



## INFLUENCE OF FRAUD AND CORRUPTION ON STOCK VALUE TRADED IN THE CAPITAL MARKET: NIGERIA EXPERIENCE

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### **Abstract:**

The study examined the influence of fraud and corruption on stock value traded in the Nigeria capital market. The social learning theory forms the basis of this research. The fundamental assumption of the theory is that deviance and conformity can result from the same learning process. Definitions, differential association, modelling, and reinforcement are the four factors that affect social behaviour. One is predisposed to either conforming or deviant behaviour depending on how these elements interact. The Nigerian Stock Exchange served as the source of secondary data. Descriptive and inferential statistics were applied for the analysis in this study. The results demonstrate that stock value traded on Nigeria's capital market is not significantly impacted by fraud or corruption. The study recommended that more room should be given to stock value trade as one of the capital market performance indicators in the market which will help investors to explore.

**JEL:** D40; D53; D63

**Keywords:** capital market, stock value, corruption, fraud

### **1. Introduction**

The capital market as an organised structure of institutions and services engaged in the trading of stocks, bonds, and government securities. It is a market where shares and

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debentures, among other financial assets, are bought and sold (Onyiuke, 2010). The capital market is one of the fundamental pillars of long-term economic growth and development in every country. The market serves a broad range of clients, including different levels of government, business bodies, and individuals both inside and outside the country. The capital market performs the role of transferring current purchasing power in monetary form from businesses with a fund surplus to those with a fund deficit in exchange for future repayment of increased purchasing power. It has played significant roles in the recapitalization of the banking industry, the privatisation of state-owned firms, and the provision of long-term financing to numerous government agencies and businesses in Nigeria (Kolapo & Adaramola, 2012).

The contractual savings sector can access long-term deposits from small individual households through the capital market and steer such assets toward long-term investments (collective investment schemes, insurance firms, medical aid schemes, pension and provident funds). It performs the financial function of transferring current purchasing power from surplus to deficit sectors in exchange for future reimbursement of increased purchasing power. In this manner, the capital market makes it possible for businesses to raise money or capital to finance their investment in physical assets (Obamiro, 2015).

Fraud and corruption are like a cankerworm that stealthily eat away at the economic basis of a nation, limiting growth on all fronts. The Nigerian stock market is also affected. There can never be enough emphasis placed on the value of the capital market to the economy, yet fraud and corruption have the potential to limit the capital market's capacity to play its intended role. The Nigerian capital market has experienced a surge of fraud and corruption, which has renewed interest in how it affects stock market performance, corporate governance, and shareholder value (Bonini & Boraschi, 2009).

According to Aliyu (2011), among the many types of crimes that have been found in the market are manipulating annual accounts, purposeful withholding of share certificates by registrars and insider trading. Stockbrokers selling their clients' shares or stocks illegally is another crime, as is the distribution and sale of fictitious or nonexistent shares to investors. Evidently, stock prices traded on the capital market are affected by fraud and corruption.

This study was undertaken to assess the influence of fraud and corruption on stock value exchanged since it is evident that the capital market's function in the economy determines the growth and development of the economy both locally and globally.

## 2. Hypothesis

**Ho:** Fraud and corruption had no significant effect on stock value traded of Nigeria's capital market.

### 3. Conceptual Review

#### 3.1 Corruption

Corruption is as old as human civilization, and in the case of Nigeria, it is older than the country itself. It has accelerated at a rate comparable to that of an excellent breed of broiler chicks. Corruption is defined as the abuse of power for one's own gain (Transparency International, 2011). In an effort to deceive and obtain both money and immaterial benefits, it is also an intentional method of misrepresenting facts, realities, and management of situations in which someone finds themselves (Akinlabi, Hamed, & Awoniyi, 2011).

The abuse of public office for personal benefit is called corruption. It is widely believed that corruption is prevalent and endemic, which significantly hinders economic and investment growth. It also has a detrimental impact on how well public services are delivered and heightens social inequality (Bolgorian, 2011; Hasan & Nuri, 2013). According to Natalia (2016), corruption takes the form of bribery, extortion, and the improper use of insider information, and it flourishes in environments with lax enforcement of the law. Any type of corporate information and accounting data manipulation that affects share prices and the ability of investors to make investment decisions could be referred to as corruption.

