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# To What Extent Do Companies Listed on the Nigerian Stock Exchange Comply with Corporate Governance and Risk Management Principles?

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**Abstract**

This study set out to ascertain the extent to which public companies listed on the Nigerian Stock Exchange (NSE) comply with corporate governance and risk management principles (the principles), based on the assumption that directors of NSE-listed companies will, on the basis of their awareness of the principles, "[ensure] that corporate actions, agents and assets are directed at achieving the corporate objectives established by the corporation's shareholders" (Sternberg, 2004, p. 28).

Using survey design, closed-ended questionnaires, and secondary data sourced from the Corporate Affairs Commission, the survey instrument was administered on 35 companies selected by random sampling (from a total population of 113), out of which 26 responses were received. The responses were statistically analyzed to measure the extent of the respondents' awareness of, and compliance with, the principles. The Pearson correlation coefficient was employed to determine the relationship between the level of awareness of, and extent of compliance with, the principles.

The research results show that even though there is a high level of awareness of the principles amongst NSE-listed companies, "negligible/scant positive" (Buglear, 2012, p.163) correlation was established between the level of awareness of these principles and the extent of compliance by the companies. An implication of this scenario for managerial practice amongst the NSE-listed companies is that more corporate resources need to be deployed to strengthen the compliance function in these companies.

**Keywords:** corporate governance, risk management

## 1. Introduction

The main objective of this study is to ascertain the extent to which companies listed on the Nigerian Stock Exchange (NSE) comply with corporate governance and risk management principles. The study seeks to answer the following questions:

a) What is the extent of compliance with corporate governance and risk management principles by companies listed on the NSE?

b) Is there a relationship between awareness of corporate governance and risk management principles amongst NSE-listed companies and compliance with these principles?

c) What are the implications of the research findings for managerial practice amongst NSE-listed companies?

This study is part of an overarching research that seeks to ascertain whether there is a causal relationship between corporate governance, risk management and the financial performance of companies listed on the NSE.

The recent global financial crisis, which as at October 2009, was reported to have caused global credit losses of $2.8trillion, and $14.5trillion or 33% of the value of companies being wiped out (Shah, 2010); the threats of further losses arising from growing environmental instability manifesting in capricious weather conditions; the continuing social unrest in some parts of Europe and the Middle East arising from the Euro Crisis and the Arab Spring; escalating violence by terrorists and extremist organizations; the recent Libor scandal (Wagonner, 2012);

the rogue trading scam at JP Morgan (BBC, 2012); and the money laundering allegations that have trailed Standard Chartered (Silver-Greenberg, 2012) and HSBC (Thomas, Jr. and Scott, 2012), all underpin the urgency for strengthening governance and risk management structures and processes as tools for investor protection.

The imperative for corporate governance and risk management, especially in the emerging markets, is further underscored by survey of institutional investors conducted by the International Finance Corporation (IFC) (2010), which made the strong point that corporate governance considerations play a significant role in their decision to invest in the emerging markets. According to the IFC (2010) survey, some issues of critical concern to these investors include transparency and accuracy of disclosures; respect for shareholder rights; the proportion of non-executive to executive directors on the boards; general ethical standards; and integrity and credibility of management.

In Nigeria, the stock market crash of 2008 resulted in widespread investment losses with adverse effects. The NSE All-Share Index fell from 66,121.93 in March 2008 to 29,551.84 at the end of December 2008, a 48% drop, while market capitalization crashed from N12.6 trillion to N6.54 trillion within the same period (Ikpang, 2008). Corporate entities that invested their financial resources in the equities of listed companies were left with crippling debt repayments and insolvency. Banks that granted margin loans, estimated at over N500 billion (Okereke-Onyiuke, 2010), had to take huge provisions which resulted in colossal losses and complete erosion of capital for many of them. But while the reaction of government to the financial crisis was to focus on overhauling and strengthening the governance and risk management structures of banks, there was no evidence of concerted action directed at ascertaining the efficacy of governance and risk management structures and processes of listed non-bank companies. As entities that deploy other people's money to generate profits, investors' expectations of good returns would remain a mirage if these companies are not properly oriented in terms of adherence to sound corporate governance and risk management principles. This was one of the motivations for this study.

The second inspiration for this study is the quest to bridge the fissure in literature in corporate governance research in Nigeria. Of the twenty journal articles on corporate governance in Nigeria reviewed, only four have made an attempt to show a relationship between some aspects of corporate governance and corporate performance (Kyereboah-Coleman, 2007; Ehikioya, 2009; Uadiale, 2010; Adelopo, 2011; Olatunji and Ojeka, 2011); while none examined the relationship between governance, risk management, and the performance of companies listed on the NSE. Yet, given the urgent need for investor protection, it is imperative that companies incorporate what Andersen and Schroder (2010, p.xx) describe as "a strong culture of risk awareness and mindfulness [into their corporate governance framework, to enable them] sense, observe and react to environmental changes in a timely manner".

## 2. Conceptual Clarifications

### *2.1 Corporate Governance*

Corporate governance as a concept has no single acceptable meaning. While some associate it with the maximization of shareholder value in the form of profits, dividends or growth (Shleifer and Vishny, 1997; Jensen, 2001; Gamble and Kelly, 2001); others relate it to the protection of stakeholder interests (Freeman and Reed, 1983; Freeman, 1984); control and accountability (Keasey, Thompson and Wright, 2005); transparency and full disclosure (OECD, 2004); and the system for directing and controlling companies (Cadbury, 1992). There are those who link corporate governance to processes that guarantee effective decision making (Garvey and Swan, 1994, cited in Farinha, 2003; Pound, 1995), with checks and balances in place to guarantee the implementation of decisions (Keasey, Thompson and Wright, 2005; Monks and Minow (2008)); or the role of statutes and codes (Okike, 2007).

For the purpose of this study, Sternberg's (2004, p.28) notion of corporate governance as "ways of ensuring that corporate actions, agents and assets are directed at achieving the corporate objectives established by the corporation's shareholders" is adopted. According to the author, effective corporate governance takes place when directors (and employees and other agents) are held accountable for their conduct and the use of the company's resources, through the use of directors' powers and duties; periodic reporting, and timely and accurate disclosures to shareholders; the requirement that prior shareholder approvals be obtained for certain corporate actions; and the takeover mechanism.

The ideas of principal-agency relationship, as well as the use of control mechanisms embedded in the internal structures and processes by which powers, duties and responsibilities are exercised (Sternberg, 2004); and "the markets – particularly the capital market, the managerial labour market and the market for corporate control –

[which] provide the most effective restraints on managerial discretion" (Letza, Sun and Kirkbride, 2004, p.244); are implicit in this definition.

*2.2 Risk Management*

Described as "the coordinated activities to direct and control an organization with regard to risk, [risk management is considered as] an active component in governance, strategy and planning, management, reporting processes, policies, values and culture" of an organisation (Gjerdum and Salen, 2010, p.44). It is also widely acknowledged as a performance-enhancing tool that enables companies achieve their objectives (Clarke and Varma, 1999; COSO, 2004).

Contemporary notions of *risk* have gone beyond the traditional concerns with hazards, or what could go wrong (Andersen and Schroder, 2010; Damodaran, 2010); or the negative consequences of uncertainties, where risk management was silo-based with different units of an organisation treating risks using different approaches (Clarke and Varma, 1999); where "emphasis [was] on particular uncertainties rather than a multidimensional treatment of uncertainty [which] isolates specific uncertainties to the exclusion of other interrelated uncertain variables" (Miller, 1992, p.312). The current thinking on risk management is represented by expressions such as integrated risk management (Miller, 1992); enterprise risk management (COSO, 2004); and strategic risk management (Clarke and Varma, 1999; Andersen and Schroder, 2010).

The idea conveyed by *integrated risk management* is one in which, according to Miller (1992, p.313), companies move away from "the suboptimal approach of treating uncertainties in isolation from one another [to one that] takes a general management view giving explicit consideration to numerous uncertainties". COSO (2004, p.2) has defined *enterprise risk management* (ERM) as:

*"a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding achievement of entity objectives."*

Both integrated risk management and ERM have a common approach, which is the centralized management of risks rather than the silo-based approach of traditional risk management, and the notion that risk management should be an integral part of an organization's core business processes (see Andersen and Schroder, 2010). *Strategic risk management,* according to Andersen and Schroder (2010, p.79) focuses on "strategic risks that can arise from rapid and abrupt changes taking place in increasingly turbulent high-velocity business environments". According to the authors, strategic risks, which may include competitor moves, technological changes, product innovations, etc, are difficult to foresee and hard to quantify. In their view, therefore, a consideration of risks must take into account different strategic exposures, and that risk management should be considered "as an integral part of strategic decision-making, strategic planning and corporate management processes in general" (Andersen and Schroder, 2010, p.77).

It is widely agreed that a company's board of directors has the primary responsibility for overseeing risk management (Clarke and Varma, 1999; COSO, 2004, 2009; The UK Corporate Governance Code, 2010). Nigeria's Securities & Exchange Commission's (SEC) Code of Corporate Governance (2010) also recognises the primacy of the board in risk management. The specific responsibilities of the board in this regard include defining the company's risk philosophy and setting the risk appetite; ensuring that management has put in place an effective risk management system that facilitates the identification, assessment and treatment of risk; evaluation of strategies for dealing with risks; and being informed and aware of the most critical risks facing the company and the existing structures for dealing with them (COSO, 2009; Clarke and Varma, 1999). Thus, whether the board is responding to "the six forces affecting business" (Grove, 1997, p.27) or "the five competitive forces that shape strategy" (Porter, 2008, p.79), the objective of corporate action must be in line with the duty of directors prescribed by, for instance, section 279 (3) of the Nigerian Companies and Allied Matters Act (CAMA), Cap C20, Laws of the Federation of Nigeria, 2004, which requires a director to act all times in a manner that will preserve the assets of the company, further its business, and promote the purpose for which it was established.

