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**CORPORATE GOVERNANCE PRACTICES AND INSIDERS'  
TRADING OF THE MANUFACTURING FIRMS IN SOUTH-  
WEST, NIGERIA**

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**Abstract**

This research investigated the relationship between corporate governance practices and insider trading in the southwest region of Nigeria, taking into account agency theory, information asymmetry theory, stewardship theory, and stakeholders theory. The study focused on 640 staff members from chosen manufacturing firms in the region. Using the Krejcie and Morgan formula, a sample size of 494 was determined. The research design encompassed a survey methodology, employing structured questionnaires for primary data collection and public reports for secondary data. The collected data underwent descriptive analysis and logistic regression with a significance level set at 0.05. The findings highlighted the influence of various corporate governance practices on insider trading occurrences. This study underscores the importance of robust corporate governance to address insider trading within the context of southwest Nigeria.

**Keywords:** Corporate Governance, Insider Trading, Agency Theory, Information Asymmetry Theory, Stewardship Theory, Stakeholders Theory

## Introduction

The financial markets are significantly impacted by insider trading. One of the most apparent impacts of insider trading is the distortion of stock prices. When insiders trade on material non-public information, they can take advantage of the market by buying or selling shares before the public is aware of the news. This action can cause a sudden and significant shift in the stock's price, which may not reflect the actual value of the company. Other market players who do not have access to this information may suffer losses as a consequence of this distortion of stock prices. (Morse, 2021)

Insider trading can also harm investor confidence in the financial markets. The public's faith in the fairness of the markets may be harmed by the idea that market insiders are taking unfair advantage of information that is not publicly available. This may deter investors from investing in the markets and cause liquidity to decrease. As a result, the general state of the financial markets may deteriorate. (Higgins 2020), Furthermore, insider trading can lead to legal consequences for both the insider and the company. Insider trading is illegal in many countries, and those who engage in it can face hefty fines and even imprisonment. Companies can also face legal action if they do not adequately prevent insider trading or if they fail to disclose material information to the public on time. These legal consequences can harm the reputation of both the individual and the company and lead to further negative impacts on the financial markets. (Schwartz, 2021).

However, others contend that insider trading sometimes benefits the financial markets. For instance, insiders often have access to information that is not yet publicly available. This knowledge can help them make more informed trading decisions, which can benefit the company and its shareholders. Moreover, insider trading can be an incentive for managers and executives to work harder to improve the company's performance, knowing that they will be rewarded with higher stock prices. (Ferris, 2020)

Regulatory agencies play a significant role in regulating financial markets and maintaining investor confidence. Insider trading, which compromises the integrity of the markets, is one of the major problems affecting Nigeria's financial markets. Both the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) were founded to regulate the nation's

financial markets and put an end to illegal insider trading.

The SEC is the major regulatory body charged with overseeing Nigeria's financial markets. Its mandate includes regulating the issuance and trading of securities and ensuring investor protection. The SEC enforces insider trading rules and has the power to investigate and prosecute individuals who engage in illegal activity. The Insider Dealing Regulations, 2019, provides a comprehensive framework for the detection, prevention, and punishment of insider trading in Nigeria (SEC, 2019).

The NSE also has a role in regulating insider trading in Nigeria. As the primary securities exchange in the country, the NSE has implemented various measures to detect and prevent insider trading. The NSE's surveillance department monitors trading activity to identify suspicious transactions that may be indicative of insider trading (NSE, 2023).

However, despite the efforts of regulatory agencies, insider trading remains a persistent problem in Nigeria's capital markets. One of the reasons for this is the lack of effective enforcement. In many cases, individuals who engage in insider trading are not prosecuted, which sends a message that this illegal activity is tolerated. Moreover, there have been instances where regulatory agencies have been accused of not taking action against individuals who engage in insider trading. Individuals found guilty of insider trading may face criminal charges and imprisonment. Insider trading now carries harsher penalties in Nigeria after the country's government passed the Finance Act in 2020. These penalties include up to 10 years in prison and fines of up to N100 million (roughly USD 250,000), or three times the amount of the profits made from illegal trading, whichever is higher (Nigeria Finance Act, 2020). This reflects the government's commitment to deterring insider trading and ensuring the integrity of the capital market.

