The marketing and economic implications of the manipulation of share prices: Nigeria stock exchange experience

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Abstract: *This paper examined the marketing and economic effects of the manipulation of share prices in the Nigerian Stock Exchange. The survey research design was adopted. Data collected was analyzed using the regression analysis. Student t- test was used to test the two hypotheses formulated at 0.05 level of significance. The findings of the study revealed that capital market infractions such as fraudulent disposal of investor assets, illegal fund management and the wonder bank syndrome, others are insider dealings, corporate accounting fraud and share price manipulations affects the capital market and the economy .The study concluded that share prices manipulation actually influences the marketing and economic values of the shares being manipulated. It was recommended that the Nigerian government must put in place strong regulatory measures and punish the entire offender that has been found guilty. It was also recommended that for the market to rebound, stockbrokers that accessed margin facility from banks should be provided with certain percentage of their contributions to the loan as cushion to help them move on with their business.*

Key words: Share-prices, Capital Market, Manipulation, Marketing & Economic Impact.

Introduction

Nigeria has no formal and active capital market in the 1950s, almost all formal saving and deposits went through the banking system while the then colonial masters invested major capital balances for the country on the London stock exchange. However, following the establishment of the Central Bank of Nigeria (CBN) in 1959, it was logical to have a stock exchange, and this led to its establishment in 1960, and which commenced operations in 1961. Thus, the foundation was laid for the operation of the Nigerian capital market.(Aliele & Anono 1986).

The Nigerian stock market support business and the federal government through the CBN, but owned by about 300 members. The membership includes financial institutions, stockbrokers and individual Nigerian of high integrity who have contributed to the development of the stock market and the Nigerian economy.

The exchange is self-regulatory organization (SRO), making and enforcing rules for its members; the exchange has two tiers, first tier securities and second tiers securities. The Nigerian capital market, like elsewhere, is a regulated market. Apart from the regulatory actions of the exchange as an SRO, government oversight on the capital market in Nigerian is achieved through the operations of the Securities and Exchange Commission (SEC) as it maintains surveillance over the securities market to ensure orderly, fair and equitable dealing in securities and protecting the integrity of the securities market against abuses arising from the insider trading. Alite (1984)

However there have been reports of financial misappropriation leading to the bankruptcy of the exchange and management crisis as a result of allegation of insider trading and manipulations in prices of shares. The interest of this paper is therefore to assess the impact this crises has on the Nigerian capital market.

According to Oteh (2010) Share price manipulation is not a new trend in Nigerian capital market. Almost every company does it, especially when they are about to float a public offer. In most cases, the companies create artificial demand for the stock and move prices up to a pre-determined point before applying for the public offer. In Nigerian stock exchange (NSE), both buyer and sellers are almost the same people, as a result this give the market a manipulative opportunity. This led to a situation where within five years (2004-2008) market capitalization rose from N1.96 trillion to N15 trillion and collapsed to about N6 trillion in 2008 as a result of the well known deficiency. The corruption that permeated the system at that period were price-fixing, over-valuation of shares and other capital market infractions during most of the Initial and Public Offers (IPOs).

The universal banking, which brought the banks into stock broking business, did not help matters either. The banks saw the loopholes in the universal banking market and went ahead with market infractions, there by destroying themselves and the market. Therefore the melt down that led to the market crash strongly suggests that there are serious reasons to believe that structural defects in the regulatory and perhaps, corruption of institutions and officials charged with overseeing the capital markets may have contributed significantly to the implosion of the Nigeria Stock market. (CBN 2009)

Literature review

The concept of a stock exchange

There are many views of what a stock exchange is, to Ogubunka (2001), a stock exchange is defined as "citadel of capital, the temple of values. It is the axe of which the whole financial Structure of capitalist system turns. Literally a stock exchange can be described as a place where securities (Bonds, stock and shares) of varying types are traded openly, and where one can purchase or sell any of such securities relatively easily.

According to Alies and Anono (1986) securities are documentary evidences of ownership entitlement to claim upon the assets of the issuing organization, which may be a business firm of the issuing organization or governments. This documentary evidence usually has no fixed or absolute value but is traded on the stock exchange at value which is subjectively determined by those buying or selling them. Oladejo (2003) describes a stock exchange as an organized secondary market since a stock exchange is really strictly a market for exiting rather than new securities.