## 3. Conceptual Framework

The conceptual framework for this study is represented in the diagram below:

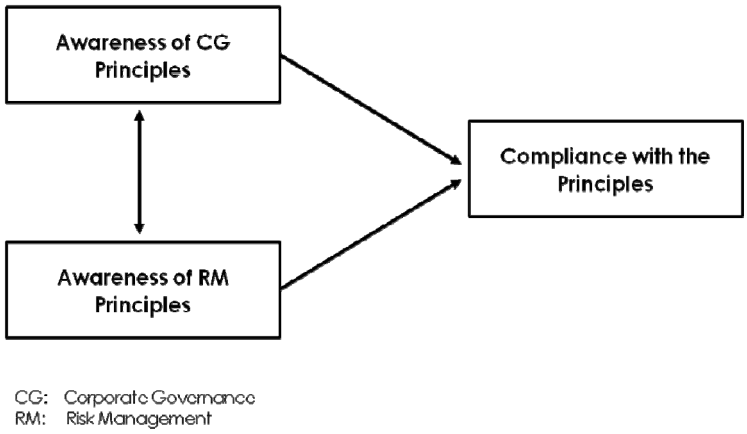


Figure 1. Conceptual framework

The two key concepts dealt with in this study are corporate governance and risk management. The positivist agency theory espoused by Eisenhardt (1989, p.58) identifies two corporate governance challenges, namely, the *agency problem (*which manifests in the divergence of interests between the owners [principal] and those who control the company [agent] where the principal finds it difficult or costly to monitor the behaviour of the agent), and "the *problem of risk sharing* that arises when the principal and agent have different attitudes toward risk". To protect the principal and realize the corporate objective, corporate governance and risk management mechanisms are required to monitor and control the behaviour of the agent, and to curb the tendency for opportunistic conduct (Eisenhardt, 1989; Sternberg, 2004).

Based on this framework, therefore, it is assumed that the agents (i.e. directors of NSE-listed companies) will, on account of their level of awareness of the principles, take steps to comply with those principles, thus protecting the interests of the principal (i.e. shareholders and investors). The extent of compliance with the principles (dependent variable) is therefore a function of the level of awareness of these principles (independent variables) by the directors of the companies that make up the study population. This outcome is predicated on the further assumption that the legal and regulatory environment sets the boundaries of behavior and defines the basic rules of engagement, while market governance mechanisms ensure that "the capital market, the managerial labour market and the market for corporate control" (Letza, Sun and Kirkbride (2004, p.244)) punish companies whose managers behave opportunistically or are inept (Gamble and Kelly, 2001; Ezzamel and Watson, 2005).

The diagrammatic representation of the conceptual framework used for this study bears close semblance to the theoretical model used by Ishak and Zabil (2012) in their study of the impact of consumer awareness and knowledge on consumer behaviour in Malaysia, with two notable differences: the conceptual framework adopted here dwells on awareness rather than *awareness and knowledge*, and the two independent variables have a reciprocal relationship, which is absent in Ishak and Zabil's (2012) model.

## 4. Methodological Assumptions

### *4.1 Philosophical Worldview*

"All research", according to Gelo, Braakmann, and Benetka (2008, p.269), "needs a foundation for its inquiry, which is provided by worldviews and scientific paradigms". This view is echoed by Cunliffe (2011), who has posited that the choice of a research approach or paradigm is influenced by the ontological and epistemological orientation of the researcher. Of the three worldviews (intersubjectivism, subjectivism, and objectivism) identified by Cunliffe (2011), objectivism captures most aptly, the central issues that relate to the quantitative approach adopted for this study. Such issues include statistical analyses, relationship between variables, causality, measurements, and the generalization of research findings based on the study of a small sample (Cunliffe, 2011; Bryman and Bell, 2011).

This study is guided by the postpositivist belief (embedded in the objectivist worldview) that research should aim at formulating true statements or theories through "competent or disciplined inquiry" which, according to Phillips (2005, p.50) requires the researcher to make "clear how the inquiry was conducted, and to indicate what steps were taken to insure that the conclusions reached are trustworthy".

*4.2 Research Design*

Employing the survey design, the sampling frame or "the 'universe' of interest" (Andres, 2012, p.24) comprised all the companies listed on the equities market of the NSE, out which a sample population of companies that had consistently filed their audited financial statements for the 5-year period ended 31 December 2011 was drawn. The 5-year span was applied in order to have sufficient latitude to "trace patterns of change, and possibly give a true picture of cause and effect over time" (Rajulton, 2001, p.171). A total of 113 companies fell into this category. Banks were excluded from the study population because the stress test conducted on Nigerian banks in 2009 by the Central Bank of Nigeria (CBN) had exposed so much of the governance and risk management failures of Nigerian banks that no practical value would be gained by reviewing them all over again.

The actual sample size for this study is 35, enlarged from the initial sample size of 30, to compensate for possible non-response. The 35 companies were selected through random sampling by generating random numbers between 1 and 113 using excel functionality RANDBETWEEN. The numbers were modeled to avoid repetitions. The random numbers generated were then "looked up" for the corresponding company name in the look up table. Companies that fell between 1 and 35 (both numbers inclusive) were then selected for the study.

Basic information on the sampling frame was derived from The Nigerian Stock Exchange 2010/2011 Factbook (NSE Factbook), a publication of the NSE. However, the NSE Factbook was incomplete in the sense that information reported for most of the companies was as at year end 2009, with only a handful ending at 2010. The Library of the NSE was inaccessible at the time of data gathering as it was said to be under renovation. The researcher then had to turn to the library of *Cowry Asset Management Limited* (www.cowryasset.com), a member of the NSE, for information on companies with complete data as at 31 December 2011.

The need to protect the respondents was addressed by explaining in writing, the purpose of the study and the right of the respondents to withdraw their participation at any time. Assurances of anonymity and confidentiality were given, and written consents of the respondents were obtained. No financial inducement was offered to any of the respondents.

*4.3 Data Collection, Analysis and Interpretation*

4.3.1 Data Collection Methods

This study made use of the closed-ended questionnaire to gather primary data. Use was also made of secondary data obtained from the Corporate Affairs Commission (CAC), which is the repository of company records in Nigeria. Company records at the CAC are public documents which can be accessed by members of the public upon the payment of a prescribed administrative fee.

The questionnaire had two sections, one on corporate governance, and the other on risk management. There were a total of 16 closed-ended questions comprising a combination of dichotomous questions (Andres, 2012) and 5-point scaled responses: *Strongly Agree, Agree, Not Sure, Disagree,* and *Strongly Disagree* (Gillham, 2000). Direct distribution of the questionnaires (by trained agents) was effected on the respondents who have their head offices in Lagos, while the mail was used for those outside Lagos. The agents were instructed to make repeated visits to the respondents until they got a response in the form of a completed questionnaire.

Twenty six out of the 35 questionnaires administered were completed and returned, representing a response rate of 74%. It has been suggested (Keough and Tanabe, 2011, p.39, citing Dillman, 2007) that response rate could be increased with "a respondent-friendly questionnaire; four contacts by first-class mail ...; return envelopes with real first-class stamps; personal correspondence; and a token financial incentive". Apart from the respondent-friendly questionnaire, the personal correspondence addressed to the Managing Director/CEO of each of the respondents, assurances of anonymity and confidentiality, and the pledge that an executive summary would be given to each of the participants, no promise of financial incentive was made to the respondents.

To determine the validity of the data collected, 6 companies representing 23% of the respondents from the pool of 26 respondents were randomly selected and called back (via telephone) to ascertain that the administration of the survey questionnaire was properly conducted and free of fraud. The response from all 6 companies was positive and indicated that those who completed the questionnaires were officers duly authorized to do so on behalf of the respondents.

To obtain the secondary data for this study, a solicitor was commissioned to conduct registry search at the CAC on each of 35 companies to ascertain how many of them have been filing their annual returns regularly for the 5-year period ended 31 December 2011. Records of only 20 companies were found, representing a 57% success rate.

4.3.2 Indicators

The use of indicators to measure research concepts is an acceptable practice in quantitative research (Bryman and Bell, 2011). To determine the level of awareness of the principles amongst the respondents, the following 11 indicators were derived from the questionnaire:

- Corporate Governance
  - Influence of the Regulatory Environment.
  - Efficiency of the Regulatory Environment.
  - Role of the Board.
  - Control Function of Non-Executive Directors.
  - Executive Duality.
  - Role of Board Committees.
  - Recognition of Stakeholder Interests.
  - Timely Financial Disclosures.
- Risk Management
  - Centrality of Risk Management.
  - Responsibility of Board for Risk Management.
  - Adequacy of Risk Management Framework.

Similarly, to determine the level of compliance with the principles by the respondents, the following 5 indicators were derived from the questionnaire:

- Corporate Governance
  - Frequency of Board Meetings.
  - Existence of a Board Risk Management Committee.
  - Board Performance Evaluation.
- Risk Management
  - Existence of Office of Chief Risk Officer.
  - Existence of a Management Risk Committee.

