

BOARD CHANGES AND THE EFFICIENCY OF THE NIGERIAN STOCK MARKET

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1. Introduction

The role of board of directors in corporate governance is essential both in developed and developing economies. The ultimate responsibility for ensuring that firms are properly managed rests with shareholders. However, with the separation of ownership from control in most major business enterprises, the responsibility for strategic decisions and ensuring that top managers discharge their day to day duties effectively and efficiently is entrusted to the board of directors.

As board members possess power and influence over firms strategy, policy and decision making authority, a potentially significant event in any firm is a change in the composition of the board with the appointment of a new member of the board or an existing member ceasing, for whatever reason to remain on the board.

1.1. Statement of problems

The board of director is central to corporate governance mechanism in market economies. It is viewed as a primary means for shareholders to exercise control on top management, along with external markets for corporate control and institutional and concentrated shareholding. Weak corporate governance makes it too costly to raise external capital and distort investment decisions away from value maximization (John and Senbet (1998). This study focus on the internal mechanism of corporate governance, while paying attention to the informational effects of board changes.

In Nigeria, the stock market is still underdeveloped and emerging. A number of research had been done to identify the level of efficiency and the problems hindering the development of the market for effective policy formulation [Adelegan (2001, 2003a, 2003b, 2004, 2005), Oludoyi (1997), Omole (1997)]. Studies of market reactions to information in the Nigerian capital market are scanty and many of the studies done and available are tests for return predictability or weak form efficiency. These include Ayadi (1983, 1984), Inanga and Asekome (1992), Omole (1997) and Adelegan (2004). Event studies on the reactions of stock prices to publicly available information of stock split, earnings and dividend announcements, initiations and omissions of dividend reveal that the financial markets in Nigeria respond by changes in firm values to publicly information of stock split, earnings and dividend announcements, initiations and omissions of dividend (Olowe, 1998; Oludoyi, 1999; Adelegan, 2003, forthcoming).

However, there is no study known to the researcher till date that has investigate the financial impact of board changes of Nigerian quoted companies. This study provides some evidence for Nigerian listed firms of the impact of changes in the composition of the board of directors on share prices. There is also

the need for triangulation in research using a different setting such as Nigeria. It therefore provides a basis for comparison with similar studies from the developed countries. The study provides empirical evidence on the informational effects of board changes and promote further interest in the Nigerian stock market.

1.2. Objectives of the study

The overall objective of the study is broken down into the following specific objectives:

- (i) To assess the speed with which share prices adjust to board changes announcement in the Nigerian Stock Market.
- (ii) To examine the type of board change separately to ascertain the impact the type of change may have on the firms share price.

1.3. Hypothesis of the study

The hypotheses of the study are stated in null form as follows:

- (i) H_{o1} : The Nigerian Stock Market does not efficiently react to announcements of board changes in price adjustments.
- (ii) H_{o2} : Board changes have no information content reflected in share price behavior, therefore board changes does not matter.

2 Study background

2.1. Operations and Performance of the Nigerian Stock Market

The Lagos stock exchange commenced operations in 1961. It was redesignated the Nigerian stock exchange (NSE) in 1977 with branches established in Lagos, Port Harcourt and Kaduna. NSE trading floor has increased to seven locations in Lagos, Kaduna, Port Harcourt, Kano, Ibadan, Onitsha and Abuja.

The Securities and Exchange Commission (SEC) was also established to protect investors and promote capital market growth and development in the country. It is the apex regulatory organ of the Nigerian Capital Market. Formerly called the Capital Issue Committee (1961), and later the Capital Issues Commission (Capital Issue Decree No. 14 of 1973, SEC was established under the SEC Decree No. 71 of 1979 amended in 1988 and 1999.

Table 1 presents the current operational highlights of the Nigerian stock market. The value of shares traded was 225.82 billion naira (US\$84 million)¹, the value of new issues approved 227.38 billion naira (US\$1,624million) in year 2004 and market capitalisation in 2004 was 2,112 billion naira (US\$6,559million). New issue as a proportion of GDP at current market prices was 1.05% on average between 1996 and 2004. This represents the size of fund mobilised by the stock market in relation to GDP.

INSERT TABLE 1 HERE

The determination of share prices is not exclusively left to the forces of demand and supply. Both NSE and SEC, as market regulators can, and sometimes, impose a cap on share price movement, a practice that contributes to market imperfections by preventing share prices from responding freely to market forces of supply and demand based on relevant publicly available information.

NSE has continued to undertake policies to reduce information asymmetry and transaction costs to facilitate the use of the market by the private sector to raise funds. For example on April 27, 1999, NSE transited from the Call-over trading system to the automated trading system (ATS). Since then the Stockbrokers have been trading online in real time from the exchange floors in Lagos, Abuja and Kano as well as remote trading outside the floor of the stock exchange.

Electronic-Business (e-business) platform was commissioned in July, 2003. It makes it possible for investors in the Nigerian stock market to access the Central Securities clearing system (CSCS) database from the website for the purpose of monitoring movements in their stock accounts. This opportunity for on line, real time monitoring of stock accounts in the central depository enhanced transparency in the market.

A recent development in the Nigerian capital market is the trade alert information system which was launched in 2005. The alert system provides a text message on mobile phone to alert stockholders of any transaction in their stock within 24 hours. This is focused at ensuring transparency and curbing of unethical practices in the Nigerian capital market.

2.2 Characteristics and selection process of board of directors in Nigeria

The directors of companies in Nigeria are persons duly appointed by the company to direct and manage the business of the company. The numbers and names of the first directors are determined in writing by the subscribers of the memorandum of association or the directors may be named in the articles of association. The members at the annual general meeting have power to re-elect or reject directors and appoint new ones.

The boards of directors have power to appoint new directors to fill any casual vacancy arising out of death, resignation, retirement or removal. Where a casual vacancy is filled by the directors, the persons may be approved at the general meeting at the next annual general meeting, and if not approved, he shall cease to be a director.