From a conceptual standpoint, corruption, according to Brinkerhoff (2002), "*subsumes a wide variety of illegal, illicit, irregular, - and perhaps, unprincipled activities and behaviours.*" In a similar vein, Njoku (2005) claims that corruption is the single most significant issue with accountability in modern Nigeria. The use of an official position for personal advantage in violation of the rules and laws that are generally in place is known as corruption. In violation of his oath of office, it is the improper use of official authority or influence by a public servant for personal gain or to advance a cause.

Egonmwan (2002) was of the view that corruption goes with power and must be located first within the ranks of the powerful. He further stated that in developing countries, corrupt practices are reported in both low and high places where people reside - the civil (public) service, the military (army and police), department of custom and exercise, and state and federal establishments where bribes are freely given and taken before services are rendered.

The corruption phenomenon is complex. It is simultaneously economic, political, criminal, and sociological in nature, according to Meng and Friday (2010). Research on corruption should be based on criminology and criminal justice, according to Zhang, Cao, and Vaughn (2009). They pointed out that despite the abundance of research on corruption, many of them come from fields like economics and political science. They saw that corruption is viewed from that angle as a social and economic problem. According to Zhang et al. (2009), most of the research have neglected to acknowledge corruption as an outcome rather than a primary cause and have not looked at corruption in the framework of criminological theory. Meng and Friday (2010) argued that because corruption is a criminal act, it requires an integrated theoretical framework that considers

both the criminal justice system and the general social, political, economic, and environmental standards in each society.

Corruption can lead to the loss of effects meant to have a wider positive impact on society by diverting resources from the public good to private consumption. Additionally, corruption may increase business expenses, which would discourage investment and harm national development. But corruption is difficult to measure because of its inherent nature (Travits, 2010).

### **3.2 Capital Market**

The capital market, according to Okereke (2010), consists of the markets and organisations that permit the issue and secondary trading of long-term financial instruments. In contrast to the money market, which generally provides short-term financing, the capital market provides money to businesses and governments to meet their long-term capital needs, such as supporting fixed investments in structures like buildings, factories, machinery, bridges, etc.

The capital market is one of the fundamental pillars of long-term economic growth and development in every country. The market serves a diverse range of clients, including different governmental bodies, corporate organisations, and individuals both inside and outside the country. Capital formation entails cumulative savings from an organization's or person's current incomes. It consists of a fixed asset investment that is partially financed by capital market funds (Al-Faki, 2006). The capital market has been one of the main channels for bringing in foreign capital into most nations, and it is here where the trend toward a global economy is most obvious.

A contemporary economy's ability to thrive depends on a financial system that is effective at pooling local savings and attracting foreign capital for profitable investments. Financial markets are crucial for the financial resource mobilisation for long-term investment through financial intermediation. A modern economy's ability to function depends heavily on the financial market, which includes the capital and money markets as well as smaller niche markets. The capital market will, nevertheless, be the focus of this study project. Every economy, whether it is developed or under development, is thought to benefit from the capital market.

The first stock issued during the Colonial Administration, worth £300,000 (three hundred thousand pounds), marked the beginning of capital market activities in Nigeria in 1946. Up until the establishment of the Central Bank of Nigeria (CBN) in 1958, this was the case. The Securities and Exchange Commission (SEC) and other entities that function in the Nigerian capital market were quickly established by the Ministry of Finance and CBN. An essential component of the Nigerian financial system is the capital market. Other system sectors include the stock market, the insurance industry, and the pension industry. The CBN regulates the money market, which is made up of deposit money banks and other financial organisations such as Macro-Financial Banks (MFB) and Purchasing Managers Index (PMI). The Nigeria Insurance Commission oversees the

regulation of insurance firms, while the Pension Committee oversees the regulation of custodians, administrators, and pension funds.

According to the Insurance and Securities Act of 2007 (ISA), for the proper operation of the Nigerian Capital Market, the Securities and Exchange Commission is in charge of registration, market development, investigations of all sorts, complaint management, monitoring, and effective compliance.