4.3.3 Data Analysis and Interpretation

The returned questionnaires were imputed into excel (by a statistical consultant) for analysis using a 5-point ranking system (corresponding to the scaled responses: *Strongly Agree, Agree, Not Sure, Disagree,* and *Strongly Disagree*) to quantify both the level of awareness of corporate governance and risk management principles as well as the extent of compliance with these principles, as shown below:

- Level of Awareness
  - Very High Awareness - 5 points
  - High Awareness - 4 points
  - Not sure - 3 points
  - Low Awareness - 2 points
  - Very Low Awareness - 1 point
- Extent of Compliance
  - Very Strong Compliance - 5 points
  - Strong Compliance - 4 points
  - Not Sure - 3 points
  - Poor Compliance - 2 points
  - Very Poor Compliance - 1 point

The above system of ranking was aligned to the scaled responses, such that a response of "Strongly Agree" was matched to "Very High Awareness", meaning a ranking of 5, and so on to "Strongly Disagree", which attracted a ranking of "Very Low Awareness" or 1. For indicators that had more than one question or sub-questions, the questions and sub questions were assigned points and the simple average of the points assigned was used as the overall ranking for the indicator. For example, 3 questions were asked to determine the awareness of "timely financial disclosure" in respect of filing of annual returns with the CAC, filing of quarterly earnings forecast with the NSE, and filing of audited financial statements with the CAC and the NSE. Where a company was ranked 4, 4 and 5 respectively for the 3 questions, the simple average of 4.33 was assigned to "timely financial disclosure" for that company. Additionally, for questions that required a "yes" or "no" answer, a ranking of 5 was assigned to a "yes" answer, while a ranking of 1 was assigned to a "no" answer; and a ranking of 3 was assigned where a respondent was "not sure".

For indicators where the respondents did not provide any answer, a value of 0 (zero) was assigned, and they were not used in analysis. However the numbers or percentages of unanswered questions were noted in the analysis for completeness.

Also, the 26 respondents were assigned a three-letter code to preserve their anonymity in line with the pledge of confidentiality made to them by the Researcher.

Data analysis and interpretation were based on six questions:

(i) What is the level of awareness of corporate governance principles amongst the respondents?

(ii) What is the level of awareness of risk management principles amongst the respondents?

(iii) What is the extent of compliance with corporate governance principles by the respondents?

(iv) What is the extent of compliance with risk management principles by the respondents?

(v) Is there a correlation between the level of awareness of corporate governance principles and the extent of compliance with these principles by the respondents?

(vi) Is there a correlation between the level of awareness of risk management principles and the extent of compliance with these principles by the respondents?

**Question (i) -** *What is the level of awareness of Corporate Governance principles amongst the respondents?*

To answer this question, the level of awareness of each respondent was numerically coded, as shown in the table below:

Table 1. Company ranking of key indicators of level of awareness of corporate governance principles

| Companies | Level of awareness of CG principles | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Influence of the Regulatory Environment | Efficiency of Regulatory Environment | Role of the Board | Control Function of Non Executive Directors | Executive Duality | Role of Board Committees | Recognition of Stakeholder Interests | Timely Financial Disclosures |
| FTC | 5 | 5 | 5 | 4 | 5 | 5 | 3 | 4 |
| LFP | 4 | 3 | 5 | 2 | 3 | 4 | 5 | 3 |
| NCO | 5 | 5 | 3 | 4 | 5 | 3 | 5 | 3 |
| RTE | 5 | 5 | 5 | 5 | 5 | 4 | | 4 |
| JAO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| GIE | 5 | 4 | 5 | 5 | 4 | 5 | 5 | 5 |
| NBU | 5 | 4 | 5 | 4 | 5 | 5 | 5 | 5 |
| NIP | 4 | 4 | 5 | 3 | 4 | 4 | 4 | 4 |
| CEM | 5 | 4 | 4 | 4 | 5 | 5 | 5 | 4 |
| APP | 5 | 5 | 5 | 4 | 4 | 5 | 5 | 5 |
| BEP | 5 | 5 | 4 | 4 | 5 | 4 | 5 | 3 |
| ALS | 5 | 4 | 5 | | 5 | 3 | 5 | 4 |
| ULL | 5 | 4 | 5 | 3 | 4 | 5 | 5 | 5 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| CAA | 5 | 4 | 5 | 4 | 5 | 5 | 5 | 5 |
| DER | 5 | 5 | 5 | 4 | 5 | 5 | 5 | 5 |
| ppp | 5 | 4 | 4 | 2 | 5 | 4 | 4 | 4 |
| PCN | 5 | 3 | 4 | 3 | 4 | 4 | 4 | 4 |
| CAC | 5 | 4 | 5 | 4 | 5 | 5 | 5 | 5 |
| CHC | 5 | 5 | 5 | 4 | 4 | 4 | 5 | 5 |
| AWP | 5 | 5 | 5 | 2 | 5 | 5 | | |
| RST | 5 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| HPP | 5 | 5 | 5 | 4 | 2 | 5 | 4 | 4 |
| THW | 5 | 5 | 5 | 4 | 5 | 5 | 5 | 5 |
| TIG | 5 | 4 | 5 | 4 | 5 | 5 | 5 | 5 |
| AGS | 5 | 5 | 5 | 5 | 4 | 5 | 5 | 4 |
| OJH | 5 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Mean** | **4.92** | **4.38** | **4.77** | **3.88** | **4.54** | **4.58** | **4.75** | **4.44** |
| **Standard Deviation** | **0.27** | **0.64** | **0.51** | **0.39** | **0.76** | **0.64** | **0.53** | **0.61** |

The above results show some interesting features. Asked to comment on whether or not "the Companies and Allied Matters Act, 2004; the Investment and Securities Act, 2007; the SEC Code of Corporate Governance, 2010, and the NSE Listing Rules provide guidance to the board of your company in its decision-making", 24 out of the 26 respondents (that is, 92% of the respondents) *strongly* agreed, while only 2 respondents *agreed.* This implies that all the respondents have a common understanding of the influence of the regulatory environment on their decision making.

Similarly, the consensus is high amongst NSE-listed companies that "a sound corporate governance model must recognize and engage the company's stakeholders (employees, customers, suppliers, creditors, etc) as vital strategic partners to achieve the goals of the company", with 73% *strongly* agreeing with this view. Also, commenting on the effect of executive duality, 65% of the respondents *strongly* agreed that "separating the office of the Board Chairman from that of the Chief Executive Officer helps 'to avoid over concentration of powers in one individual which may rob the Board of the required checks and balances in the discharge of its duties'"; while the same 65% said they *strongly* agreed that "the use of board committees in arriving at board decisions enhances accountability and efficient management".

However, when it came to describing the role of non-executive members of the board, only 23% of the respondents *strongly* agreed that "a board with preponderance of non-executive directors is better placed to monitor and control executive conduct than one with more executive directors"; 50% *agreed,* while the rest either were *not sure*, or *disagreed*. And in the case of timely financial disclosures, only 13 of the respondents (representing 50% of the responses) *strongly* agreed that they could be achieved through the filing of annual returns with the CAC, filing of quarterly earnings forecast with the NSE, and filing of audited financial statements with the CAC and the NSE; 9 respondents (34%) *agreed,* while 3 (11%) said they were *not sure*.

The results also showed a very high level of awareness of the role of the board of directors in corporate governance, with 21 (80%) of the respondents saying that they *strongly* agreed with the statement that "the board of directors has the primary responsibility to ensure that a company is run for the benefit of shareholders"

The analysis also focused on the global level of awareness of corporate governance principles amongst the respondents. The bar chart was used to show the average ranking of each key indicator for awareness of corporate governance, after calculating the average of the averages to arrive at a single number (ranking) that represents the ranking for each indicator. The outcome of this analysis is represented in figure 2 below:

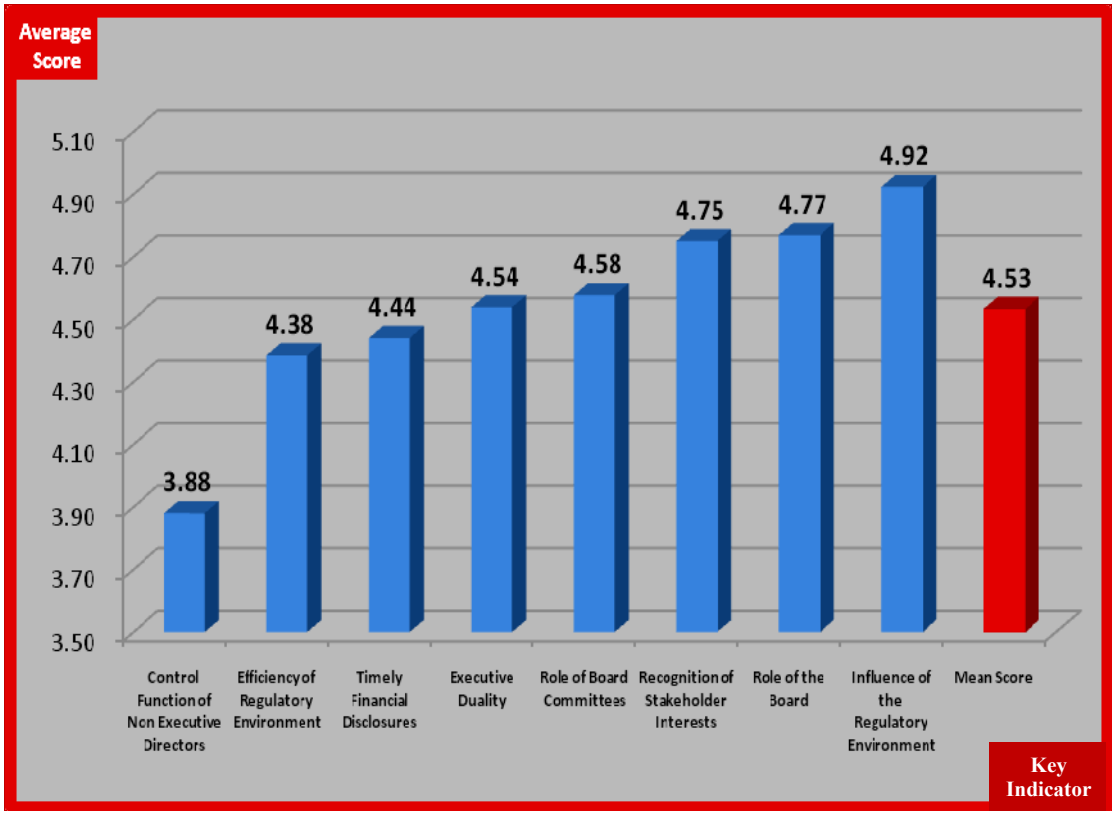


Figure 2. Ranking of the key indicators of level of awareness of corporate governance principles (company mean)

