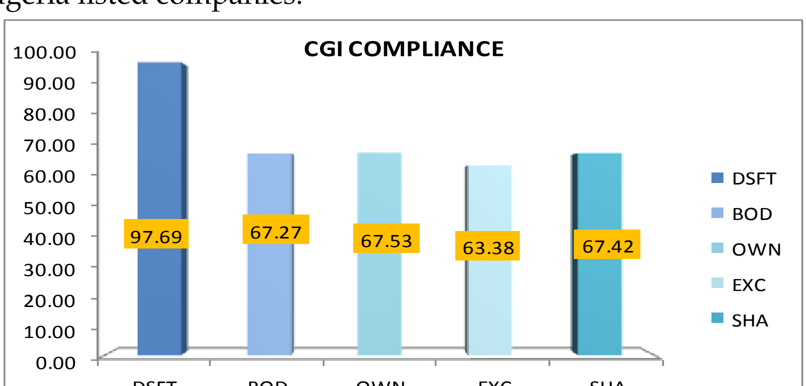


Fig III: Histogram Component of Corporate Governance

Table: VII: CGI Compliance Level by Firm

% Range	≻ 80	≻ 70 ≤ 80	≻ 50 ≤ 70	
Firms (year)	Number	Number	Number	Total
2003	5	68	24	97
2004	5	68	24	97
2005	6	72	22	100
2006	8	79	13	100
2007	15	77	8	100
2008	23	72	8	100
2009	25	70	5	100
2010	26	60	6	100

Source: Based on computation of data from NSE Publication and firms annual reports (2003-2010)

The analysis of the specific component of the corporate governance reveals several interesting corporate governance patterns of Nigeria firms. On average, 97.69 percent of the firms followed the recommendation of the 2003 codes of best practice in disclosure and with respect to financial transparency requirements while 67.53 and 67.42 percent of the firms met the ownership and control structure and the protection of the shareholders' right respectively. The disclosure and financial transparency requirement which has the object (substantial) means of communicating the required information to all stakeholders is an area which most firms meet best corporate governance practice as specified in the code. The assumption here is that firms adopting international accounting standard and using a leading global auditing firm must meet a number of requirement that make them disclose more information and be more transparent. It is encouraging to note that a good number of the firms in the sample (on average 97.69 percent, Fig, iii) adopted and complied with the components of good corporate governance practices. This suggests that the vast majority of Nigerian firms produce their legally required financial report by the required date and make use of leading global/local auditing firms. The audit committee which was also the object of substantial changes in regulation is another area where most firms meet good corporate governance practices. Over 97.69 percent of firms disclose director's total emoluments and those of the chairman and the highest paid directors.

Another area where most firms had followed the suggested principles is the operation or internal workings of the board. The analysis shows that an average 67.27 percent (Fig, III) complied with the recommendation of the 2003 codes. In terms of board structure/composition and functioning, Nigerian firms have substantially reduced the size of their board. As at 2010, over 67.27 percent (Fig, iii) of the firms that issue equity have boards between 5 and 15 members specified or disclosed in their annual reports. Also, classification of directors as independent owner and related is properly done in the annual report. It is obvious that listed firms comply with the code dealing with the functions of the board and the general structure of the specialized board committees.

Another area of the code deals with shareholders' right. As previous work has shown, firms rarely deviate from the package of shareholders' right that is mandated by law and regulation. The analysis shows that over 67.42 (Fig, III) percent level of compliance with best corporate governance practice as suggested in the 2003 code was achieved among Nigerian firms. The evaluation of the ownership and the control structure shows that on average 67.53 percent of all the firms have the percentage of voting share in total capital and the ratio of the cash flow right to voting right of the controlling shareholders greater than 1. Cash flow rights were defined as the percentage of outstanding shares held by the controlling shareholder while the voting rights were defined as the percentage of voting shares held by the controlling shareholders. Also, the analysis of ownership structure and control was also based on the stock free float which refers to the shares of the firms that are not directly or indirectly owned by the controlling shareholder. Overall, the level of compliance with the attributes related to good ownership and control structures is 67.53 percent as shown in Figure III. The question of the compensation and evaluation committee show one of the largest deficiencies in Nigerian corporate governance practice. Though the compliance with the recommendation of the code on average shows 63.38 percent, more than half of the listed firms do not disclose the policies employed in this area.

5. Conclusion

This study analysed corporate governance practices and market valuation among the non-financial listed firms in Nigeria using time series and cross-sectional data between the year 2003 and 2010.The main objective of the study is to provide answers to the following question; what is the corporate governance structure of firms in Nigeria viz a vis the level of compliance? A data set on corporate governance mechanism was sourced and obtained from the website and the publication of the Nigeria Stock Exchange (NSE), website of the firms, and the annual financial report of the selected firms and a corporate governance index based on the list of corporate governance mechanisms recommended by a combined board of CAC and SEC in 2003 was constructed..

A descriptive analysis method was employed and the result shows that firms in Nigeria that were observed between 2003-2010 have embedded corporate governance initiatives and mechanisms that exist at the firm level. Their initiatives and mechanisms have evolved overtime to reflect compliance with national and international standards as recommended by the combined board of CAC and SEC and the OECD respectively. While the study showed a structural shift in corporate governance structure, a slow-down in change of corporate governance practice among firms in Nigeria was however observed.

Also while the study has been successful in providing insight into the status of corporate governance among firms in Nigeria and the level of compliance, it is also subjected to several limitations. Firstly, it is acknowledged that the study suffers from a selection bias and that there may exist many other explanatory variables that have not been incorporated into the analysis. Another limitation of this study was in the research design that used only non-financial listed firms in Nigeria. The validation of the conclusion might not hold for financial firms outside those firms' list.

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