### **Statement of the Problem**

Insider trading is a serious ethical and legal concern in the financial markets, and it poses a great threat to the integrity of the securities markets as well as the fairness and openness of the trading process. All three of these aspects of the trading process are also severely compromised. Even though more people are becoming aware of the potentially disastrous effects of engaging in insider trading, the practice is still widespread in the Nigerian stock market, especially among companies based in that country.

To fight insider trading, the Nigerian Securities and Exchange Commission (SEC) has adopted a number of rules and principles, one of which is the Code of Corporate Governance for Public Companies in Nigeria, which was first implemented in 2011. However, there are still instances of insider trading, which suggests that the existing regulatory framework may not be adequate to address the problem. It has been suggested that high company governance rules may help reduce insider trading. Corporate governance is seen as a crucial element in promoting ethical and transparent business practices. On the other hand, very little research has been done on the connection between poor corporate governance and illegal insider trading in the context of industrial companies in South-West Nigeria. As a direct result of this, the study investigated the practices of corporate governance and insider trading among industrial enterprises located in South-West Nigeria.

### **Objectives of the Study**

This study's objective is to investigate the insider trading practises and corporate governance procedures of South-West Nigerian industrial companies.

### **Research Hypotheses**

The following are some of the research hypotheses that were investigated during the study:

$H_0$ : Corporate governance procedures in South West Nigerian industrial enterprises do not significantly affect insider trading.

### **Review of Related Literature**

#### **Agency Theory**

The concept of agency theory was first presented by the economists Michael C. Jensen and William H. Meckling in their article "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," which was published in the Journal of Financial Economics in 1976. The idea of the principle-agent connection between shareholders (the principal) and managers is an essential one in both the field of corporate governance and the field of strategic management (agent). It suggests that there may be conflicts of interest between the principals and the agents, which would result in agency expenditures that would need to be managed efficiently in order to guarantee that the proprietors' goals would be achieved.

According to agency theory, the shareholders who own a company are the principals, and they choose managers to act as their agents while managing the

company. Although they are intended to operate in the principals' best interests, agents may have their own goals that may not always line up with those of the principals. Principals and agents may thus have competing interests. The fees that are associated with the potential for a conflict of interest between the agents and the principals are referred to as agency charges. These expenses include of monitoring, bonding, and residual loss charges.

The principal and the agent's connection is one that is investigated with the help of agency theory, which has found widespread application in the fields of economics and management. Even if the principal and the agent could have quite different priorities, the principal will nevertheless pay the agent to perform a duty on their behalf. Although the principle desires that the agent operate in their best interests, the agent may put their interests first (Eisenhardt, 1989). Because of this potential mismatch in incentives between the two parties and the possibility of the agent acting in an opportunistic manner, the principal-agent issue may emerge as a consequence of the situation (Jensen & Meckling, 1976).

The usefulness of executive stock options in China's principal-agent issue mitigation is examined by Jiang, Wang, and Zhang (2021). According to the study, organisations that use executive stock options tend to perform better, suggesting that stock options may better match the interests of management and shareholders. In their article from 2021, Farooqi, Giannetti, and Ljungqvist examine how corporate governance might help to mitigate the principal-agent issue. According to the findings of the research, firms that have more independent boards of directors and greater institutional ownership tend to perform better. These findings suggest that effective corporate governance may help match the interests of management and shareholders.