The general level of awareness of corporate governance was also determined by ascertaining the proportion/percentage of responses for the different rankings. The outcome of this analysis is shown in figure 3 below:

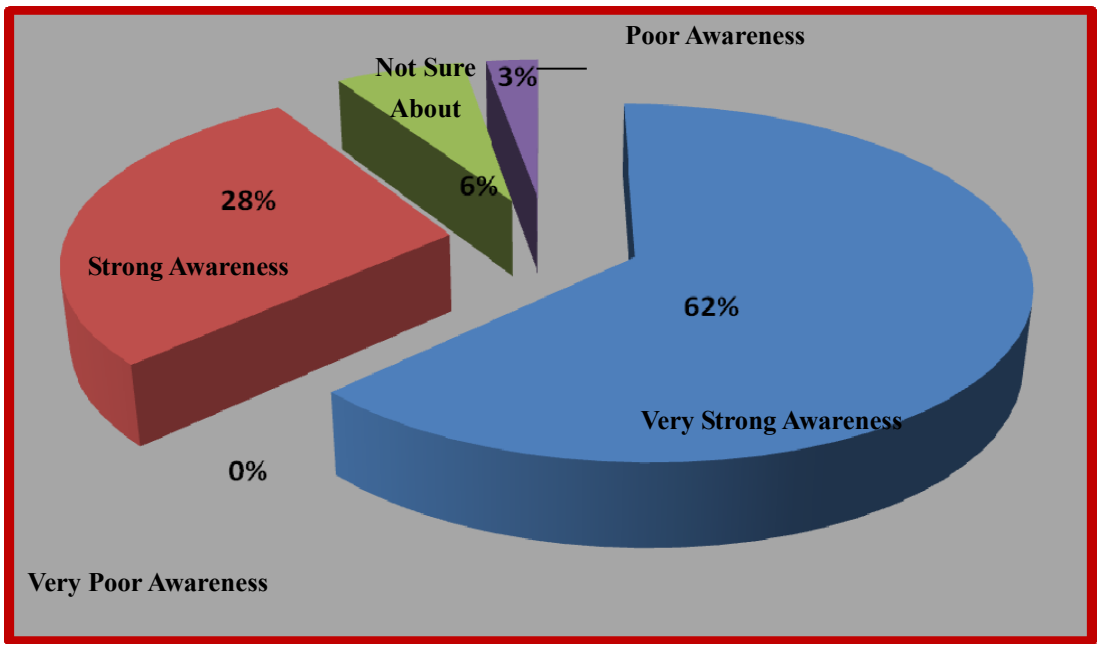


Figure 3. Percentage distribution of ranking for level of awareness of corporate governance principles

The foregoing analysis shows a very high level of awareness of corporate governance principles amongst NSE-listed companies. From the individual statistical table, no company recorded "very poor awareness" in any of the awareness indicators, while only 4 companies recorded "poor awareness".

From a global perspective, the average NSE-listed company has a "strong-to-very strong" awareness of corporate governance principles (4.53 mean) as seen from figure 2 and this position is further reinforced by 90% of the respondents who had either "strong" or "very strong" awareness.

***Question (ii) -*** *What is the level of awareness of Risk Management principles amongst the companies being studied?*

This question is answered in the statistical table below:

Table 2. Company ranking of key indicators of level of awareness of risk management principles

| Companies | The level of awareness of RM principles | | |
|---|---|---|---|
| | Centrality of Risk Management | Responsibility of Board for Risk Management | Adequacy of Risk Management Framework |
| FTC | 5 | 5 | 5 |
| LFP | 5 | 5 | 4 |
| NCO | 5 | 5 | 5 |
| RTE | 5 | 5 | 4 |
| JAO | 4 | 5 | 5 |
| GIE | 5 | 4 | 5 |
| NBU | 5 | 5 | N/A |
| NIP | 5 | 5 | N/A |
| CEM | 5 | 4 | 4 |
| APP | 5 | 5 | 5 |
| BEP | 5 | 5 | 4 |
| ALS | 4 | 3 | 4 |
| ULL | 5 | 4 | 5 |
| CAA | 5 | 5 | 4 |
| DER | 4 | 4 | 5 |
| ppp | 4 | 4 | 4 |
| PCN | 5 | 4 | 4 |
| CAC | 5 | 5 | N/A |
| CHC | 5 | 5 | 4 |
| AWP | | | 4 |
| RST | 5 | 5 | 5 |
| HPP | 4 | 5 | 5 |
| THW | 5 | 5 | 5 |
| TIG | 5 | 4 | 5 |
| AGS | 5 | 5 | 5 |
| OJH | 5 | 5 | 5 |
| **Mean** | **4.80** | **4.64** | **4.57** |
| **Standard Deviation** | **0.41** | **0.57** | **0.29** |

A very high level of awareness of risk management principles amongst the NSE-listed companies has also been established by the results, with 20 (80%) of the respondents saying they *strongly* agreed with the statement that "risk management is at the centre of corporate governance". Similarly, while 65% of the respondents *strongly*

agreed that the board of directors has the primary responsibility for overseeing risk management; only 50% of the respondents *strongly* agreed with the parameters for assessing the adequacy of the risk management framework enumerated in question 14 of the questionnaire.

The global level of awareness of risk management principles amongst the respondents was determined by ascertaining the ranking of each indicator and calculating the average of the averages to arrive at a single number (ranking) that represents the ranking for each indicator. The outcome of this analysis is represented in figure 4 below:

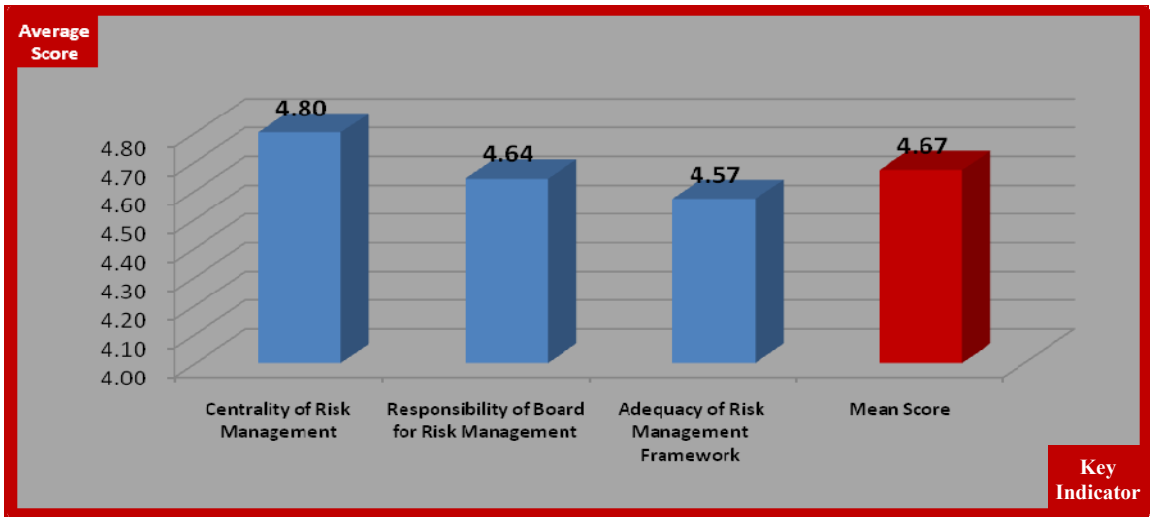


Figure 4. Ranking of the key indicators of level of awareness of risk management principles (company mean)

The global level of awareness of risk management principles was also determined by ascertaining the proportion/percentage of responses for the different rankings. The outcome of this analysis is shown in figure 5 below:

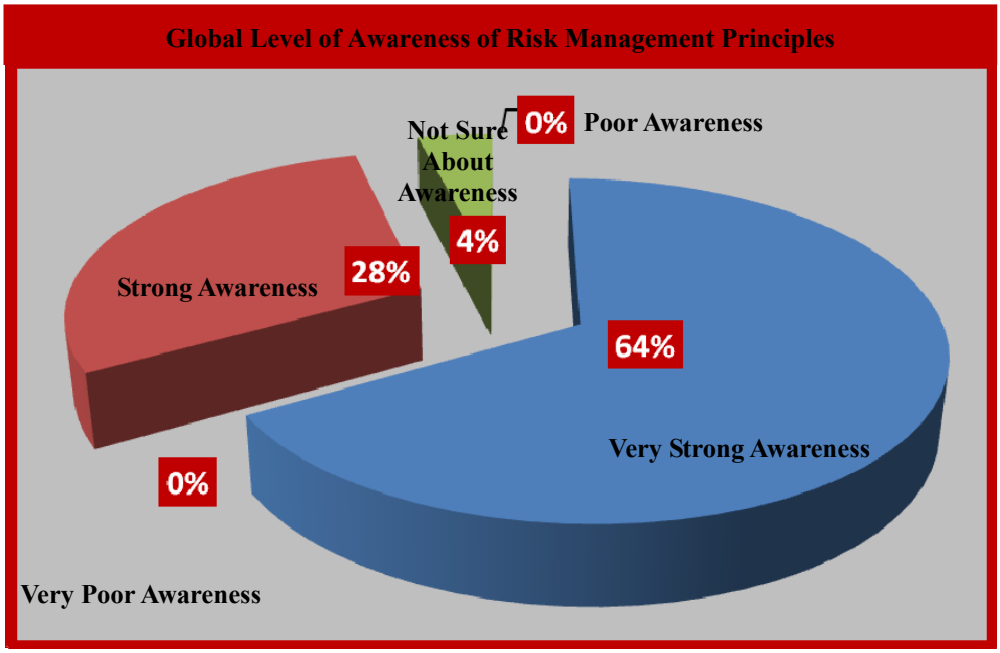


Figure 5. Percentage distribution of ranking for level of awareness of risk management principles

The foregoing analysis shows a very high level of awareness of risk management principles amongst NSE-listed companies in Nigeria. From the individual statistical table, no company recorded either "very poor awareness" or "poor awareness" in any of the awareness indicators.