The directors may increase the number of directors as long as it does not exceed the maximum allowed by the articles, but the general meeting have power to increase or reduce the number of directors generally and may determine in what rotation directors retire (part IX, section 244-292, Companies and Allied Matters Act, 1990).

The function of the Board of directors of Nigerian firms include but not limited to strategic planning, selection, performance appraisal and compensation of senior executives, succession planning, communication with shareholders, ensuring the integrity of financial control reports, ensuring that ethical standards are maintained and that companies complies with the laws of Nigeria (SEC and CAC, 2003).

The composition of the board is a mix of executive and non executive Directors headed by a chairman who is a different person from the chief executive officer. The board of directors should not exceed 15 persons or be less than 5 persons in total. In exceptional cases where the position of 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 primary responsibility of the Chief executive officer and his management team is to manage the day-to-day operations of the company (SEC and CAC, 2003). The remuneration of executive directors shall be fixed by the board and not in shareholders meeting. The remuneration committee wholly composed of non-executive directors shall recommend the remuneration of executive directors (SEC and CAC, 2003).

3. Theoretical framework and review of selected literatures

3.1 Efficient Market Hypothesis and the Nigerian Capital Market

In theory for a market to be efficient, security prices must fully reflect all available information. A precondition for this version of the efficient market hypothesis (EMH) is that information and trading costs are always zero (Fama, 1991; Grossman and Stiglitz, 1980). A weaker and more economical version of the EMH says that prices reflect information to the point that the marginal benefit of acting on the information does not exceed the marginal cost (Jensen, 1978; Fama, 1991). There are three forms of market efficiency. The first category covers tests of return predictability, the second covers event studies of adjustment of prices to public announcements, while the third category covers tests for private information (Fama, 1991).

In developed markets of industrialised countries, efficient market hypothesis (EMH) has been the subject of considerable research by economists. There is a strong measure of consensus among these researchers on the validity of return predictability and event studies for the major developed countries (Fama, 1991, Ross and Westerfield, 1988). However, as shown in Table 2, EMH debate has also been carried into the emerging markets with mixed conclusions. (Gandhi, Saunders and Woodward, 1980; Cooper, 1982, Parkinson, 1984 and 1987, Ayadi, 1983 and 1984, Dickinson and Muragu, 1994, Omole, 1997 and Matome, 1998, Osei, 1998, Oludoyi, 1999, Adelegan, 2001, 2004).

Studies of market efficiency in the Nigerian capital market are scanty and many of these are tests of return predictability and event studies. The findings are summarized in Table 2.

INSERT TABLE 2 HERE

Olowe (1998) investigated whether securities prices on the Nigerian Stock Market adjust to stock splits. Using residual analysis methodology, he employed the market model, the market deducted returns model and the mean adjusted returns model to test the semi-strong efficiency of the market. His study centered around monthly data of 86 stock splits involving 59 quoted companies between 1981 and 1992. He made use of all the stock splits data without isolating any other simultaneous event. The study showed that statistically and economically abnormal returns could be earned on the Nigerian stock market. These

results are unaffected by the choice of model. The results also hold for a sample of actively traded securities. The study concluded that the Nigerian stock market reacts to public announcements of stock splits.

Oludoyi's (1999) study of the impact of earnings announcement on share prices in Nigeria was done in the period before the cap placed on share price movements was expanded to include weekly data. The result showed that the Nigerian capital market reacts to public earnings announcements as share prices still drift ten weeks after corporate earnings had become public information. Adelegan (2003) investigated the effects of dividend announcements on share prices in Nigeria. Using the modified market model, the event study centered around 3 days and 61 days around dividend announcements. 595 cases of annual dividend announcements were examined. The results revealed that there were excess returns and the cumulative excess returns were significant for 30 days before and 25 days after dividend announcement for the dividend paying firms. Share prices reacts to dividend announcements.

Adelegan (forthcoming) investigates market reactions to initiations and omissions of dividend in Nigeria. The study reveals that the excess returns are generally negative for all the dividend omissions samples both before and after the date of announcements, but positive for the dividend initiations samples until 13 days before the day of announcements and negative thereafter. The study also shows the mean excess returns to be insignificant for 29 days before announcements, but statistically significant from the day of announcements to 30 days after for both initiations and omissions samples. It points to the fact that dividend policy matters and share prices do react to dividend initiations and omissions .

In summary, most results support the return predictability of forecasting power of past returns. Evidence from Nigeria showed that share prices adjust to public announcements of stock splits, earnings and dividend announcements.

3.2 Board changes and shareholders wealth

Changes in the composition of the board could be beneficial for a number of reasons. All directors have the potential to influence policies and objectives of the firm and therefore performance. A new appointee to the board can bring a fresh and dynamic impetus to the operations of the firm. Extensive experience and knowledge can also be introduced by hiring a suitably qualified and experienced executive.

Secondly, by displaying an ineffective executive board member, a signal is conveyed to the Capital Market that the firm is initialising procedures and actions that will increase efficiency and consequently improve future performance. Since the potential contribution of an individual member to the board cannot be observed directly, the performance of a firm's share price could be used as an indirect measure of the information contained in the change in the composition of a company board.

A change in the composition of a firm's board could take the form of a new appointment or some form of removal from the board namely (1) a new appointment, (2) resignation (3) retirement and (4) death. Each of the above changes may or may not be considered significant by the market.

Each board change type may even convey more than one signal. For example, the resignation of a board member may have positive impact if the market considers that the change will result in a new, better appointment as the replacement for the vacancy on the board. If however, the market considers that the resignation is not good enough for the company, the impact on shareholders' wealth may be negative.

Composition of board with respect to the number of insider and outside directors determines board independence. Increase or decrease in the number of outside directors is expected to impact on shareholders' wealth and the discipline of Chief Executive officers (CEO).