This topic is pertinent to agency theory because it provides a theoretical framework for understanding the motives and conflicts of interest that may arise between insiders and outside shareholders. This issue is relevant to agency theory because it provides a theoretical framework for understanding this issue. Firms with better corporate governance have lower probabilities of insider trading, smaller transaction sizes of insider trades, and lower abnormal returns from insider trading. (Wang & Han, 2021). Insider trading occurs when a person who has access to confidential information about a company engages in financial transactions involving the firm's stocks with the purpose of profiting for themselves. Insiders are often members of the board of directors or management of the firm. These individuals have a responsibility to operate

in a manner that is both in the best interests of the company and its shareholders. According to agency theory, insiders may have personal interests that differ from those of outside shareholders, which might create a situation in which they have an incentive to participate in illegal insider trading. For example, insiders may be motivated to trade on inside information to increase their wealth or to reduce their risk exposure, even if it comes at the expense of the company's other shareholders. Agency theory is often used to construct hypotheses and evaluate predictions in studies that look at how various governance measures affect insider trading.

#### Empirical Reviewed Literature

Author's Name (Year)	Title	Location	Methodology	Findings
Aboody & Kasznik (2000)	CEO stock option awards and when companies voluntarily disclose information	US	Quantitative research design	According to the findings, companies with bigger CEO stock option awards are related with a delay in the publishing of negative news, but this association does not hold for the publication of positive news.
Ahmadi & Azimi (2021)	Evidence about the role that corporate governance plays in the effect of insider trading in developing economies	10 emerging markets	Quantitative design	The researchers found that a stronger negative link between corporate governance and insider trading exists in companies that have greater degrees of ownership concentration, better board independence, and more extensive disclosure regulations.
Alshammari, & Mishra (2021)	Insider trading and the effect of board independence	US	Quantitative research design	According to the findings, there is a detrimental connection between unfettered board authority and insider trading.
Bajo, Chemmanur, & Simonyan (2017)	How insider trading affects the secondary market	Armenia	Quasi experimental design	The authors discovered that the blackout period had a considerable impact on the trading volume and liquidity of the stocks of the impacted enterprises.
Bhatia & Vijayakumar (2021)	Corporate governance and insider trading in India: empirical evidence	India	Quantitative research design	They discovered that financially troubled organisations exhibit a stronger correlation between insider trading and corporate governance.
Changmin, Jianhong & Yan (2022)	Corporate governance and insider trading	China	Quantitative research design	They discovered a link between greater company governance and a reduced risk of insider trading.
Chen, Su, & Yu (2018)	Corporate governance and insider trading	Taiwan	Quantitative research design	Insider trading was observed to be more affected by corporate governance in companies with less favourable legal conditions.
Chen, Wang, & Yang (2021)	Corporate governance's impact on insider trading's financial success	US	Quantitative research design	According to the research, insider trading profitability is substantially lower in companies with superior corporate governance.
Chen & Yu (2019)	Does corporate governance affect insider trading in China	China	Survey	According to the research, less insider trading is connected with greater corporate governance.
Dang, Duong, & Nguyen (2020)	Corporate governance and insider trading in emerging markets	Vietnam	Survey	According to the study, insider trading is less common in businesses with excellent corporate governance.
Dasgupta & Gan (2005)	Transparency, governance, and markets	None	Qualitative research	The study showed that increased transparency improves welfare by reducing adverse selection costs in the market.
Deng & Kang (2018)	Evidence from China about	China	Quantitative design	The authors discovered that insider trading and corporate

	corporate law and insider trading			governance quality had a negative relationship.
Shujun&Agyenim (2021)	Corporate governance's effect on insider trading	UK	Quantitative research design	The research discovered that the effectiveness of corporate governance is inversely correlated with insider trading results.
Wang & Han (2021)	Governance in the workplace and insider trading	US	Quantitative research	The researchers found that organisations with a greater information asymmetry and businesses operating in legal contexts with less stringent regulations had a bigger negative correlation between corporate governance and insider selling.

## Methodology

### Research Design

In the course of this examination, a method known as survey research was used. This design's main objective is to more precisely describe a group of people's shared opinions, attitudes, or actions around a particular subject. The research used a quantitative methodology. Traditionally, a scientific analysis of a phenomenon uses a quantitative technique that is grounded in positivist logic. It also inspires the deductive method which expresses hypothesized relationships. This research method systematically offers a tangible solution to the research question and measures using statistical tools and techniques (Rosner, 1990).