To boost the financial system, Nigeria's capital market has to expand by introducing new models, products, and technology advancements. The Nigerian public needs to be better informed about the capital market. If there are more effective platforms, the advantages and rewards of the capital market can be taught through educational institutions, seminars, radios, and televisions. An efficient capital market enables the nation's economy to draw in investors who are ready to guarantee the growth and development of the sector.

#### **4. Theoretical Framework**

##### **4.1 The Fraud Triangle Theory**

Cressey's fraud triangle theory, a classic notion, described a person's propensity for deception as a triangle of perceived opportunity, perceived pressure, and perceived justification. Every fraud executor has to deal with demands or pressure of some kind. Financial pressures, vices (drugs, gambling, and alcohol), work-related pressures (high pressure for good results at work or a need to cover up someone's poor performance or to report results that are better than actual performance compared to those of competitors), and other pressures (frustration with the nature of work, or even a challenge to beat the system) are all factors that can cause stress (1986). This "need" or "greed" typically combines several additional elements, such as the opportunity and mindset to conduct fraud. The fraudster must think that they can complete the fraud without being discovered (or if caught, nothing grave will happen) Mansur and Abdullah (2015).

The potential for fraud emerges when employees have access to tools and information that allow them to commit and cover up fraud. Opportunities are presented by factors such as weak internal control environments, a lack of internal control procedures, a failure to implement internal controls, as well as indifference, ignorance, a lack of punishments, and inadequate infrastructure (ACFE, 2010; Duffield & Grabosky, 2001; Levi, 2008). Access must therefore be limited to only those tools, systems, and resources that are necessary for a worker to carry out his or her responsibilities. The third component that contributes to fraud is the con artists' capacity to defend their actions as genuine.

Rationalization or the absence of guardians refers to how people perceive their performance, contribution, and labour at work (Kanali, Gekara, Wanjau, Kiragu, 2013). As a result, people attach a value that they believe they should receive from the organisation for their productivity or quality of work. On the other side, the absence of

guardians refers to a situation where the organisation has few or no systems in place to check the accuracy of its financial data or operations. Absence of or ineffectiveness in the role of internal and external auditors, the Board of Directors, and the reporting requirements – banks, regulators, and adequate management review – all contribute to the lack of integrity process.

#### **4.2 Market Efficiency Theory**

A rational market that offers accurate pricing is what Barasa (2014) defined as an efficient market. Fama (2000) defined the idea of an efficient market as one where prices constantly reflect all available information after conducting considerable empirical research and examining the efficient market theory. Fama (2000) distinguished three types of data: publicly available data, historical pricing, and all other data, which includes private data. Investors may decide to buy or sell a particular security depending on the information at their disposal, which may cause them to change their opinions. This is the so-called efficient market hypothesis, according to Akinsulire (2006). The weak form, the semi-strong form, and the strong form are the three different iterations of the efficient market hypothesis.

The weak version of efficiency is based solely on previous market data, such as prices and trade volumes, and makes no attempt to forecast future prices (Fama, 2000). The semi-strong form of efficiency discloses all publicly available information, including current share prices, past share prices, information about a company's product line, the calibre of its management, published accounting data, and even announcements of stock splits, in addition to past share prices (Akinsulire, 2006). The potent version of efficiency takes into account both public and private information in addition to the present share price and all prior prices (Fama, 2000).

#### **4.3 Empirical Literature**

Nwude (2006) examined bank fraud and its effects using data from nine commercial banks. The study's conclusions showed a strong relationship between bank stock market valuations and fraud. The investigation did, however, reveal that the harmed banks were those whose fraudulent actions were made public.

In Nigeria, Onuorah and Ebimobowei (2011) used forensic accounting to look into fraudulent activity in the capital market. According to the report, banks in Nigeria need to take more proactive measures, like using forensic accounting procedures. The study claims that insider trading caused the Nigerian Stock Exchange to lose more than N1 billion in 2010.