Most previous studies in this area from developed economies do not distinguish the informational effects of the different type of board changes [Reinganum (1985), Mahajan and Lummer (1993)]. However, evidence from Fox and Opong (1999) on some UK listed firms examines the types of board change separately to ascertain the impact that the type of change may have on the firm's share price.

Most studies from the UK on the effects of board changes on shareholders wealth are based on United States data and report mixed results. Some studies report significant positive abnormal returns around the time of management change [Bonnier and Brunner (1988), Furtado and Rozeff (1987) and Rosentein and Wyatt (1990)].

However, studies that report no significant abnormal performances include Borstadt (1985), Klein, Kim and Mahajan (1985), and Reinganum (1985). Mahajan and Lummer (1993) also find no significant abnormal performance on the announcement of management change.

Furtado (1986) however reports a significant abnormal performance around management change. Fox and Opong (1999) also provide some evidence on shareholders wealth effects on management board changes in the United Kingdom. The study distinguishes the wealth effects of different types of

management board changes. The result of the study indicates that small but positive wealth effects are experienced on the day of the announcement of management change with the exception of resignations from the management board which is associated with negative wealth effects. The results also indicate that the securities market discount information about board changes.

Rosenstein and Wyatt (1990) use the financial data and announcements of outside board appointments from the Wall Street journal to measure the wealth effects of these announcements for the period 1980-1985 using event study methodology. They find significant positive excess returns around the days of announcements. Thus announcement of appointment of an outside director are associated with increase in shareholders' wealth. Brickley et al (1994) examine whether outside directors promote shareholder interest by looking at a sample of 247 firms adopting poison pills over the period 1984-1986. They find a statistically significant, positive relation between stock market reactions to the adoption of poison pills and the fraction of outside directors. This is consistent with the view that outside directors represent shareholder interests.

Fosberg (1989) used a paired sample methodology to test the relationship between the proportion of outside directorship (POD) and various measures that gauge firm performance. It is argued that, if outside directors are useful in disciplining management, there should be differences among the cash flows of companies where outside director monitoring is strong and those where it is weak. Firms whose outside directors effectively monitor the performance of management, should have higher sales level, lower selling, general and administrative expenses, fewer employees and a higher return on equity. The study used a random sample of 200 firms that were listed continually from 1979 through 1983. Fosberg (1989) is not able to confirm the hypothesis that presence of outside directorship enhances firm performance. No relationship is found between the POD in the board and the various variables used to gauge firm performance. The reason advanced by Fosberg for these puzzling findings is that management may succeed in getting outside directors elected to the board who are either incapable or unwilling to properly discipline management. In this case outside directors will not be providing the monitoring services contracted for the shareholders. On the other hand, the external mechanism for controlling agency costs associated with separation of ownership and control, such as market for corporate controls, effectively discipline management, thereby leaving little room for the role of outside directors.

Hermalin and Weisbach (1991) attempt to analyse differences in firm performance caused by board composition and ownership structure in order to measure the direct incentives and monitoring faced by top management. They view the board as one of the alternative control devices that limit agency problems between top management and shareholders. Their main conclusion is that there is no relationship between board composition and performance, while there is a strong relationship between ownership structure and performance. Hermalin and Weisbach offer a couple of explanation for their puzzling findings on the relationship between board composition and performance. They argue that inside and outside directors have their respective advantages and disadvantages. If each board is optimally weighted between insiders and outsiders, there would be no cross-sectional relation between board composition and performance in equilibrium. They also argue that firms reduce their agency problems to the same levels. Since residual agency problems is what matter for performance, variation in performance will not be correlated with mechanisms used such as board composition) to reduce the underlying agency problem. Bhagat and Black (1996, 1997) also find inconsistent evidence on the effect of board composition on performance in a long-horizon study. They use the evidence to suggest that the current push for board independence is unwarranted. However, the issue is unsettled.

Generally, studies on corporate governance in Nigeria are scanty and just evolving. Attention of Scholars in Nigeria in the area of corporate governance has been concentrated on investigation of the ownership and control structure of business enterprises (Teriba, Edozien and Kayode, 1977), analysis of pattern of share ownership (Ekpeyong, 1992) and a gender analysis of chairmen, chief executives and directors of quoted companies in Nigeria to document the level of involvement of women in leadership of corporate firms (Adelegan, 2001).

Adenikinju and Ayorinde (2001) empirically investigate whether ownership mix and concentration explains observed variation in corporate performance of publicly listed firms in Nigeria. The study finds that Nigerian firms are highly concentrated and there is significant presence of foreign ownership. However, foreign institutions were more prominent than foreign individuals, a finding that was attributed to weak property rights in the country. The study also finds that ownership structure has no impact on corporate performance in Nigeria. Adenikinju (2005) also examines governance structure of Nigerian firms and managerial characteristics as well as the extent to which the governance structure and managerial characteristics influence performance. The study used a panel data of firms quoted on the first-tier segment of the Nigerian stock market from 1993 to 2002. The findings show that managerial

characteristics and corporate governance have implications on performance. Qualitative direction and quantitative importance of indicators of corporate governance and managerial characteristics on performance vary for low and high growth firms.

Sanda et al (2005) analysed the impact of corporate governance mechanism on the performance of firms in Nigeria. The sample cover 93 firms quoted on the Nigerian stock market between 1996 through 1999. The study concludes that firm performance was significantly and positively linked with governance variables, especially ownership concentration and director shareholding. Debt turned out to be significantly and positively associated with firm performance. This implies that firms with higher level of performance tend to perform better.

Adelegan (2005) examines the relationship between internal and external governance mechanism employed by Nigerian banking companies and found a higher portion of non-executive directors and a greater likelihood of separating the role of company chairman and Chief Executive officer (CEO) in banks. The proportion of non-executive directors who are former executives is low. These suggest those banks are more likely to employ non-executives for monitoring. Banks in Nigeria have utilised audit committees comprising of a great proportion of non-executive directors since 1991.