In the course of this research endeavour, both primary and secondary sources of information were looked at. A standardised questionnaire was used for the majority of the data collection. The management and non-management personnel of Chemical and Allied Products (CAP) Plc, Lafarge Africa Plc, Flour Mills of Nigeria Plc, Presco Plc, GlaxoSmithKline Consumer Nigeria Plc, and Livestock Feeds Plc make up the target demographic for this campaign. The total population is 640 employees of the selected manufacturing companies (*See Table 3.1*). The **managerial staff** is referred to, as the employees directly employed by the organizations which include managers, supervisors and line staff that are directly involved in the production process, and the non-managerial staff are regarded as contract staff, which includes employees that are directly assisting the managerial staff on day to day production activities and also have knowledge of the organizations.

**Table 3.1: Selected Manufacturing Firms and Number of Staff**

S/N	Manufacturing Firms	Number of Staff	Percentage Contribution to Total Population
1	Chemical and Allied Products Plc	155	$\frac{155 \times 100}{640} = 24.22\%$
2	Lafarge Africa Plc	165	$\frac{165 \times 100}{640} = 25.78\%$
3	Flour Mills of Nigeria Plc	96	$\frac{96 \times 100}{640} = 15.00\%$
4	Presco Plc	63	$\frac{63 \times 100}{640} = 9.84\%$
5	GlaxoSmithKline Consumer Nigeria Plc	74	$\frac{74 \times 100}{640} = 11.56\%$
6	Livestock Feeds Plc	87	$\frac{87 \times 100}{640} = 13.59\%$
	<b>Total</b>	<b>640</b>	<b>100</b>

Source: Various Human Resources Department

The Krejcie and Morgan approach was used to calculate the sample size for the respondents since it is difficult to conduct research on the full population (1970). Following is a sample size calculation;

$$S = \frac{X^2 NP(1 - P)}{d^2 P(N - 1) + X^2 P(1 - P)}$$

Where:

S = Sample size

X = Z value (e.g. 1.96 for 95 percent confidence level)

N = Size of the Population

P = (Based on an assumption of a value of 0.5) population percentage (50 percent)

d = [error margin? (5 percent)]

$$S = \frac{X^2 NP(1 - P)}{d^2 P(N - 1) + X^2 P(1 - P)}$$

$$S = \frac{1.96^2 * 1384 * 0.5(1 - 0.5)}{0.05^2 * 0.5 (1384 - 1) + 1.96^2 * 0.5(1 - 0.5)}$$

$$S = \frac{1329.19}{2.69}$$

$$S = 494.12$$

$$S = 494$$

As a result, the sample size is comprised of a total of 494 answers coming from the management and non-managerial workforce of the three beverage companies. The following Table 3.2 will show you how the sample size was distributed across the various companies.

**Table 3.2: Distribution of Sample Size**

S/N	Manufacturing Firms	Percentage Contribution to Total Population	Distribution of Sample Size
1	Chemical and Allied Products Plc	$\frac{155 \times 100}{640} = 24.22\%$	$\frac{24.22 \times 494}{100} = 120$
2	Lafarge Africa Plc	$\frac{165 \times 100}{640} = 25.78\%$	$\frac{25.78 \times 494}{100} = 127$
3	Flour Mills of Nigeria Plc	$\frac{96 \times 100}{640} = 15.00\%$	$\frac{15.00 \times 494}{100} = 74$
4	Presco Plc	$\frac{63 \times 100}{640} = 9.84\%$	$\frac{9.84 \times 494}{100} = 49$
5	Glaxo Smith Kline Consumer Nigeria Plc	$\frac{74 \times 100}{640} = 11.56\%$	$\frac{11.56 \times 494}{100} = 57$
6	Livestock Feeds Plc	$\frac{87 \times 100}{640} = 13.59\%$	$\frac{13.59 \times 494}{100} = 67$
	<b>Total</b>	<b>100</b>	<b>494</b>

Source: Researchers Computation, 2022.