A substantial inverse relationship between corruption and the equity value of the enterprises under consideration was observed in Abdel-(2014) Jalil's research on the impact of corruption on firm stocks using multiple regression analysis. Bolgorian (2011) employed a quantitative approach to analyse a data set of corruption and stock market development measures, such as market capitalization and the total value of share trading, for 46 countries worldwide between 2007 and 2009 in order to investigate the connection

between the Corruption Perception Index (CPI) and stock market development. According to his research, countries with higher relative stock market development are less corrupt. The power-law link between the level of corruption and stock market development is substantial at the 5% level.

Toole and Tarp (2014) examined the influence of corruption on the efficacy of capital investment using firm-level data from the World Bank Enterprise Surveys, which included 90 developing and transition economies. Finding out how much bribery affected marginal returns on capital investments was the study's main objective. According to the findings, bribery decreased investment efficiency, with small and medium-sized enterprises being most negatively impacted.

Sunkanmi and Isola studied the connection between corruption and economic development in Nigeria (2014). Time series data from 1980 to 2010 were employed in the analysis, which used the Ordinary Least Squares (OLS) method and data from secondary sources including reports from anti-graft organisations, the CBN Statistical Bulletin, and other sources. The dependent variables used were Foreign Direct Investment, Gross Domestic Product, government spending in Nigeria, and the economy's openness to globalisation. The independent variable used was perceptions of corruption. The analysis found evidence indicating a strong positive relationship between corruption and foreign direct investment (FDI), gross capital formation (GCF), and government spending, but it found no evidence of a significant relationship with GDP, economic openness, or globalisation. The findings suggested that the extent of corruption in the nation has turned into a crucial factor for economic development. This was not deemed appropriate by the research, which recommended that the Nigerian anti-graft agencies be given more authority to combat it and that moral principles should be made more important to young people.

Fraud in the Nigerian banking industry was studied by Udeh and Ugwu (2018). For data gathered from 2006 to 2015, an ex-post facto research design was used. Using descriptive analysis and the Ordinary Least Square (OLS) method of regression analysis, the study discovered, among other things, that fraud has a negative but insignificant relationship with bank earnings. This suggests that while bank fraud is on the rise, bank earnings are rising as well, and that the volume of stolen money has no impact on earnings.

Cherif and Gazadar (2010) examined how institutional factors and stock market development are related using the International Country Risk Guide (ICRG) as a proxy for corruption. Utilizing data from 14 MENA countries for the years 1990 to 2007 and using panel data and instrumental variable approaches, they find a negative correlation between corruption and stock market development.

An empirical study on the level of corruption in Nigerian banks in relation to their effectiveness was conducted by Adeyemo (2012). Ten (10) money deposit banks were chosen for the study, and they were split into two groups based on their reputation using a comparative analysis study. The study's findings demonstrated that fraud-prone

institutions outperformed the competition in terms of revenues and profits. Compared to their contemporaries, they drastically underperformed on the stock market.

Shahbaz et al. (2013) used the ARDL bounds testing approach, cointegration tests, and the VECM granger causality method to investigate the long-term relationships between financial development, corruption, and economic growth in Pakistan. They also examined the direction of causality between the variables for the period of 1987–2009. According to their findings, an increase in corruption is beneficial for financial progress.

The impact of fraud-related problems on company performance in Nigeria was assessed by Abdullahi and Mansor (2015). The survey was carried out prior to the nation's general elections in 2015. The study specifically investigated the banking industry's performance using the analytical technique of comparative analysis, out of the six banks analysed. According to the empirical findings, three of the six banks were involved in fraudulent activities, and as a result, they underperformed on the stock market, while the other banks' stock values either remained the same or increased.

Yartey (2010) examined the effects of corruption as one of the institutional determinants of stock market development using panel data from 42 emerging economies from 1990 to 2004. He established a link between corruption and stock market expansion that was unfavourable. Additionally, he demonstrates how the growth of the stock market in developing market countries is significantly influenced by macroeconomic factors including income level, GNI, the expansion of the banking sector, private capital flows, and stock market liquidity.

Hasan and Nuri (2013) assessed the effects of corruption and banking sector development on stock market development using panel data for 42 emerging countries from 1996 to 2011. The outcome showed, among other things, that corruption had a far worse impact on the growth of these countries' stock markets than it did on the growth of their banking industries.