However, the few studies on corporate governance in Nigeria are silent on the questions: Do changes in composition of board of directors affect share prices? Do changes in board composition matter? This study provides meaningful answers to these questions.

4. Research methodology

4.1 Model specifications

The test of shareholder wealth effects around the time of management board changes is structured as an event study. The study examines the excess daily returns that accrue to shareholders around the announcement of the board change. For the purpose of this study, it is assumed that if the board change contains no unexpected information, abnormal returns can be expected to be zero.

To achieve objectives 1 and 2, the test of the information content in the board change is therefore achieved by examining whether abnormal returns in the test period are significantly different from zero. The methodology employed is essentially a variance methodology which has been used in a number of previous studies [e.g. Beaver (1968), May (1971), Patell (1976), Bonnier and Brunner (1989) and Opong (1996)].

The main thrust of the methodology is that if board changes contain information that alters expectations concerning future cash flows, the release of such information will cause a change in investors' estimates of the probability distribution of the firms' future share price and this may result in a change in the current price.

The study consider the informational effects of different types of board change in Nigeria by examining change in the composition of the firms' board in form of a new appointment, removal, resignation, retirement and death. Each of the above change may or may not be considered by the market.

The methodology compares abnormal returns in the test period with those of the estimation period when no board changes are made. Each firm is analysed in two time periods namely (1) a non-board change, or estimation period followed by (2) a board change, or test period. The non-report period cover a period of 503 trading days up to 17 days before the board change. The test period starts from 16 days before the announcement of management change through to 15 days subsequent to the management change¹. Time period zero is the day of the announcement of the management change. The non-report period is also extended to 16 days through to 40 days after announcement of board changes to identify the point when the irrational bubble ends. Normal daily returns is generated using the market model. The market model is given by:

$$R_{it} = \alpha + \beta (R_{mt}) + \xi_{it} \quad (1)$$

¹ The choice of 16 days before and 15 days after (32 day event window) is influenced by previous event studies on the developed economies and Nigerian stock market. Market reactions to board changes are within day 0 to 3 days after announcements of board changes (Fox and Opong, 1999, Borokhovich et al, forthcoming). Event studies on price reactions to earnings and dividend announcements revealed that share prices still drifts 10 weeks and 25 days after earnings and dividend announcements respectively in Nigeria.

where R_{it} and R_{mt} are the daily return to shareholders of firm “i” at time period “t” and daily returns share price index at period “t”, ξ_{it} is the abnormal return of firm “i” in time period “t” which is assumed to have a zero expectation and α and β are market model parameters.

Fisher (1966) first pointed out the problems that are caused by asynchronous prices in the calculation of returns. The importance of this problem becomes amplified with a shorter differencing interval and infrequently traded securities. Since the differencing interval is short because of the use of daily prices, such a problem may arise. The procedure for overcoming the problem of non-synchronous trading is adopted in the study to obtain unbiased beta estimates. Actual returns are subtracted from the corresponding normal returns to obtain excess returns according to the following:

$$e_{it} = R_{it} - [\alpha + \beta (R_{mt})] \quad (2)$$

where R_{it} is the actual return of firm “i” in period “t”, R_{mt} is the return on share price index for time period “t” and “ α ” and “ β ” are estimates from equation (1).

The market model parameters in the estimation period is generated using the 503 price observations (from day -523 to -17) starting from day -17 before the release of the news about the management change. It is further assumed that the beta estimates are stable over time and that the effect of any instability on event study will be negligible. One significant anomaly relating to the security return generating process is the tendency of small capitalised stocks to out-perform larger ones. Event study methodologies therefore consider whether an appropriate adjustment for firm size needs to be made.

However, Dimson and Marsh (1986) present evidence that where the measurement interval is short, the impact of size on event study methodology is not significant. In the study, the measurement interval is the 15 day search side of the release of the information concerning management change and therefore the potential problem of size is considered so slight that it can be ignored.

Studies by Fama (1965, 1991) and French (1980), among others, show that daily security returns depend on the day of the week. These studies indicate significant negative returns on Mondays and systematic higher Friday closing prices. Since the announcement of board changes can be made on any day of the week, it is assumed that the day of the week effect will exert negligible impact on the study and can therefore be ignored (Fox and Opong (1999)).

The daily excess returns are averaged across the observations according to:

$$AR_t = \frac{1}{N} \sum_{i=1}^{i=N} e_{it} \quad (3)$$

where AR_t is the average across observations for a particular day “t” and e_{it} is the excess returns for firm “i” for day “t”. These averaged daily excess returns is tested for significance according to:

$$t_{AR} = \frac{AR_t}{Se_{it}} \quad (4)$$

where $Se_{it} = [\text{Var}(AR_t)]^{1/2}$ with “var” estimated over the 503 trading day (24 months).

The average values for the excess returns are cumulated over the test period days and are plotted in order to observe the behavior of excess returns over the test period given by:

$$CAR_t = \sum_{i=-15}^{i=+15} AR_t \quad (5)$$

where CAR_t is the cumulative excess return on announcement day “t” and AR_t is as defined previously.

Often there are news leakages prior to the date (timing) of the announcement of board changes that is likely to induce market reactions and result in changes in share prices. The study takes this into account in the analysis by calculating the cumulative excess returns prior to the announcement of board changes.

Considering the fact that there may be a delay in price reactions to board changes in Nigeria because of the inefficiency of the stock market, the study also calculate the cumulative abnormal returns after the date of announcements. This provides information about potential delayed reaction to the news.

4.2 Sample selection, scope and sources of data

The study provides some evidence for Nigerian listed firms of the impact of shareholders wealth of changes in the composition of the board of directors. The study investigates and also examines the total wealth effects of the management board changes together on the type of board change.