The stock exchange provides an avenue for the movement of long-term capital funds from those with saving to invest in those areas of industries, commerce and government where funds are lacking for expansion and other developmental purposes. The stock exchange is also an institution which sees to the efficient allocation of available capital funds to the diverse uses in the economy, and through its sensitive pricing mechanism ensure that so much of the total available capital resource are allocated to each firm within industry as that industry deserves to have regards to their relative contribution to total societal wealth or satisfaction vis-à-vis other firms industry. Peter (1994)

Alile and Anono (1986), further stated that the stock exchange can also be a mechanism, that is a barometer which can measure and detect the symptoms of an impending economic boom or decline long before the predicted prosperity or decline actually occurs. The stock exchange has the ability to change the economic condition and it trends which are a reflection of the total psychology or judgments of person using the stock exchange, among which the professional, investors, economist or analyst exerts the greatest influence.

The nigerian capital market

The Nigeria capital Market, according to Ndi Okereke Onyiuke (2010), is made up of markets and institution, which facilitate the issuance and secondary trading of long-term financial instruments. She argued that the capital market, unlike the money market which functions basically to provide short-term funds, while the capital market provides to industries and government to meet their long term capital requirements, such as financing of infrastructural investments and other capital intensive project.

The strategic roles of the capital market in the allocation of scare financial resources to cater for economic growth and development of any nations is well documented. Oladejo,(2003) enumerates the gains of the Nigerian capital market as follows:

- Helps the economy to increase capital formation;
- Provides funds to government and companies at more attractive terms;
- Provides best sources of funding for small and medium enterprises growth;
- Subject firms to market discipline thus enhancing chances of success;

• Provides the necessary elements to manage financial risk and

• Ensures continuity of the enterprises long after the founders.

The Nigerian stock exchange is therefore a self- regulatory organization (SRO). It regulates its members (brokerage firms). It also regulates it listed companies to ensure compliance with listing rules. Directors of companies stand in a fiduciary relationship with their companies and are expected to run their companies with utmost faith, competence and integrity. Audit committees of publicly quoted companies are also vital organs of integrity in corporate governance. External auditors also play a pivotal role in ensuring the integrity of information emanating from companies quoted on the exchange, as they are statutorily required to attest to the financial statements published by such companies. Others important elements include issuing houses, reporting accountants, lawyers and investment analysts.

However, the crisis of integrity dominated the operations Nigerian capital market scene for reasons that include:

i. Absence of strong well funded regulators;

ii. A socio-economic that extols wealth no matter how it was made;

iii. An investor group that is largely illiterate and highly fragmented;

iv. Suffocating competition that encourage unorthodox practices as firms try on stay afloat and ahead of competition;

v. Weak legal framework;

vi. Weak internal control environment as a result of employment policies that place less emphasis on merit and integrity;

vii. A company class that is greedy and self serving;

viii. Weak audit committees as a result of membership that is largely financially illiterate and ill-motivated because of absence of remuneration for services rendered;

ix. Weak external audit function partially as a result of few bad eggs in the profession and partly as a result of fetters placed on independence of the auditors in actual practice.

Causes of manipulation of share prices in Nigeria capital market

The act of artificially inflating or deflating the price of a security in stock market is known as manipulation, other capital market infractions that constitute manipulation include fraudulent disposal of investor assets, illegal fund management and the wonder bank syndrome, others are insider dealings, corporate accounting fraud etc. In the wake of recent disclosures of unwholesome dealings by some quoted companies on the Nigerian stock exchange the following factor were some the reasons that led to the problems.

Bank short-term orientation imposed on long-term capital market

At a time, banks were financing about 65% of the Nigerian capital market through margin facilities granted to investors and stock broking firms. Many banks abandoned or sidelined their core operation of providing credit to the real sector in favour of playing the capital market for short-terms speculative activities. It was estimated that the total exposure of banks to the capital market in terms of trapped funds was in excess of N1 trillion. Thus, the capital market place became overheated with so much speculative activities of banks.

Cbn banks capitalization policy

Following the forced capitalization of banks to a minimum of N25 billon in 2005 almost all banks utilized and accessed the capital market to raise funds. Within two years plus, many of the banks besieged the capital market more than once, falling over one another in raising funds through mega offers and at the same time some of the banks were involved different capital market infractions Sanusi (2009). The banks competed to the extent that every available liquidity was sucked from the Nigerian financial system. A total of N2.2 trillion was raised through various manipulative public offers dominated by the banks in 2008.