From the global perspective, the average NSE-listed company has a "strong-to-very strong" awareness of risk management principles (4.67 mean) as seen from figure 4 and this position is further reinforced by 92% of the respondents who had either "strong" or "very-strong" awareness.

**Question (iii) -** *What is the extent of compliance with corporate governance principles by the respondents?*

Table 3 below shows the extent of compliance with corporate governance principles by each of the respondents:

Table 3. Company ranking of key indicators of extent of compliance with corporate governance principles

| **Companies** | **Extent of compliance with CG principles.** | | |
|---|---|---|---|
| | Frequency of Board Meetings | Existence of a Board Risk Management Committee | Board Performance Evaluation |
| FTC | 5 | 5 | 5 |
| LFP | 4 | 5 | 3 |
| NCO | 5 | 1 | 4 |
| RTE | 5 | 1 | 3 |
| JAO | 5 | 5 | 5 |
| GIE | 5 | 5 | 5 |
| NBU | 4 | 5 | 3 |
| NIP | 3 | 5 | 3 |
| CEM | 2 | 5 | 5 |
| APP | 5 | 5 | 3 |
| BEP | 5 | 5 | 4 |
| ALS | 5 | 5 | 3 |
| ULL | 5 | 1 | |
| CAA | 4 | 5 | 3 |
| DER | 3 | 5 | 5 |
| ppp | 2 | 5 | 4 |
| PCN | 3 | 5 | 1 |
| CAC | 3 | 5 | 3 |
| CHC | 3 | 1 | 5 |
| AWP | 5 | 1 | 1 |
| RST | 5 | 1 | 2 |
| HPP | 4 | 4 | 4 |
| THW | 2 | 5 | 5 |
| TIG | 3 | 5 | 5 |
| AGS | 3 | 5 | 5 |
| OJH | 5 | 5 | 3 |
| **Mean** | **3.96** | **4.04** | **3.68** |
| **Standard Deviation** | **1.11** | **1.71** | **1.25** |

The results show that the extent of compliance with corporate governance principles is not as strong as the level of awareness of these principles had suggested. For instance, less than half (46%) of the respondents held the

minimum of 1 board meeting per quarter prescribed by Clause 12.1 of the Nigerian Securities & Exchange Commission's Code of Corporate Governance. While 73% of the respondents confirmed the existence a board risk management committee as part of their board structure, only 34% evaluated the performance of their boards at least once annually.

The picture of compliance that emerges from the above Table 3 is not a robust one. While 7 (30%) of the companies recorded "very poor compliance" in 8 instances; 4 (15%) recorded "poor compliance" in 4 instances; as many as 57% of the respondents indicated "not sure" in 15 instances.

The global extent of compliance with corporate governance principles amongst the respondents was determined by taking the average ranking of each indicator and calculating the average of the averages to arrive at a single number (ranking) that represents the ranking for the indicator. The outcome of this analysis is represented in figure 6 below:

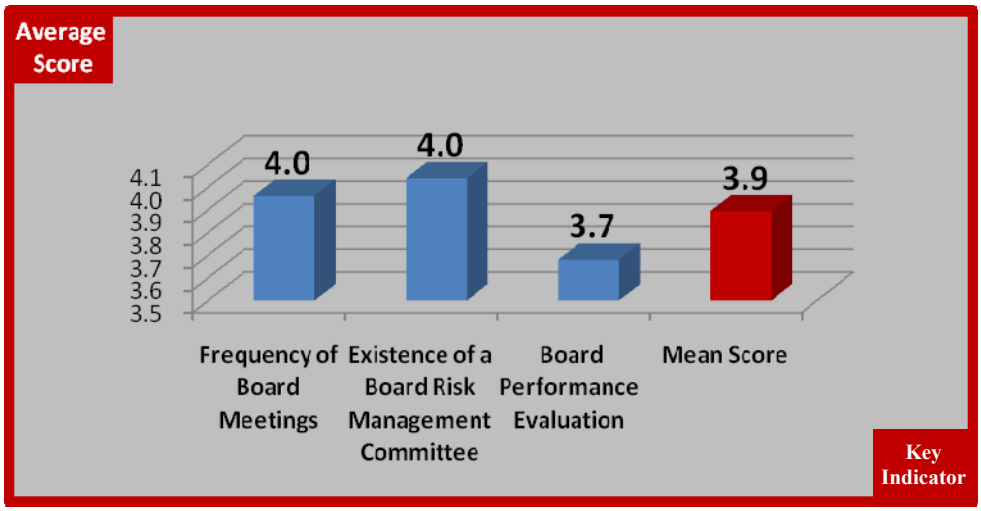


Figure 6. Ranking of the key indicators of extent of compliance with corporate governance principles (company mean)

The global extent of compliance with corporate governance principles was also determined by calculating the proportion/percentage of responses that went to the different rankings. The outcome of this analysis is represented in figure 7 below:

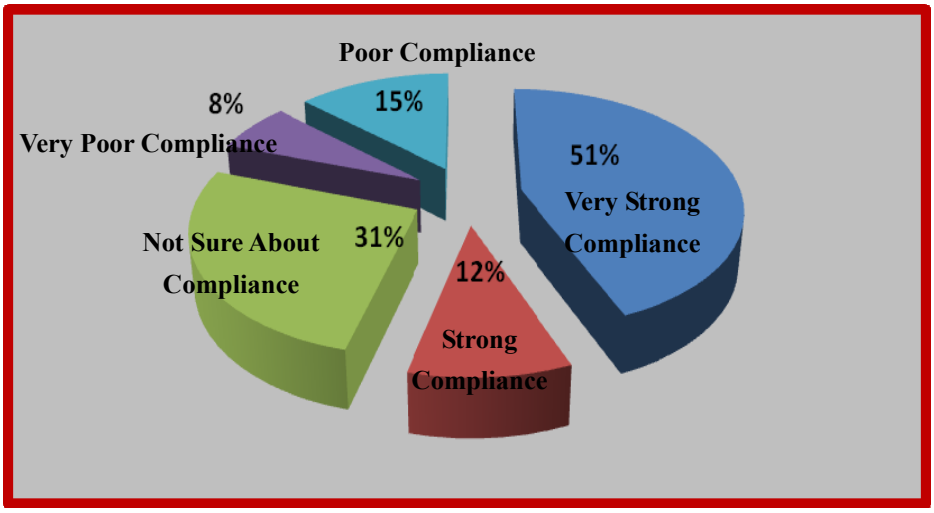


Figure 7. Percentage distribution of ranking for extent of compliance of corporate governance principles

From the global perspective, the average NSE-listed company's compliance with corporate governance principles is moderately strong (3.9 mean score). This position is further reinforced by the 51% respondents that had very-strong compliance and 31% respondents that were not sure about their extent of compliance with corporate governance principles.

**Question (iv) -** *What is the extent of compliance with Risk Management principles by the respondents?*

To answer this question, a statistical table showing the numeric scores of each respondent was constructed:

Table 4. Company ranking of key indicators of extent of compliance with risk management principles

| Companies | Extent of compliance with RM principles | |
|---|---|---|
| | Existence of Office of CRO | Existence of a Management Risk Committee |
| FTC | 5 | 5 |
| LFP | 5 | 5 |
| NCO | 1 | 5 |
| RTE | 1 | 1 |
| JAO | 5 | 5 |
| GIE | 5 | 5 |
| NBU | 5 | 1 |
| NIP | 5 | 5 |
| CEM | 5 | 5 |
| APP | 5 | 5 |
| BEP | 5 | 5 |
| ALS | 5 | 5 |
| ULL | 5 | 4 |
| CAA | 5 | 5 |
| DER | 5 | 5 |
| ppp | 1 | 5 |
| PCN | 1 | 5 |
| CAC | 5 | 1 |
| CHC | 1 | 1 |
| AWP | 1 | 1 |
| RST | 1 | 1 |
| HPP | 1 | 5 |
| THW | | 5 |
| TIG | 5 | 5 |
| AGS | 5 | 5 |
| OJH | 5 | 5 |
| **Mean** | **3.72** | **4.04** |
| **Standard Deviation** | **1.9** | **1.71** |

The results show that 34% of the respondents do not have a Chief Risk Officer, while 73% disclosed that they have a management risk committee.

From Table 4, 10 companies (38%) recorded "very poor compliance" in 14 instances, while no company recorded "poor compliance" with risk management principles.