Data for the study cover nine years period. All changes in the composition of the management board for firms that meet the following criteria were collected. First, the date of board change must be available. Secondly, there must not be any other major news announcement in the two week period surrounding the board change – major news announcements, mergers and major contracts among others. This criterion

was to ensure that other variables that could affect price around the period of management change are eliminated. Thirdly, the price data necessary in the examination of share price effects must be available.

Data are obtained principally from the Lagos and Ibadan branches of the Nigerian Stock Exchange (NSE), the Securities and Exchange Commission (SEC). Information about change in board compositions and year of change is obtained from the Stock Exchange fact books from 1997-2005. Dates of board changes are obtained from the annual reports and accounts of all the companies quoted on the Nigerian Stock Exchange (NSE).

Data on firms share prices as well as price index, dividend per share and trading day are obtained from daily official price list of NSE from 1997 to 2005. The study covers all companies drawn from all sectors of the Nigerian stock market quoted on the first and second tier securities market that made change in their board compositions during the study period.

4.3 Expected results

If the board changes contain price sensitive information, this will result in significant price reaction if such information had not been anticipated by the market. Since board members possess power and influence over firm strategy, policy and decision making authority. Changes in board composition could affect the policies and strategies firms adopt. The policies that firms adopt will have cash flow implications that will affect their share prices.

The study use share price performance as an indirect measure of the information conveyed by a change in the composition of the management board. In this study we expect an average positive reception by the market to new appointments².

Resignation from the board may be considered as a good or bad news depending on the interpretation of the circumstances³. Statutory retirement is not expected to convey any information to the market, except if it is sudden and more like a resignation.

Death of a board member may convey positive or negative signals. A sudden death of an existing board member may deprive the company of a valuable board member which will result in a negative signal. However, a death after a protracted illness may be more in the nature of a retirement or an opportunity to introduce new dynamism into the firm by providing an opportunity to appoint a fully functioning member of the board to replace a director who has been performing below par or has been nonperforming as a result of ill health. This will be a positive signal.

The reactions of the share price to a board change will indicate whether the market considers such a change significant or not. The study investigates the different types of board changes for the average change effects by examining the behavior of abnormal security return. This is because it is difficult to study the motives of a particular change. If board changes have no impact on share prices the average effect of any type of change should be zero.

5. Discussion of results

5.1 Characteristics, Size and Composition of Board of Directors in Nigeria

Table 3 presents the average board size of quoted companies in Nigeria between 1997 and 2005.

INSERT TABLE 3

The average board size is 9. Breweries, emerging firms and food, beverage and tobacco have an average of 11 board members.

Table 4 presents the characteristics of board of directors of quoted firms in Nigeria from 1997 to 2005.

INSERT TABLE 4

92% of the boards of directors (BOD) of quoted firms in Nigeria have different chairman from chief executive officer (CEO). 26% of board members are female, while 2% of quoted firms in Nigeria have female chairpersons. 21% of members of the board of directors are Insider directors (executive members), while 79% are outsiders. This implies that shareholders are adequately represented on the board in compliance with the Cadbury report and Code of Corporate governance by Corporate Affairs Commission (CAC) and Securities and Exchange Commission (2003).

Foreigners on the average own 26% of the shares of quoted firms in Nigeria from 1997 to 2005. On the average 2% of board members are foreigners during the period of study. 12% of members of board of directors have political affiliations while 3% have chairmen with political affiliations. The average number of employees of quoted firms in Nigeria from 1997 to 2005 is 1358.

Table 5 shows board changes of quoted firms in Nigeria from 1997 to 2005. The total numbers of board changes available for the study are 725. Of these about 47% are new appointments, 23% were resignations and 11% are retirements. Only 3%, a total of 19 observations concerned death.

INSERT TABLE 5

Joint occurrence of new appointment, resignation and retirement accounts for 17% of the events. There is a spike in the number of resignation in 1999 and new appointments in year 2000. New appointments account for almost half of the type of board changes. This reflects the publication of Cadbury Committee recommendation. The period considered fall after the recommendation of the Cadbury Committee (1992) for firms to appoint non-executive members to their board. Independent non-executive board members are expected to act as checks on executive excesses.

Table 6 presents board changes analysed into top management changes and change of other directors. Top management change refers to change of chairman, vice chairman, Chief executives, managing directors and general managers.

INSERT TABLE 6

The study also analyzed the events according to change in top executive or other directors. The study classified any board change that involves top management and other directors on the same date as concurrent events. Any board changes leading to appointments, resignation or retirement of more than one director on the same date is also treated as a single event. Top executive changes accounting for 35% of the total events. Changes of other directors represent 61% of the total events and 22 concurrent events representing 4% of the final sample.

The effect of board changes on share prices for all the sampled firms is presented in table 7. Column 1 represent the day in the test period, while column 2 shows the mean abnormal returns for all the changes in top management of the firms in the sample from 1997 to 2005.

INSERT TABLE 7

The mean abnormal returns in column 2 for all board changes are negative. This reveals that board changes have information content which is reflected in share price behaviour. The t-statistics associated with the mean abnormal returns in table 7 are computed using equation (4). The t-statistics for the test period days that are significant are shown with asterisks. The mean abnormal returns are statistically significant at 1% level for the 15 days before and after the announcement of board changes.

Figure 1 also shows the mean and cumulative abnormal returns around announcement of all board changes from 1997 to 2005.

INSERT FIGURE 1

Figure 1 shows the preponderance of negative abnormal returns. Null hypothesis 1 states that the Nigerian Stock Market does not efficiently react to board changes announcements in price adjustments. The study accepts the null hypothesis 1 because share prices do not adjust speedily to board changes announcements on the Nigerian stock market. This provides further evidence of the inefficiency of the Nigerian stock market at the semi-strong level.

The mean abnormal returns were analyzed and reported according to the type of change in board of directors in table 8 below.