Avalanche of private placement offer

A number of private companies did private placement of their shares at lower prices while they sought or intended to seek quotation for their shares at higher values on the Nigerian Stock Exchange, thus making such private placement very attractive. This lured investors to dispose their shares in the secondary market, purchases the private placement and equally got the same rid of immediately after their listing on the Stock Exchange at higher prices (Udeme & Onuba2009). The Nigerian capital market thus became a battleground as private companies were falling on each other through avalanche of offers, the regulating bodies were impotent as the Investment and Securities Act, and 2007 does not place private companies under their control. Thus so much liquidity was sucked from the Nigerian capital market in favour of private placement of private companies, many of which remain unquoted till date.

Structural deficiencies of the nigerian stock market

There appear to be some inadequacies in the Nigerian capital market, especially the absence of market makers. The Nigerian securities and Exchange Commission (SEC) experience avoidable administration bottlenecks. As a result there are no functional market makers that can provide exit windows for investors whom wish to check out.

Pull-out of various foreign investors

This was also one of the major factors believed to have contributed to the continuous fall of the Nigerian stock market. Many foreign investors that already had troubles in their home economics have pulled out of the Nigerian stock market leading to dumping of shares beyond the ability of domestic investors to contain. Supply of equities has in consequence overwhelmed demand, leading to price fall and other insider's abuse.

Economics effects of manipulating share prices

Wealth Effect: The first impact is that people with shares experience a fall in their wealth. Again if the fall is significant, it will affect their financial outlook and if investors' are loosing money on shares they will be more hesitant to spend money; this can contribute to a fall in consumer spending. However the effect should not be given too much importance. Often people who buy shares are prepared to lose money; their spending patterns are usually independent of share prices, especially for short term losses.

Effect on Pensions: Anybody with a private pension or investment trust will be affected by the stock market, at least indirectly. Pension funds invest a significant part of their funds on the stock market. Therefore, if there is a serious fall in share prices, it reduces the value of pension funds. This means that future pension payouts will be lower. If share price fall for a long time, then it will definitely affect pension funds and future payouts.

Confidence: Often share price movements are reflections of what is happening in the economy, recent falls are based on fears of a United States recession and global slowdown. However, the stock market its can affect consumer confidence. Bad headlines of falling share prices are another factor which discourages people from spending.

Investment: Falling share prices can hamper firm's ability to raise finance on the stock market. Firms who are expanding and wish to borrow often do so by issuing more shares because it provides a low cost way of borrowing more money, however with falling shares prices it becomes much more difficult.

Methodology

This research work relies on primary data, the research instrument elicited information on perception of investors on implications of shares manipulation. The instruments were administered to 200 randomly selected investors and stake-holder in Ibadan and Lagos metropolis out of which 150 respondents returned their instruments Data analysis were both descriptive and inferential. The research technique adopted in this research work involved regression analysis, also t-test, and ANOVA (Analysis of Variance) were used to establish the relationship and variability of the variables.

Testing of hypotheses

In this section the paper shall be concerned with the testing of the two hypotheses and these hypotheses formulated were tested using regression analysis and analysis of variance and the result are as shown below:

Hypothesis 1

H0 – There is no significant relationship between share price manipulation and marketability of the shares.

H1 – There is significant relationship between share price manipulation and marketability of the shares

A. Share price manipulation (SPM) as the independent variable

B. Marketability of Manipulated share as the dependent variable

Regression result

The Model Summary and Coefficients data of the hypothesis tested were presented below

Table 1: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.222	.049	.268	.507	.264

a. Predictors: (Constant), Share price manipulations

b. Dependent Variable: Marketability

From the simple linear regression table, the regression value is 0.222, the coefficient of determination (R2) is 0.049 which is the same as 4.9%, the adjusted coefficient of determination is 0.268, the standard error of the estimate is .507, while the Durbin Watson value is .264.Given the coefficient of determination means that the marketability of shares and share price manipulations accounts for 4.9% while the remaining 95.1% are due to other factors or variables. The result above revealed that there is significant relationship between share price manipulation and it marketability

Table 2: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B.	Std. Error	Beta	t	Sig.
1 (Constant)	7425	61077.865		.122	.911
Share price Manipulations	2237.5	5670.937	.222	.395	.720

a.Dependent variable: Marketability

Test of hypothesis at 5% level of significant.

The result revealed that the calculated t- statistic for the parameter estimate is (t = .395), P< 0.05 is greater than tabulated t statistic (.156) at 0.05 level of significance. Therefore the Null hypothesis is rejected and Alternative hypothesis stating that there is significant relationship between share price manipulation and marketability of the shares. This means that when the price of a share is manipulated downwards, it results to poor market for those shares and vice-versa.