Toole and Tarp (2014) examined the influence of corruption on the efficacy of capital investment using firm-level data from the World Bank Enterprise Surveys, which also included 90 developing and transition economies. Finding out how much bribery affected marginal returns on capital investments was the study's main objective. According to the findings, bribery decreased investment efficiency, with small and medium-sized enterprises being most negatively impacted.

## 5. Research Method

This investigation made use of the "ex-post facto" research design. This study collects historical data from 1999 to 2019. The study, which implicitly involves a time series analysis, evaluated the association between Nigeria's stock market value traded and the transparency index and corruption perception index using historical data. Secondary sources were used to collect data for this "ex-post facto" analysis, including articles from the Securities and Exchange Commission, Transparency International, and the Nigerian Stock Exchange.



The researchers modelled the relationship between stock value traded and electronic fraud as:

$$\text{EPS} = a_0 + a_1\text{ATM fraud} + a_2\text{FC} + a_3\text{CF} + U_i$$

The model is explained thus:

EPS = Earnings per share;

$A_0, a_1, a_2$  and  $a_3$  = Parameters;

ATM fraud = Automated teller machine fraud;

FC = Forged cheque;

CF = Clearing fraud;

$U_i$  = Error term

The following stochastic models were estimated to investigate the impact of fraud and corruption on stock value traded.

$$\text{SVT} = f(\text{NTI} + \text{CPI}) \quad (1)$$

The function is explained as:

SVT = Stock value traded

F = function

NTI = Nigeria Transparency Index

CPI = Corruption Perception Index

The models were given in a log-linear econometric manner to determine the coefficients of the elasticity of the variables while minimising the potential impact that any outlier may have.

$$\text{LogSVT} = a_0 + a_1 \log \text{NTI} + a_2 \text{CPI} + U_t \quad (2)$$

Mean, Standard Deviation, Kurtosis, and Durbin Watin Statistics are a few of the descriptive statistics employed in this study. The ordinary least square (OLS) approach of regression analysis was the main method of data analysis used in this work.

## 5.2 Presentation of Data Analysis

This section presents the data that were used in the study, which was based on reports from the Nigerian stock exchange and the international transparency agency. From 1999 to 2020, the Nigeria transparency index, Nigerian corruption perception index and the capital market performance variable on stock value traded are all shown in Table 1.

**Table 1:** Yearly Stock value Traded on the Nigerian  
 Stock Exchange and Nigeria Transparency Index

Year	Stock Value Traded (million)	Rank	Score
2020	2481.93	149	25
2019	962.65	146	28
2018	1198.85	144	27
2017	1,273,200.00	148	27
2016	952,826.60	140	28
2015	961,221.50	137	26
2014	1,334,783.10	140	27
2013	3,350,875.70	148	25
2012	808,991.40	139	27
2011	638,925.10	143	24
2010	799,911.00	134	24
2009	685,717.30	130	25
2008	1,679,143.70	121	27
2007	1,076,020.40	147	22
2006	470,255.40	142	22
2005	262,935.80	152	19
2004	225,820.70	144	16
2003	120,402.60	132	14
2002	99,406.70	102	16
2001	57,683.80	90	10
2000	28,153.10	90	6
1999	14,072.00	98	16

Source: International Transparency Agency, NSE report.

### 5.3 Descriptive Statistics

**Table 2:** Descriptive Statistics of Variables Utilised in the Study

	SVT	Rank	Score
<b>Mean</b>	781070.8	130.3158	21.10526
<b>Median</b>	685717.3	139.0000	24.00000
<b>Maximum</b>	3350876.	152.0000	28.00000
<b>Minimum</b>	14072.00	90.00000	6.000000
<b>Std. Dev.</b>	795528.6	20.30887	6.428191
<b>Skewness</b>	1.792942	-1.062200	-0.891958
<b>Kurtosis</b>	6.727583	2.661078	2.752424
<b>Jarque-Bera</b>	21.17981	3.663791	2.567889
<b>Probability</b>	0.000025	0.160110	0.276943
<b>Sum</b>	14840346	2476.000	401.0000
<b>Sum Sq. Dev.</b>	1.14E+13	7424.105	743.7895
<b>Observations</b>	19	19	19

Source: E-Views 10.