INSERT TABLE 8

Column 2 reports the mean abnormal returns of announcement of new appointments of top management for the 31 day event window around the day of announcements. The mean abnormal returns are negative and statistically significant from zero from 15 days before to 1 day before the announcement of new appointees on the board.

The mean abnormal returns from the day of announcement of new appointments till 15 days after are positive and statistically significant at 1% level of significance. This implies that new appointment of top executive members is perceived as a good news for the firm in Nigeria.

The null hypothesis 2 states that board changes have no information content reflected in share price behavior, therefore board changes do not matter. The study rejects the null hypothesis 2 and accepts the alternative hypothesis 2. This is because shareholders experience positive wealth change on average when there is a new appointment on the board, especially that of top executives. This positive shareholders wealth effect can be further explained by the fact that appointment of new board members will bring fresh and dynamic impetus into the firms operations.

Column 3 of table 8 presents the mean abnormal returns over the 31 day event window for the announcement of board resignations. It is noteworthy that all the mean abnormal returns around the day of announcement of board resignations are negative and statistically significant at 1% level of significance.

The resignation of board members especially Chairman, Chief executive officers (CEO) and managing directors (MD) have negative impact on shareholders wealth. This implies that the market considers that the resignation of top executives members is not a good event for a firm. The negative wealth effect around resignations of top board members is also explained by the fact that the market believe that board members have privilege information about the present value of the firm. Resignation by top executive members of the board can send a signal of impending failure of the firm to the market and this drives down the market prices and the portfolio returns around the day of announcements.

The results of board retirements are presented in column 4 of table 8. The result shows that significant negative abnormal returns are experienced for the 31 day event window surrounding board retirements. The negative wealth effect is because the market has anticipated the formal announcement and therefore responds by price adjustment negatively. This is because they are anticipating that a new hand that will be appointed to replace an invaluable top executive board member may not have the wealth of experience to move the firm forward. In response to the uncertainty around board retirement, portfolios actual returns may fall.

Column 5 of table 8 shows the mean abnormal returns around joint or mixed announcements, where more than one announcement of different types are made the same day. The result indicates that the concurrent announcement of resignation and appointment or retirement have both negative and positive wealth effect on the shareholders. There are both negative and positive mean abnormal returns around the 31 day event windows and they are all statistically significant at 1%. This shows the impact of this combined change is determined by the type of change that the market considers to be dominant. When the market considers resignation to be a more serious event than the joint new appointment on the same day, then a negative signal will be sent and this will result into a negative mean abnormal return. If new appointment is seen as more pronounced than retirement, then a positive signal will be sent resulting in positive effect on shareholders wealth.

Column 6 of table 8 shows the result of announcement of death of board member. The result shows that significant negative abnormal returns are experienced for the 31 day event window surrounding death of board members as expected. This is because death of a top executive member of board deprives the firm of a valuable member and will send a negative signal.

Figure 2 shows the mean abnormal returns around announcement of board changes according to type of change.

INSERT FIGURE 2

New appointments reveal a positive trend from the day of announcement. Resignation and joint or mixed announcement reveal their negative values, while mean abnormal returns of retirement and death of board members announcement move around the negative lines. These confirm findings in table 8 above. Figure 3 also shows the cumulative abnormal returns around board changes according to type of change.

INSERT FIGURE 3

The cumulative abnormal returns around resignation and joint occurrence of appointment and resignation or retirement revealed negative slopes. This shows that there are negative returns as a result of resignation of board members and joint occurrences. This support results in table 8 above.

6. Summary of major findings and policy implications

This study provides some evidence on shareholders wealth effects of management board changes in Nigeria from 1997 to 2005. The study presents the total wealth effect and also distinguishes the wealth effects of announcements of new appointments, board resignations and retirements, death and mixed announcements.

The result indicates that large positive wealth effects are experienced from day of announcement till 15 days after new appointments of top board members and significant negative mean abnormal returns around announcements of board resignations, retirement and death. Mixed announcements of more than one type of board changes produce a mixture of negative and positive wealth effect and overall the total wealth effect of announcement of all board changes in Nigeria is negative between 1997 and 2005. The study shows that board changes have information content which is reflected in share price behavior. It also indicate that the reactions of prices and returns to board changes of firms quoted on the Nigerian stock market are proportional to the type of change of board of directors.

This results show that the Nigerian stock market does not speedily react to announcement of board changes, therefore the market is inefficient at the semi-strong level.

The recommendation by Cadbury (1992) and CAC and SEC (2003) that firms should include in their board non-executive directors has been followed by Nigerian firms. As earlier reported, 21% of the members of board of directors are executive members, while 79% are non-executive members. However, this recommendation does not appear to be deemed very significant by the market, as the mean abnormal returns around changes in top management is statistically significant for the 31 day event window irrespective of the type of board change.

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Endnotes

1. The values in dollars are obtained from Standard and Poor's (2004): 'Global Stock Markets Factbook', New York.
2. Firms may appoint new members to the board to increase organizational effectiveness, or as a result of particular strengths demonstrated in certain areas by the new appointee. Generally, all new appointments are made on the premise that it will improve corporate efficiency (Fox and Opong, 1999)
3. A resignation could be due a board members reaction to private information about the present value of the firm. It could be an expression of dissatisfaction by the resigning director about what is going on in the company or what the company is planning to plunge into. In the absence of strong for efficiency it could be the first signal to the market that something is wrong. Such resignation will provide a negative signal. This is the most probable reason and resignation will be interpreted as sending a negative signal. Resignation may also be due to power struggles within the company and these may effectively be a dismissal of poor directors from the company. This will send a positive signal to the market that the average standard of the board of directors has increased.

