Corporate governance and market value of listed firms in Nigeria: Is there an optimal governance structure?

Ebenezer Yemi Akinkoye
Department of Management and Accounting
Obafemi Awolowo University, Ile Ife, Osun State, Nigeria

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Prior works in emerging market had provided evidence of an association between composite corporate governance index and firm market value. However, the optimal mix of corporate governance instruments is missing in the literature for implementation of corporate governance in developing market. As Nigeria stock market is expanding in terms of volume of trading and market capitalisation, there is a need to address the question of "which governance structure is most appropriate for emerging economy like Nigeria?" This study takes a detailed examination and analysis of the components of corporate governance practice among listed firms in Nigeria and attempts to identify governance structure that best predict firms' value during a sample period of 2003 to 2010.

The study used Tobin's q and market /book ratio as principal measures of market value. Data on economic value of firms and corporate governance mechanism were sourced from the firms' annual reports as well as the publication of the Nigeria stock exchange and a poll cross-sectional time-series, fixed effects model is used. The result shows that the benefit of particular corporate governance practice varies depending on firm specific characteristics. While the coefficients for board and CEO compensation are found to be significant for both models at 0.05 level for the market-to-book ratio and at the 0.01 level for Tobin's Q, the study reports that disclosure is overall the most powerful indicator with t statistics of close to 4. Our results suggest that firm characteristics importantly influence which aspects of governance are associated with firm market value.