**Table 3: Variables' Correlation Matrix**

	SVT	Rank	Score
SVT	1.000000	0.475156	0.634204
RANK	0.475156	1.000000	0.698488
SCORE	0.634204	0.698488	1.000000

Source: E-Views 10.

#### 5.4 Unit root test of Stock Value Traded

**Table 4: ADF Test of SVT**

Null Hypothesis: SVT has a unit root				
Exogenous: Constant				
Lag Length: 0 (Automatic - based on SIC, maxlag=1)				
			<b>t-Statistic</b>	<b>Prob.*</b>
<b>Augmented Dickey-Fuller test statistic</b>			-2.753795	0.0829
<b>Test critical values:</b>	1% level		-3.808546	
	5% level		-3.020686	
	10% level		-2.650413	

**Table 5: ADF Test of SVT at First Differencing**

			<b>t-Statistic</b>	<b>Prob.*</b>
<b>Augmented Dickey-Fuller test statistic</b>			-5.764205	0.0002
<b>Test critical values:</b>	1% level		-3.831511	
	5% level		-3.029970	
	10% level		-2.655194	

#### 5.5 Johansen Cointegration test of SVT, RANK and SCORE

**Table 6: Trend Assumption: Linear Deterministic Trend**

Included observations: 18 after adjustments				
Series: SVT RANK SCORE				
Lags interval (in first differences): 1 to 2				
Unrestricted Cointegration Rank Test (Trace)				
<b>Hypothesized</b>		<b>Trace</b>	<b>0.05</b>	
<b>No. of CE(s)</b>	<b>Eigenvalue</b>	<b>Statistic</b>	<b>Critical Value</b>	<b>Prob.**</b>
None *	0.864208	68.13445	29.79707	0.0000
At most 1 *	0.806430	32.19503	15.49471	0.0001
At most 2	0.136272	2.636952	3.841466	0.1044

The Trace statistics showed values at none (68.13), and at most 1\* (32.20); with p-values less than .05. The statistics showed 2 cointegrating equations; while unrestricted VAR determined the optimal lag at 1 as shown by several measures LR, FPE, AIC, SC, and HQ. The decision is stated below as follows:

**Decision:** The *null hypothesis* of no cointegration is rejected against the alternative of a cointegrating relationship in the model. The results are also confirmed using the Max-eigenvalue test indicates 2cointegratingeqn(s) at the 0.05 level.

Both the RANK (corruption perception index) and the SCORE (transparency index) have positive long-term effects on SVT, on average, ceteris paribus, according to the results of the normalised cointegrating coefficients (results presented in the Appendix).

## 5.6 Hypothesis

**Ho:** Fraud and corruption had no significant effect on the stock value traded in Nigeria's capital market.

**Table 7:** OLS Output for Hypothesis Four

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-753927.1	1122333.	-0.671750	0.5103
RANK	1003.789	11595.63	0.086566	0.9320
SCORE	61450.43	36314.35	1.692180	0.1078
R-squared	0.259143	Mean dependent var		706786.1
Adjusted R-squared	0.176826	S.D. dependent var		790331.3
S.E. of regression	717059.1	Akaike info criterion		29.93527
Sum squared resid	9.26E+12	Schwarz criterion		30.08449
Log likelihood	-311.3203	Hannan-Quinn criter.		29.96765
F-statistic	3.148101	Durbin-Watson stat		1.659660
Prob(F-statistic)	0.067237			

Source: E-Views 10.

The OLS estimates in the table above yield an R-squared value for the model of.259 and an adjusted R-squared value of 0.177. The percentage of the dependent variable's variance that the explanatory factors explain is expressed in these values. Thus, the explanatory variables explain about 18% of the variation in the dependent variable (SVT). 10% significance threshold ( $p=0.067$ ) and F-statistic of 3.148. The F statistic, which assesses the model's overall statistical significance at a p-value higher than.05, examines the hypothesis that all of the regression coefficients are zero at a 10% level (the selected alpha level). The t-statistics for the relevant variables, CPI and TI, are 0.087 and 1.692, respectively. The CPI and TI both had P-values greater than.05. The study, however, supports the null and rejects the alternative hypothesis. As a result, there was no discernible impact of fraud or corruption on the stock price transacted on Nigeria's stock exchange (based on the p-value of the F-statistic). The model's VECM estimation output is displayed in the table below.