Appendices

Table 1. Stylised Facts of Operational Statistics of the Nigerian Stock Market

Statistics	2004	2003	2000	1999	1998	1997	1996	AGR (1996-2004)%
Market capitalisation (billions of naira)	2.112t	1.359t	478.6b	299.9b	263.3b	292.0b	285.6b	52
Shares traded (volume)	19.21b	13.30b	5.0b	3.9b	2.1b	1.3b	0.882b	72
Value traded (billions of naira)	225.82b	120.70b	28.2b	14.1b	13.6b	11.1b	7.1b	100
New issues (billion/millions of naira)	227.38b	185.02b	35.71m	44.44m	17.28m	9.11m	21.45m	86345
New issues/GDP	4%	3%	0.09%	0.12%	0.06%	0.03%	0.08%	85 (1.05)*
Listed securities (number)	277	265	261	269	264	264	276	-
Price cap	5%	5%	5%	5%	5%	5%	20 kobo	-
NSE All-Share Index(1984=100)	23,844.45	20,128.94	8111.01	5266.43	5672.76	6440.51	6992.1	32

Source: Nigerian Stock Exchange: "The Nigerian Stock Exchange Fact book", various issues. NSE, Nigerian Stock Exchange: Annual Reports & Accounts, various issues, NSE, Oludoyi (2000), Central Bank of Nigeria (CBN) Annual Report and Statements of Accounts, 2004.

Note: Exchange rate is \$1 = 130 naira. 1 naira= 100 kobo, N= naira, t=trillion, b=billion, m=million, AGR (1996-2000)=average growth rate from 1996 to 2004 measured in percentages,* = average New issues/GDP.

Table 2. EMH and African Stock Markets

Level of Efficiency/ Authour	Data/Country	Results/Findings
Weak-form: Samuel and Yacout (1981) Ayadi (1983 and 1984)	Weekly prices between 1977 and 1979 of 21 Nigerian companies. Weekly closing prices of 30 shares in Nigeria between 1977 and 1980. Wald-Wolfwitz test and runs tests.	Accept the validity. The random-walk model holds.
Ekechi (1989) Inanga and Asekome (1992) Omole (1997)	Stock prices in Nigeria Box and Pierce test and runs test	Reject the validity. Accept the validity of weak-form EMH. Accept the validity of weak-form EMH.
Adelegan(2004)	Daily Stock prices of 25 companies in Nigeria before during financial liberalisation between 1984 and 1991. Serial correlation tests for lag 1, runs tests and frequency distribution tests. Daily stock prices for 50 companies in Nigeria between 1992 and 1993. Serial correlation test for lag 1 to 10.and runs test. Daily and weekly market returns before and after	Inconclusive results.

Osei (1998)	cross-border listing of Ashanti Goldfields Corporation in Ghana between 1993 and 1995. Serial correlation test for lag 1 to 10. Weekly returns of 30 companies between 1979 and 1988. Serial correlation tests for lag 1 and runs tests.	The random-walk model does not hold.
Dickinson and Muragu (1994)	Ljung-Box tests and Variance-Ratio tests of Namibian data.	The results do not contradict the weak-form of the EMH.
Matome (1998)	Used money supply information and stock prices in Nigeria.	Inconclusive results.
Semi-strong Efficiency: Emenuga (1989)	Study the reactions of security prices to stock splits in Nigeria using monthly data.	There is no empirical relationship between money supply and stock prices.
Olowe (1998)	Study the impact of earnings announcement on share prices in Nigeria using weekly data.	The Nigerian stock market (NSM) reacts to public announcements of stock split.
Oludoyi (1999)	Study the reactions of share prices to dividend announcements using daily data.	The Nigerian stock market reacts to earnings announcements.
Adelegan (2003)		The Nigerian stock market reacts to dividend announcements.

Source: Author's Investigations

Table 3. Average Board size of Nigerian Quoted Firms by Sector 1997-2005

Average	9
Agric	9
Aviation	7
Auto	8
Bank	10
Brew	11
Build	10
Chempaint	8
Congl	10
Constr	10
Emerg	11
Foodbev	11
Footwear	7
Health	7
Indust	7
Insurance	8
Machmkt	7
Packaging	8
Petrol	9
Printpub	7
Textile	5
Realest	7

Source: Computed from Annual Reports and Accounts of Quoted Firms, NSE fact Books, 1997-2005

Table 4. Characteristics of Board of Nigerian Quoted Companies 1997-2005

Chairman different from CEO	92
Women on Board	26
Chairman/CEO Female	2
Average Foreigners on Board	2
% of Foreign Ownership	26
% of BOD with Political Affiliations	12
Chairmen with Political Affiliations	3
% of Government Shareholding	13
% of Insider directors (Executive members) on BOD	21
Average No of Employees	1358

Source: Computed from Annual Reports and Accounts of Quoted Firms, NSE fact Books, 1997-2005

Table 5. Management Board changes by year and Type of Change

Year	All Changes	Type 1 New Appt	Type 2 Resign	Type 3 Retirement	Type 4 Deceased	Type 5 Joints
1997	32	15	12	2	1	2
1998	99	31	24	16	2	26
1999	116	49	39	12	0	16
2000	111	71	14	7	3	16
2001	117	50	20	15	3	29
2002	113	54	29	10	6	14
2003	52	27	14	5	2	4
2004	48	23	9	5	2	9
2005	37	19	4	6	0	8
Total	725	339	165	78	19	124
%	100	47	23	11	3	17

Source: Authors computations from NSE Fact book 1997-2005, Annual Reports and Accounts of Quoted Companies in Nigeria 1997-2005

Notes: New Appt-new appointment, Resign is resignation, Joint is where type 1 to type 3 take place at the same time.