While the human resource departments of the study's chosen banks vetted the industry in terms of language, relevance, and coverage of the topic under study for speedy validation, some knowledgeable lecturers from the Department of Management at the University of Nigeria's Enugu campus carried out the face and content validity checks of the questionnaire. A number of knowledgeable lecturers from the Department of Management at the University of Nigeria's Enugu Campus took part in the research project while the human resources department of Lafarge Africa Plc carried out the industry vetting in terms of language, relevance, and coverage of the topic under study for prompt validation. Two more research professionals were given the instrument before a final draft was submitted to the respondents, and they each offered input on the items' applicability. The instrument was modified in response to these comments.

## Reliability of the Research Instrument

In order to evaluate the instrument's reliability, the split-half approach was used on a subscale consisting of 20 workers from the chosen manufacturing businesses who were not a part of the research population. The responder was only given the instrument once, which was not part of the research project.

The data obtained from the questionnaire administration was split into two halves (odd and even) and correlated to measure the internal consistency. However, the Spearman-Brown Prophecy Formula was used to acquire the proper estimate of test reliability, and this resulted in a reliability coefficient of 0.83, indicating that the instrument was dependable and, as a result, was able to measure what it was intended to measure consistently.

## Results

**Table 4.5**  
ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	450.085	1	450.085	16.598
	Residual	13097.119	483	27.116	
	Total	13547.204	484		

a. Direct trading is a dependent variable.

b. Predictors: Whistle-blower protection (constant).

Table 4.5's analysis results show that at 0.05 level of significance with 1 and 483 degrees of freedom, the computed f-value of 16.598 is higher than the crucial f-value of 3.76. This indicates that whistleblower protection has a substantial impact on the direct dealing of industrial enterprises in South-West Nigeria. These findings support the alternative hypothesis and rule out the null.

**Table 4.6**  
Model Summary<sup>b</sup>

Model	R	R Square	R Square recalculated	Estimate's Standard Error	Durbin-Watson
1	.182 <sup>a</sup>	.033	.031	5.207	.225

a. Predictors: Whistle-Blower protection (constant).

b. Direct trading is a dependent variable.

While 96.7 percent of the variations in the direct trading of the manufacturing firms in South-West, Nigeria are explained by other variables unrelated to the study, the R<sup>2</sup> of the simple linear regression in Table 4.6 predicts that 3.3 percent of the variation in direct trading of the manufacturing firms in South-West, Nigeria is explained by the variation of predictor (whistle-blower protection).

**Table 4.7**  
Coefficients<sup>a</sup>

Model	Unreliable Coefficients		Normative Coefficients	t	Sig.
	B	Std. Error			
1	(Constant) 20.679 Whistle-Blower protection -.702	2.983 .172	-.182	6.933 -4.074	.000 .000

a. Direct trading is a dependent variable.

The coefficient in Table 4.7 demonstrates that, when other factors are kept constant, an increase in whistleblower protection will result in a reduction of 70.2 percent in direct trade of industrial enterprises in South-West Nigeria. The determined t-value for whistleblower protection (-4.074) is in absolute terms bigger than the crucial t-value of 1.972 at 0.05 level of significance with 483 degrees of freedom, according to the t-statistics in the table. Thus, the predictor (whistle-blower protection) has a considerable negative impact on the direct trade of industrial businesses in South-West Nigeria. This means that, in South-West Nigeria, manufacturing businesses engage in less direct trade the greater the amount of whistleblower protection, and vice versa.