The global extent of compliance with risk management principles amongst the respondents was determined by

taking the average ranking of each indicator and calculating the average of the averages to arrive at a single number (ranking) that represents the ranking for the indicator. The outcome of this analysis is represented in figure 8 below:

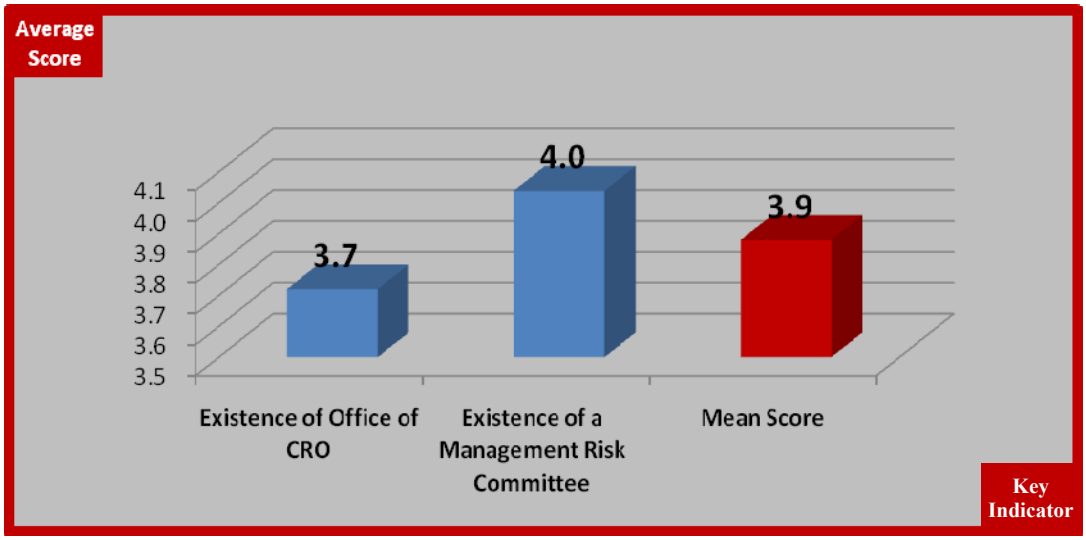


Figure 8. Ranking of the key indicators of extent of compliance with risk management principles (company mean)

The global extent of compliance with risk management principles amongst the respondents was also determined by calculating the proportion/percentage of response that went to the different rankings. The outcome of this analysis is represented in figure 9 below:

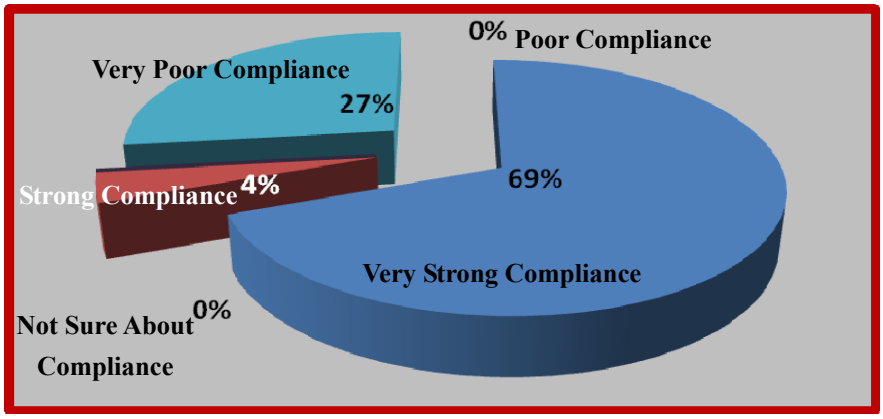


Figure 9. Percentage distribution of ranking for extent of compliance with risk management principles

From the global perspective, the average NSE-listed company complies with risk management principles (3.9 mean score). This position is further reinforced by 69% of the respondents that had very-strong compliance and 27% of the respondents that had very poor compliance.

**Question (v)** - *Is there a correlation between the level of awareness of Corporate Governance principles and the extent of compliance with these principles by the respondents?*

To answer this question, correlation analysis was used to establish the degree of association between the level of awareness of corporate governance principles (independent variable) and the extent of compliance with these (dependent variable). To do this, the simple average ranking of the indicators under the two variables was taken for the 26 respondents.

Since the essence of correlation is the establishment of a linear relationship between two variables, the *Pearson correlation coefficient* was utilized to measure the strength of the association between the level of awareness and the extent of compliance (Buglear, 2012). Also because of the relatively small sample size, the average ranking was plotted on a scatter diagram to see if a visual linear relationship or co-movement exists between the dependent variable and independent variable. The correlation coefficient calculation and scatter diagram are shown below.

Table 5. Correlation between level of corporate governance awareness and extent of corporate governance compliance

| S/No | Companies | Average Level of CG Awareness (X) | Average Extent of CG Compliance (Y) | XY | X2 | Y2 |
|---|---|---|---|---|---|---|
| 1 | FTC | 4.5 | 5.00 | 22.7 | 20.6 | 25.0 |
| 2 | LFP | 3.7 | 4.00 | 14.7 | 13.4 | 16.0 |
| 3 | NCO | 4.2 | 3.33 | 13.9 | 17.4 | 11.1 |
| 4 | RTE | 4.8 | 3.00 | 14.3 | 22.7 | 9.0 |
| 5 | JAO | 5.0 | 5.00 | 25.0 | 25.0 | 25.0 |
| 6 | GIE | 4.7 | 5.00 | 23.5 | 22.2 | 25.0 |
| 7 | NBU | 4.8 | 4.00 | 19.0 | 22.6 | 16.0 |
| 8 | NIP | 4.0 | 3.67 | 14.7 | 16.0 | 13.4 |
| 9 | CEM | 4.5 | 4.00 | 18.0 | 20.3 | 16.0 |
| 10 | APP | 4.8 | 4.33 | 20.6 | 22.6 | 18.8 |
| 11 | BEP | 4.4 | 4.67 | 20.6 | 19.5 | 21.8 |
| 12 | ALS | 4.4 | 4.33 | 19.0 | 19.2 | 18.8 |
| 13 | ULL | 4.5 | 3.00 | 13.5 | 20.3 | 9.0 |
| 14 | CAA | 4.8 | 4.00 | 19.0 | 22.6 | 16.0 |
| 15 | DER | 4.9 | 4.33 | 21.1 | 23.8 | 18.8 |
| 16 | ppp | 4.0 | 3.67 | 14.7 | 16.0 | 13.4 |
| 17 | PCN | 3.9 | 3.00 | 11.6 | 15.0 | 9.0 |
| 18 | CAC | 4.8 | 3.67 | 17.4 | 22.6 | 13.4 |
| 19 | CHC | 4.6 | 3.00 | 13.8 | 21.0 | 9.0 |
| 20 | AWP | 4.5 | 2.33 | 10.5 | 20.3 | 5.4 |
| 21 | RST | 4.9 | 2.67 | 13.0 | 23.8 | 7.1 |
| 22 | HPP | 4.3 | 4.00 | 17.0 | 18.1 | 16.0 |
| 23 | THW | 4.9 | 4.00 | 19.5 | 23.8 | 16.0 |
| 24 | TIG | 4.8 | 4.33 | 20.6 | 22.6 | 18.8 |
| 25 | AGS | 4.8 | 4.33 | 20.8 | 23.0 | 18.8 |
| 26 | OJH | 4.9 | 4.33 | 21.1 | 23.8 | 18.8 |
| **Total** | | **117.9** | **101.0** | **459.5** | **537.6** | **405.3** |

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[\, n\Sigma x^2 - (\Sigma x)^2 \,]\,[\, n\Sigma y^2 - (\Sigma y)^2 \,]}}$$

**r = 39.62/ 165.14 = 0.24**

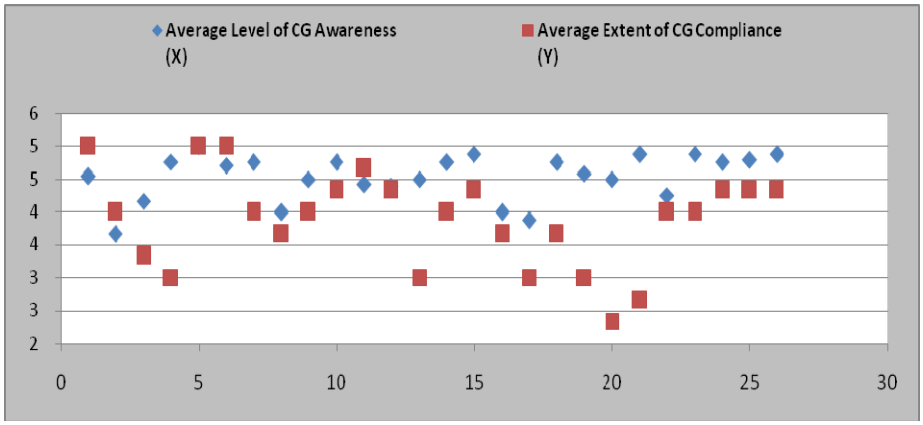


Figure 10. Scatter diagram of level of corporate governance awareness and extent of corporate governance compliance

The coefficient of correlation ("r") determined for the degree of correlation between Level of Awareness of Corporate Governance Principles and Extent of Compliance with the principles was 0.24. This shows that a positive correlation exists between the awareness of corporate governance principles and the extent of compliance with these principles amongst NSE-listed companies.

Furthermore, the square of the coefficient (or r square) of correlation between the level of awareness of corporate governance principles and the extent of compliance with these principles is 6%, meaning that 6% of the variation of the level of awareness of corporate governance principles is related to the extent of compliance.

**Question (vi)** - *Is there a correlation between the level of awareness of Risk Management principles and the extent of compliance with these principles by the respondents?*

To answer this question, correlation analysis was used to establish the degree of association between the level of awareness of risk management principles (independent variable) and the extent of compliance with risk management principles (dependent variable). To do this, the simple average ranking of the indicators under the two variables was taken for the 26 respondents.