Table 6. Top Management & Other Board changes by year and Type of Change

YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total	%
EVENTS	29	65	84	72	84	81	45	39	27	526	100
Chairman	12	18	31	24	32	27	14	14	10	182	35
Directors	16	41	50	46	49	51	29	25	15	322	61
Concurrent	1	6	3	2	3	3	2	0	2	22	4
APPOINTMENT											
Total	13	21	36	39	30	34	21	15	14	223	100
Chairman	8	9	17	13	12	13	6	6	6	90	40
Directors	4	8	18	25	16	20	14	9	7	121	54
Concurrent	1	4	1	1	2	1	1	0	1	12	5
RESIGNATION											
Total	13	21	29	13	16	21	14	7	3	137	100
Chairman/CEO/MD	3	3	8	5	4	6	5	2	0	36	26
Directors	10	18	21	8	12	15	8	5	3	100	73
Concurrent	0	0	0	0	0	0	1	0	0	1	1
RETIREMENT											
Total	1	8	8	4	15	7	3	6	4	56	100
Chairman/CEO/MD	0	1	2	2	7	2	1	2	1	18	32
Directors	1	6	4	2	8	5	2	4	3	35	63
Concurrent	0	1	2	0	0	0	0	0	0	3	5
DECEASED											
Total	1	2	0	3	4	5	2	2	0	19	100
Chairman/CEO/MD	1	1	0	0	1	1	0	1	0	5	26
Directors	0	1	0	3	3	4	2	1	0	14	74
Concurrent	0	0	0	0	0	0	0	0	0	0	0
JOINT											
Total	1	13	11	13	19	14	5	9	6	91	100
Chairman/CEO/MD	0	4	4	4	8	5	2	3	3	33	36
Directors	1	8	7	8	10	7	3	6	2	52	57
Concurrent	0	1	0	1	1	2	0	0	1	6	7

Source: Authors computations from NSE Fact book 1997-2005, Annual Reports and Accounts of Quoted Companies in Nigeria 1997-2005
 Note: Chairman/CEO/MD is change in top executive. CEO is chief executive officer, MD is managing director.

Table 7. Mean Abnormal Returns around period of Board Change (*10-1)

Date	All changes	
-15	-0.225	***
-14	-0.201	***
-13	-0.181	***
-12	-0.183	***
-11	-0.179	***
-10	-0.202	***
-9	-0.187	***
-8	-0.180	***
-7	-0.156	***
-6	-0.196	***
-5	-0.152	***
-4	-0.155	***
-3	-0.136	***
-2	-0.144	***
-1	-0.167	***
0	-0.158	***
1	-0.163	***
2	-0.173	***
3	-0.164	***
4	-0.162	***
5	-0.183	***
6	-0.153	***
7	-0.165	***
8	-0.175	***
9	-0.172	***
10	-0.177	***
11	-0.212	***
12	-0.231	***
13	-0.238	***
14	-0.182	***
15	-0.216	***

significant at 1% level. Abnormal returns are multiplies of 10-1

Source: Authors computations using Stata 7.0

Table 8. Mean Abnormal Returns by Type of Change around period of Board Change (*10-1)

Date	New appointments	Resignation	retirement	joint	deceased
-15	-1.338 ***	-0.742 ***	-0.116 ***	-0.624 ***	-0.119 ***
-14	-1.244 ***	-0.741 ***	0.008 ***	-0.550 ***	-0.127 ***
-13	-1.099 ***	-0.771 ***	-0.014 ***	-0.529 ***	-0.141 ***
-12	-1.048 ***	-0.699 ***	0.115 ***	-0.581 ***	-0.107 ***
-11	-0.939 ***	-0.778 ***	0.082 ***	-0.513 ***	-0.026 ***
-10	-0.856 ***	-0.799 ***	0.039 ***	-0.554 ***	-0.149 ***
-9	-0.765 ***	-0.723 ***	-0.028 ***	-0.525 ***	-0.008 ***
-8	-0.676 ***	-0.758 ***	0.021 ***	-0.471 ***	-0.118 ***
-7	-0.507 ***	-0.740 ***	-0.050 ***	-0.570 ***	0.007 ***
-6	-0.487 ***	-0.734 ***	-0.053 ***	-0.585 ***	0.027 ***
-5	-0.364 ***	-0.722 ***	0.128 ***	-0.500 ***	-0.087 ***
-4	-0.239 ***	-0.740 ***	0.137 ***	-0.620 ***	0.043 ***
-3	-0.157 ***	-0.720 ***	0.190 ***	-0.508 ***	-0.116 ***
-2	-0.044 ***	-0.727 ***	0.053 ***	-0.502 ***	-0.175 ***

-1	0.030	***	-0.749	***	0.061	***	-0.614	***	-0.051	***
0	0.156	***	-0.781	***	0.065	***	-0.561	***	-0.146	***
1	0.201	***	-0.701	***	0.073	***	-0.548	***	-0.117	***
2	0.283	***	-0.727	***	0.017	***	-0.549	***	0.139	***
3	0.406	***	-0.765	***	0.051	***	-0.547	***	-0.066	***
4	0.499	***	-0.708	***	0.022	***	-0.584	***	0.060	***
5	0.576	***	-0.745	***	-0.131	***	-0.530	***	0.124	***
6	0.675	***	-0.738	***	0.058	***	-0.475	***	0.071	***
7	0.773	***	-0.751	***	0.037	***	-0.525	***	0.077	***
8	0.859	***	-0.724	***	0.032	***	-0.623	***	0.138	***
9	0.972	***	-0.761	***	0.074	***	-0.618	***	-0.012	***
10	1.053	***	-0.784	***	0.028	***	-0.547	***	-0.068	***
11	1.056	***	-0.781	***	0.066	***	-0.481	***	-0.054	***
12	1.209	***	-0.831	***	0.032	***	-0.758	***	0.030	***
13	1.243	***	-0.796	***	-0.068	***	-0.560	***	-0.057	***
14	1.398	***	-0.725	***	0.044	***	-0.611	***	0.075	***
15	1.470	***	-0.798	***	0.025	***	-0.637	***	0.080	***

Significant at 1% level. Abnormal returns are multiples of 10-1

Source: Authors computations using Stata version 7.0