Hypothesis 2

H0- The crisis in the Nigerian stock Exchange has not affected the Nigeria economy

H1- The crisis in the Nigeria stock exchange has affected the Nigeria economy.

A. The crises in the Nigeria Stock Exchange as independent and

B. The Nigerian Economy as dependent variable.

Regression result

The Model Summary, and Coefficients data of the hypothesis tested were presented below

Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	.669a	.447	.263	.722	.250

a. Predictors: (Constant)

b. Dependent Variable: Nigerian Economy

From the simple linear regression table, the regression value is 0.669, the coefficients of determination (R2) is 0.447 which is the same as 44.7%, the adjusted coefficients of determination is 0.263, the standard error of the estimate is .722, while the Durbin Watson Value is .250 .Given that the coefficients of determination, it means that the crisis in the Nigerian Stock exchange accounts for 44.7% in the economy of Nigerian while the remaining 55.3% are due to other factors or variables.

Table 4: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B.	Std. Error	Beta	t	Sig.
1 (Constant)	1.386	.917		2.111	.000
Share price Manipulations	.890	.577	.669	4.557	.000

a. Dependent variable: Nigerian Economy

Test of hypothesis at 5% level of significant

The result revealed that the calculated t- statistics for the parameter estimates is (t =4.557), P< 0.05 is greater than tabulated t statistics (2.425) at 0.05 level of significance Therefore, the alternative hypothesis stating that the crisis in the exchange has affected the Nigerian economy is accepted while the null hypothesis stating that the crisis in the exchange has not affected the Nigerian economy in any way is rejected.

Discussion of finding and conclusion

The paper established that capital market infractions such as fraudulent disposal of investor assets, illegal fund management and the wonder bank syndrome, insider dealings, corporate accounting fraud and share price manipulations affects the capital market and the economy this is because the investors will be deceived into investing their hard earned money into the organizations whose share prices are not what it has claimed to be.

The share price manipulations which expose the capital market and the Nigerian economy to serious negative consequences was majorly as a result of massive insider abuses in some Nigerian banks and this included the concealment of insider loans and unbridled use of investors funds to acquire the banks' own shares in the capital market which was part of the reasons the stock market kept on enjoying boom and eventually went down. Pulling out of various foreign investors from the capital market equally has it own effects. Financial System Stability (FSS) of CBN, also revealed that regulatory lapses in the banking sector by CBN in the period leading up to stock market crash and the overheating the capital market by some of the Nigerian commercial banks for their minimum 25 billion naira capitalization and avalanche of private placement offers by private companies at lower prices and at the same time seeking quotation of their shares at higher values. Also attributed to the capital market crash were various infractions by banks using short term orientation imposed on long term capital market at the expenses of real banking for selfish financial gain and lastly the structural deficiencies of the Nigerian stock exchange market and security exchange commission couple with poor regulatory policy.

Recommendations

There should be new era of strict regulatory approach at the capital market, and that the operators should be made to be on their toes at all times to ensure strict compliance of all the rules in the market. All those implicated in the large scale manipulation of share prices and infractions should be prosecuted and if found guilty, should go to jail and specifically all the chief executives of the banks and stock broking firms used to perpetrate the financial crimes to serve as deterrent in the future. Government should stop encouraging those that killed the market with national awards because that on its own does not encourage share holders and other prospective investors to continue to patronize the secondary market.

However, Investors who lost their hard-earned wealth during the market crash should be compensated by government and its regulatory agencies to serve as an encouragement to investors to return to the market, and for the market to rebound, stockbrokers that accessed margin facility from banks should be provided with certain percentage of their contributions to the loan as cushion to help them move on with their business. Also there should be new era of strict regulatory approach at the capital market, and that the operators should be made to be on their toes at all times to ensure strict compliance of all the rules in the market. Market reforms centered on structural reorganization of the Nigerian Stock Exchange (NSE), extension of trading period and introduction of new rules for stockbrokers are also measures to lift the market and reposition the exchange.

There is also the need for the regulators to brainstorm with the government on how to improve on electricity supply to quoted companies, because such would impact directly on company earnings and dividend yield. In conclusion the Securities and Exchange Commission (SEC) should enter into a strategic partnership agreement with the Nigerian police to address issues of criminal nature in the capital market to ensure investors protection, enhance efficiency and support private sector participation of investors in the capital market.

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