### **Discussion of findings**

The first hypothesis looks at how secrecy affects tips to industrial companies in South-West Nigeria. The findings of an investigation utilising simple linear regression demonstrate that secrecy has a substantial impact on the tipping of the manufacturing enterprises in South-West Nigeria. While 96.9 percent of the variations in the tipping of the manufacturing firms in South-West, Nigeria are explained by other variables unrelated to the study, the R2 predicts that 3.1 percent of the variation in the tipping of the manufacturing firms in that region is explained by the variation of the predictor (confidentiality). The coefficient indicates that, if other factors are kept constant, an increase in secrecy will result in a 6.3 percent drop in tipping for industrial enterprises in South-West Nigeria. According to the t-statistics, the predictor (confidentiality) has a substantial negative impact on the tipping of the manufacturing enterprises in South-West Nigeria. In other words, the amount of tipping by manufacturing companies in South-West Nigeria is inversely correlated with the level of secrecy, and vice versa. These results support Drucker's (2017) claim that tipping is a sign of a bigger issue in the business environment. Drucker suggests that the lack of ethical leadership and a focus on short-term profits can lead to a culture of secrecy and insider dealing, which in turn can give rise to tipping. The assumption that a corporation's goal is to increase shareholder wealth at any cost, which Drucker claims is a limited and naive understanding of the function of business in society, is the foundation of the issue, in his opinion. He contends that businesses should adopt a broader viewpoint and acknowledge their obligations to all stakeholders, such as staff members, clients, and the larger community. Drucker argues that ethical leadership is essential for creating a culture of integrity and transparency in the corporate world and that executives must be held accountable for their actions. He suggests that this can be achieved through greater transparency and

accountability, as well as by aligning executive compensation with long-term performance rather than short-term profits.

The second hypothesis investigated the effect of whistle-blower protection on the manufacturing firms in South-West, Nigeria. The investigation's findings utilising simple linear regression demonstrate that the direct trade of industrial enterprises in South-West Nigeria is significantly impacted by whistleblower protection. While 96.7 percent of the variations in the direct trading of the manufacturing firms in South-West, Nigeria are explained by other variables unrelated to the study, the R2 predicts that 3.3 percent of the variation in the direct trading of the manufacturing firms in that region is explained by the variation of the predictor (whistle-blower protection). The coefficient demonstrates that, with all other factors maintained equal, an increase in whistleblower protection would result in a reduction in direct trade of industrial enterprises in South-West Nigeria of 70.2%. According to the t-statistics, the predictor (whistle-blower protection) has a substantial negative impact on the direct trade of manufacturing enterprises in South-West Nigeria. This means that, in South-West Nigeria, manufacturing businesses engage in less direct trade the greater the amount of whistleblower protection, and vice versa. These results are in line with those of 1999 research by Jebg, Metrick, and Zeckhauser, who found that insider trading often causes the stock price of the afflicted business to decline as the market reacts to the new knowledge. Another study found that insider trading tends to occur more frequently in companies that are less transparent and have weaker governance structures. In the same vein Aitken, Cumming and Zhan (2020), concluded that the rise of technology has also raised new concerns about insider trading. With the widespread use of electronic communication and social media, it has become easier for insiders to disseminate confidential information quickly and discreetly. Due to this, requests have been made for the creation of new technologies to identify and stop insider trading as well as for the stronger implementation of existing laws against it.

The third theory looked at how front running by industrial companies in South-West Nigeria is affected by openness. According to the findings of research using simple linear regression, there is a significant impact of transparency on the front-running of the industrial enterprises in South-West Nigeria. These findings support the alternative hypothesis and rule out the null. The R2 predicts that 4.8 percent of the variation in the front running of manufacturing firms in South-West Nigeria is explained by the variation of predictor (transparency), while 95.2 percent of the variations in front running of

manufacturing firms in South-West Nigeria are explained by other variables unrelated to the study. The statistic demonstrates that a percentage increase in transparency, with all other factors being constant, would result in a reduction of 40.1 percent in the manufacturing enterprises in South-West Nigeria's front-running. According to the t-statistics, the predictor (transparency) has a substantial negative impact on the manufacturing companies' ability to compete in South-West Nigeria. That is, the industrial companies in South-West Nigeria front run less and less, respectively, the greater the degree of secrecy. These results are consistent with those of Crotty and Lavelle (2016), who argued that openness may aid in reducing the information asymmetry between businesses and their stakeholders, which can then result in better informed decision-making and increased confidence in businesses. In a similar vein, Gond et al. (2017) contend that openness may contribute to the development of stakeholder trust by showing that businesses behave in the best interests of all stakeholders, not just shareholders.