Since the essence of correlation is the establishment of a linear relationship between two variables, the *Pearson correlation coefficient* was utilized to measure the strength of the association between the independent variable and the dependent variable (Buglear, 2012). Also because of the relatively small sample size, the average ranking was plotted on a scatter diagram to see if a visual linear relationship or co-movement exists between the dependent variable and independent variable. The statistical table, correlation coefficient calculation and scatter diagram are shown below.

Table 6. Correlation between level of risk management awareness and extent of risk management compliance

| S/No | Companies | Average Level of RM Awareness (X) | Average Extent of RM Compliance (Y) | XY | $X^2$ | $Y^2$ |
|---|---|---|---|---|---|---|
| 1 | FTC | 4.9 | 5.00 | 24.3 | 23.5 | 25.0 |
| 2 | LFP | 4.7 | 5.00 | 23.5 | 22.2 | 25.0 |
| 3 | NCO | 4.9 | 3.00 | 14.7 | 23.9 | 9.0 |
| 4 | RTE | 4.8 | 1.00 | 4.8 | 23.2 | 1.0 |
| 5 | JAO | 4.6 | 5.00 | 23.0 | 21.1 | 25.0 |
| 6 | GIE | 4.6 | 5.00 | 23.0 | 21.1 | 25.0 |
| 7 | NBU | 3.3 | 3.00 | 10.0 | 11.1 | 9.0 |
| 8 | NIP | 3.3 | 5.00 | 16.7 | 11.1 | 25.0 |
| 9 | CEM | 4.5 | 5.00 | 22.4 | 20.1 | 25.0 |
| 10 | APP | 5.0 | 5.00 | 24.8 | 24.6 | 25.0 |
| 11 | BEP | 4.8 | 5.00 | 24.0 | 23.0 | 25.0 |
| 12 | ALS | 3.7 | 5.00 | 18.7 | 14.0 | 25.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 13 | ULL | 4.6 | 4.50 | 20.7 | 21.1 | 20.3 |
| 14 | CAA | 4.8 | 5.00 | 24.1 | 23.2 | 25.0 |
| 15 | DER | 4.2 | 5.00 | 20.9 | 17.5 | 25.0 |
| 16 | ppp | 4.0 | 3.00 | 11.9 | 15.7 | 9.0 |
| 17 | PCN | 4.4 | 3.00 | 13.2 | 19.4 | 9.0 |
| 18 | CAC | 3.3 | 3.00 | 10.0 | 11.1 | 9.0 |
| 19 | CHC | 4.8 | 1.00 | 4.8 | 23.0 | 1.0 |
| 20 | AWP | 4.4 | 1.00 | 4.4 | 19.8 | 1.0 |
| 21 | RST | 5.0 | 1.00 | 5.0 | 24.6 | 1.0 |
| 22 | HPP | 4.6 | 3.00 | 13.7 | 20.8 | 9.0 |
| 23 | THW | 5.0 | 5.00 | 24.8 | 24.6 | 25.0 |
| 24 | TIG | 4.6 | 5.00 | 22.8 | 20.8 | 25.0 |
| 25 | AGS | 5.0 | 5.00 | 25.0 | 25.0 | 25.0 |
| 26 | OJH | 5.0 | 5.00 | 25.0 | 25.0 | 25.0 |
| **Total** | | **116.7** | **101.5** | **456.0** | **530.4** | **453.3** |

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[\,n\Sigma x^2 - (\Sigma x)^2\,]\,[\,n\Sigma y^2 - (\Sigma y)^2\,]}}$$

$$r = 14.40/\ 516.32 = 0.03$$

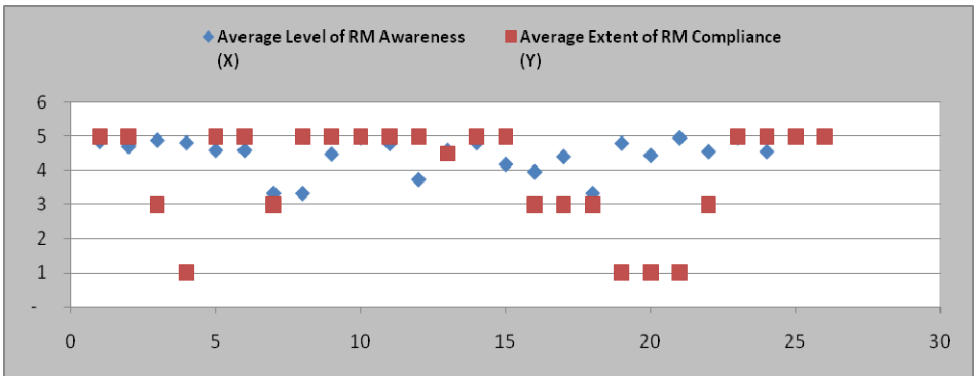


Figure 11. Scatter diagram of level of risk management awareness and extent of risk management compliance

The coefficient of correlation ("r") determined for the degree of correlation between Level of Awareness of Risk Management Principles and Extent of Compliance with the Principles was 0.03. This shows that little or no correlation exists between the awareness of risk management principles and the extent of compliance with the principles amongst the 26 respondents. More specifically, it means that the high level of awareness of risk management principles within the entire organizations studied had no bearing with the extent to which they complied and applied the principles in the management of their organizations.

This also means that while some NSE-listed companies are fully aware of risk management principles, they do not comply with, or apply these principles in the management of their organizations. Conversely, while other NSE-listed companies are not completely aware of risk management principles, they nevertheless were able to apply some form of the principles in the management of their organizations.

4.3.4 Secondary Data Analysis

In addition to the primary data gathered through the administration of questionnaires, secondary data on the 35 companies that constituted the sample population was also sourced from the CAC to determine the extent to which the respondents complied with the requirement of the annual filing of returns with the Commission. Annual Returns are required to be accompanied by the audited financial statements of the companies making the returns.

Data for 20 out of the 35 companies, representing 57% of the sample size, was collected for the 5-year period ended 31 December 2011. The 20 companies on which data was collected were the ones whose records were sighted at the time of conducting registry searches on the sample population. Data on the outstanding 15 companies could not be collected because of the unavailability of their physical files at the time search was conducted.

The companies were given numeric identification codes to differentiate them from the identification codes assigned to them when primary data was analysed and also to maintain the anonymity and confidentiality of the companies in line with the pledge made by the Researcher. A company that filed returns for a given year was ranked 1 and those who failed to file returns were ranked 0. This measure of compliance was adopted because under the Companies and Allied Matters Act, Cap. C20, LFN, 2004, companies are required to file their returns once in a year. The ranking for each year was summed up to give a maximum cumulative ranking of 5.

Similar to the primary data ranking, the ranking for compliance with filing of Annual Returns was defined as follows:

*Extent of Compliance*

| | |
|---|---|
| Very Strong Compliance | - 5 points |
| Strong Compliance | - 4 points |
| Average Compliance | - 3 points |
| Poor Compliance | - 2 points |
| Very Poor Compliance | - 1 point |
| No Compliance | - 0 point |

The data collected was analyzed using a statistical table to present the individual data and a bar chart to present the numbers and percentages that scored 0 to 5 ranks.

Table 7. Company ranking of corporate affairs commission annual filling returns

| **S/No.** | **Company** | **Annual Returns** | | | | | **Sum** | **Count** |
|---|---|---|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2010 | 2011 | | |
| 1 | 1 | 1 | 1 | 1 | 1 | 1 | 5 | **8** |
| 2 | 2 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 3 | 11 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 4 | 17 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 5 | 19 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 6 | 20 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 7 | 24 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 8 | 25 | 1 | 1 | 1 | 1 | 1 | 5 | |
| 9 | 4 | 1 | 1 | 1 | | 1 | 4 | **6** |
| 10 | 8 | 1 | 1 | 1 | | 1 | 4 | |
| 11 | 18 | 1 | 1 | 1 | | 1 | 4 | |
| 12 | 27 | | 1 | 1 | 1 | 1 | 4 | |
| 13 | 29 | 1 | 1 | 1 | 1 | | 4 | |
| 14 | 36 | 1 | | 1 | 1 | 1 | 4 | |
| 15 | 9 | 1 | 1 | | 1 | | 3 | **1** |
| 16 | 5 | 1 | | 1 | | | 2 | **3** |
| 17 | 16 | 1 | 1 | | | | 2 | |
| 18 | 23 | | | | 1 | 1 | 2 | |
| 19 | 26 | | | 1 | | | 1 | **1** |
| 20 | 35 | | | | | | 0 | **1** |
| **Total** | | **16** | **15** | **16** | **13** | **14** | | **20** |