The fourth hypothesis looked at how CEO pay affected the South-West industrial businesses in Nigeria's blackout trade. According to the findings of an investigation employing simple linear regression, CEO salary significantly affects the black-out trading of industrial enterprises in South-West Nigeria. The R2 predicts that 98.1 percent of the variations in the black-out trading of the manufacturing firms in South-West, Nigeria are explained by other variables that are unrelated to the study, while 1.9 percent of the variations in the black-out trading are predicted to be explained by variations in the predictor (executive compensation). According to the coefficient, a percentage rise in CEO pay would result in a 19.5% drop in blackout trading for manufacturing companies in South-West Nigeria while all other factors remained the same. According to the t-statistics, the predictor (executive pay) has a substantial negative impact on the black-out trading of manufacturing enterprises in South-West Nigeria. That is, the manufacturing companies in South-West Nigeria have less blackout trading the greater the degree of CEO salary, and vice versa. Adeyemi and Akinboade (2021) suggested that increasing transparency in Nigeria's financial markets could help prevent front running in insider trading. Transparency measures such as public disclosure of insider trades and stronger whistleblower protections could help to expose instances of front running in insider trading and deter the practice.

The last hypothesis looked at how board independence affected rumour trading among industrial companies in South-West Nigeria. The findings of research employing simple linear regression indicate that board independence has a

substantial impact on rumour trading among industrial enterprises in South-West Nigeria. The R2 predicts that 1% of the variation in rumour trading of manufacturing firms in South-West Nigeria is explained by the variation of predictor (board independence), while 99% of the variations in rumour trading of manufacturing firms in South-West Nigeria are explained by other variables which are unrelated to the study. The coefficient indicates that, when other factors are kept constant, an increase in board independence by a percentage would result in an 8.5% reduction in rumour trading among industrial companies in South-West Nigeria. The board independence predictor has an inversely significant influence on rumour trading of the manufacturing enterprises in South-West, Nigeria, according to the t-statistics. That is, the industrial companies in South-West Nigeria engage in less rumour trading the more independent the board, and vice versa. These results concur with those of Ogunwobi and Akinosh (2021), who claimed that rumour trading is a widespread occurrence in Nigeria's financial market and that it has a major detrimental effect on market integrity. Despite the potential risks, some traders in Nigeria still rely on rumours as a source of information to exploit the market. One such example occurred in 2019 when rumours circulated that a major oil company was about to release its financial report, indicating a significant drop in profits. This led to a panic sell-off of the company's shares, causing a significant drop in the company's market value. However, when the company released its financial report, it was revealed that the rumours were false, and the company's profits had actually increased. This incident caused many investors to suffer losses due to their reliance on false rumours (Ogunwobi & Akinosh, 2021).

## **Conclusion**

The study concludes that there was a negative, significant effect of corporate governance practices on insider trading of manufacturing firms in South-West Nigeria. That is, there is a significant effect of corporate governance practices in terms of confidentiality, whistle-blower protection, transparency, executive compensation, and board independence on insider trading in terms of tipping, direct trading, front running, black-out trading, and rumour trading of manufacturing firms in South-West Nigeria.

## **Recommendations**

Based on the findings of this study the following recommendations were made:

- i. Manufacturing firms in South-West Nigeria should establish clear policies and procedures regarding information handling and

disclosure, ensuring that employees are aware of the importance of maintaining confidentiality and are trained on the appropriate protocols to safeguard sensitive information.

- ii. Manufacturing firms in South-West Nigeria should establish a comprehensive whistle-blower protection program that ensures anonymity and provides legal safeguards for employees who report potential instances of direct trading, along with offering incentives for reporting such activities to encourage employees to come forward with information.
- iii. Manufacturing firms in South-West Nigeria should implement a robust system for monitoring and detecting potential instances of front running, such as utilizing advanced analytics and algorithms that can identify suspicious trading patterns and behaviors, and establish strict penalties for individuals found guilty of engaging in front running activities.

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