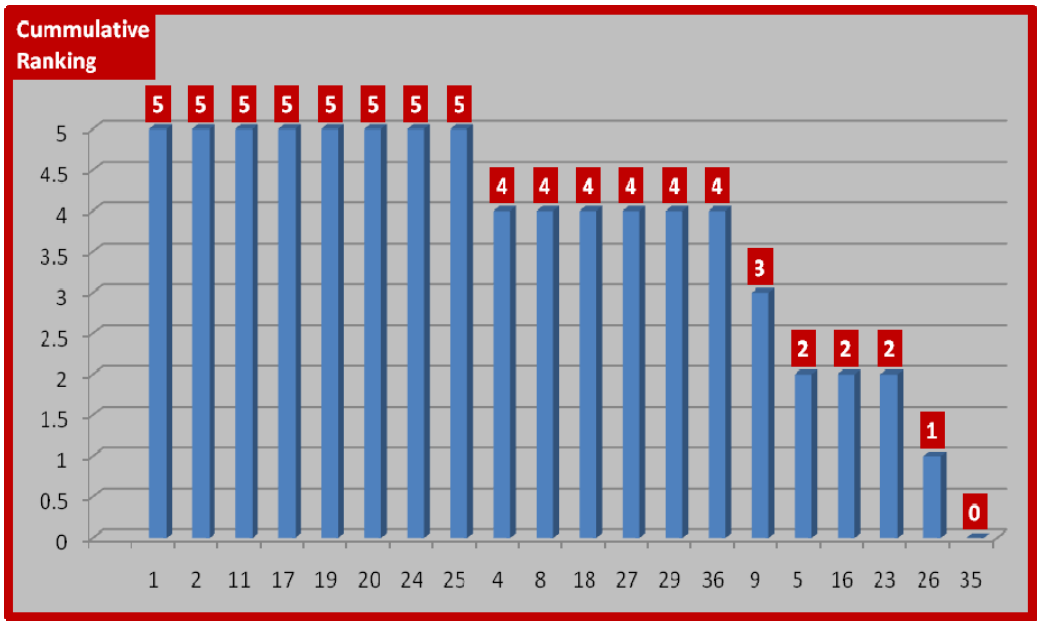


Figure 12. Ranking of corporate affairs commission annual filling returns

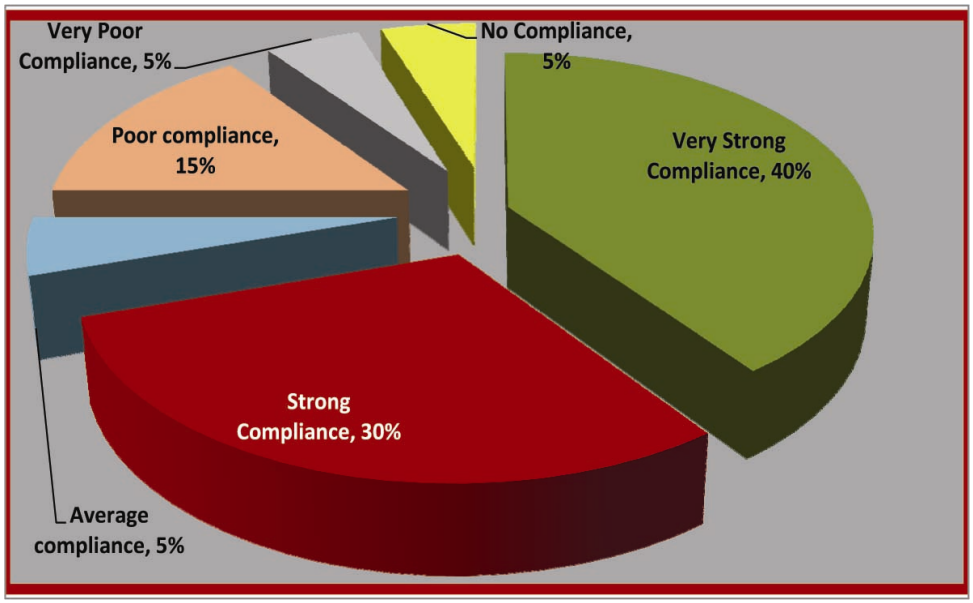


Figure 13. Percentage distribution of ranking for corporate affairs commission annual filling returns

Analysis of the secondary data shows that while only 8 (30%) of respondents filed their annual reports consecutively for each of the 5 years analyzed; 6 (23%) filed in four out of the 5 years; and only 2 (10%) companies failed to file or filed only just once in the 5 years analyzed.

From a global perspective, compliance with the requirement of filing annual returns at the CAC is generally poor (only 40% of the respondents fell into the "very strong compliance" category); while 30% fell into the "strong compliance" group; the rest (30%) ranged from zero compliance to average and poor compliance category.

## 5. Implications of Research Findings for Managerial Practice

This research has shown that there is a very high level of awareness of the principles of corporate governance and risk management amongst companies listed on the NSE. The very high percentage (73%) recorded in respect of awareness of the role of stakeholders suggests that the managers of NSE-listed companies believe that respect for stakeholder rights is critical for the achievement of the objectives of their companies. It is expected therefore

that these companies would turn in positive performance, in line with other research findings that suggest a strong positive relationship between sales growth and employee satisfaction (Ittner and Larcker, 2003); improved customer service and shareholder returns (Ogden and Watson, 1999); and a strong positive connection between corporate social performance and corporate performance (Cochran and Wood, 1984; Van de Veld, Vermeir and Corten, 2005). It is however necessary to determine NSE-listed companies' specific practices in the areas of corporate social responsibility, customer service, or employee satisfaction, in order to ascertain how these have contributed to their overall performance.

A significant finding of this study is that an abysmal percentage (23%) of the respondents *strongly agrees* that a board with preponderance of non-executive directors is better placed to monitor and control executive conduct than one with more executive directors. The implication of this outcome for the NSE-listed companies is the probability of many of them not taking advantage of the benefit of non-executive directors, which include bringing: "an independent, objective and external perspective to the board ... [upholding] the highest ethical standards of integrity and probity ... [questioning] intelligently, [debating] constructively, [challenging] rigorously and [deciding] dispassionately" (Murphy, 2006, pp.35-36; *Higgs Review*, 2003, Annex C).

Another significant finding of the research is that the belief in the filing of periodic returns as an avenue for timely financial disclosures is not as widespread as the generally high level of awareness suggests. With only half (50%) of the respondents agreeing with the proposition that the requirement of timely financial disclosures can be achieved through filing of annual returns with the CAC, filing of quarterly earnings forecast with the NSE, and filing of audited financial statements with the NSE and CAC, the implication is that the companies may not have a full appreciation of the significance of financial transparency in corporate governance. This conclusion is further supported by the finding that only 30% of the respondents had filed annual returns at the CAC for each of the 5 years that ended on 31 December 2011.

The significance of financial transparency was highlighted in a recent study commissioned by the IFC (2010) which found that 100% of the firms that invest in emerging markets consider transparency and disclosure as the most critical factors in their investment decisions in the emerging markets. The implication of this for the managers of the NSE-listed companies is that they need to do more in the areas of financial disclosures and transparency if they ever hope to attract international investors.

This study has shown that the extent of compliance with corporate governance and risk management principles by companies listed on the NSE is not as robust as the generally high level of awareness suggests. Thus, whereas 46% (less than half of the respondents) hold board meetings at least once every quarter as prescribed by the SEC Code of Corporate Governance, only 34% of them carry out an evaluation of their boards annually. The implication of this for the companies is that unless they step up action to address this weakness, they are likely to suffer the consequences of boards that are not effective in driving the process of creation of value for shareholders through the formulation and execution of appropriate strategies; protection of the assets of the company through the establishment of a sound risk management framework; ensuring the integrity of financial records and information; and accountability to shareholders (*UK Corporate Governance Code*, 2010, A.1; Murphy, 2006; OECD, 2004).

The research finding that 73% of the respondents have a committee at management level on risk management is significant. What this shows is that NSE-listed companies have some consciousness that poorly managed *uncertainties*, described by Miller (1992, p.312) as "the unpredictability of environmental or organizational variables that impact corporate performance" remain a threat to corporate performance.

However, the finding that 34% of the respondents do not have a Chief Risk Officer dampens the effect of the having a management risk committee. The absence of Chief Risk Officer suggests that a significant number of NSE-listed companies have not paid adequate attention to the need to assign leadership responsibility in the area of risk management to a designated officer. The existence of the office of Chief Risk Officer means that a company will have an officer whose role is to track, monitor and formulate appropriate responses to "strategic risks that can arise from rapid and abrupt changes taking place in increasingly turbulent high-velocity business environments" (Andersen and Schroder, 2010, p.79), which, according to the authors, may include competitor moves, technological changes, product innovations, etc, which are difficult to foresee and hard to quantify.

The study has shown that even though correlation analysis has established that there is a positive relationship between the level of awareness of the principles of corporate governance and risk management and the extent of compliance with these principles, the degree of association is weak. A positive correlation coefficient of 0.24 between the level of awareness of corporate governance and the extent of compliance is weak, which suggests that managers of NSE-listed companies do not apply as much of the principles learnt in the management of their

various entities, and that there is a need to apply more of these principles in the management of their organizations.

Similarly, the positive correlation of 0.03 between the awareness of risk management principles and the extent of compliance with these principles shows the insignificant and virtually non-existent relationship between the two variables studied in this research. Even though overall, the research showed that managers inherently understand risk as it affects their businesses and would apply sound risk management principles, more needs to be done in the area of training to connect their knowledge of the principles and application to their operations.

Managers of NSE-listed companies should follow through with their investment in the knowledge and awareness of corporate governance and risk management principles, to ensure that such knowledge is incorporated "as an integral part of strategic decision-making, strategic planning and corporate management processes in general" (Andersen and Schroder, 2010, p.77).

## 6. Conclusions

This study has shown, from a global perspective, that the level of awareness of corporate governance and risk management principles amongst NSE-listed companies is very high, with 90% and 92% of the respondents having either "strong" or "very strong" awareness respectively. However, the level of compliance is not as strong as the level of awareness may have suggested. Thus, only 51% and 69% of the respondents have very-strong compliance in the areas of corporate governance and risk management respectively. Also, a correlation coefficient of 0.24 though positive, indicates a weak relationship between the level of awareness and extent of compliance with corporate governance principles. Similarly, a correlation coefficient of 0.03 shows an insignificant, virtually non-existent relationship between the level of awareness and extent of compliance with risk management principles.

It is apparent, therefore, that stronger measures/more positive steps are required to strengthen the compliance function in NSE-listed companies, to give a reasonable assurance that the deployment of corporate actions, agents and assets (Sternberg, 2004) by the directors of these companies will result in the achievement of the corporate objectives set by shareholders.

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