**Table 8: VECM Output for Hypothesis Four**

<b>Vector Error Correction Estimates</b>			
<b>CointegratingEq:</b>	CointEq1		
<b>LOG(SVT(-1))</b>	1.000000		
<b>RANK(-1)</b>	0.183441 (0.08139) [ 2.25387]		
<b>SCORE(-1)</b>	0.331002 (0.25529) [ 1.29657]		
<b>C</b>	-44.28081		
<b>Error Correction:</b>	D(LOG(SVT))	D(RANK)	D(SCORE)
<b>CointEq1</b>	-0.092986 (0.07161) [-1.29858]	-1.000170 (0.38249) [-2.61492]	-0.116717 (0.08895) [-1.31223]
<b>D(LOG(SVT(-1)))</b>	-0.010431 (0.25246) [-0.04132]	-0.290555 (1.34855) [-0.21546]	0.409638 (0.31360) [ 1.30624]
<b>D(RANK(-1))</b>	-0.001984 (0.03816) [-0.05200]	0.126916 (0.20384) [ 0.62262]	0.041308 (0.04740) [ 0.87144]
<b>D(SCORE(-1))</b>	0.074815 (0.12825) [ 0.58335]	1.559641 (0.68506) [ 2.27665]	-0.178134 (0.15931) [-1.11817]
<b>C</b>	-0.217532 (0.44705) [-0.48659]	1.699485 (2.38793) [ 0.71170]	1.108850 (0.55531) [ 1.99682]
<b>R-squared</b>	0.115171	0.418931	0.329621
<b>Adj. R-squared</b>	-0.137637	0.252912	0.138085
<b>Sum sq. resids</b>	48.20422	1375.359	74.37673
<b>S.E. equation</b>	1.855575	9.911607	2.304913
<b>F-statistic</b>	0.455567	2.523383	1.720931
<b>Log likelihood</b>	-35.80440	-67.63913	-39.92452
<b>Akaike AIC</b>	4.295200	7.646224	4.728897
<b>Schwarz SC</b>	4.543737	7.894761	4.977434
<b>Mean dependent</b>	-0.177670	2.947368	1.052632
<b>S.D. dependent</b>	1.739709	11.46722	2.482689

Source: E-Views 10.

<b>Determinant resid covariance (dof adj.)</b>	575.9237	
<b>Determinant resid covariance</b>	230.4030	
<b>Log likelihood</b>	-132.5579	
<b>Akaike information criterion</b>	15.84820	
<b>Schwarz criterion</b>	16.74293	
<b>Number of coefficients</b>	18	

Source: E-Views 10.

$$ECT_{t-1} = [1.000 (\text{Log.SVT})_{t-1} + 0.183\text{RANK}_{t-1} + 0.331\text{SCORE}_{t-1} - 44.281]$$

$$\Delta(\text{Log.SVT})_t = [-0.093ECT_{t-1} - 0.010(\text{Log.MS})_{t-1} - 0.002\text{RANK}_{t-1} + 0.075\text{SCORE}_{t-1} - 0.218]$$

A percentage shift in RANK is typically related with a 0.002 decrease in SVT in the short run, *ceteris paribus*. The prior period divergence from long-run equilibrium is rectified at a speed of 9.2% points. On average, *ceteris paribus*, a percentage change in SCORE causes a short-term rise in SVT of 0.075. The Appendix displays the results of the LM test for VEC residual serial correlation. The test results show that there is no serial association ( $p > .05$ .) The results of the normalcy test are also displayed in the appendix. The findings revealed that the variables' (joint) p-values were non-normal ( $p = 0.0000$ ), while the white test did not reveal the presence of heteroskedasticity ( $p = 0.8802$ ). The model is not heteroskedastic as a result.

## 6. Discussion of Findings

The hypothesis revealed no significant effect of fraud and corruption on the stock value traded in Nigeria's capital market. The evidence shows that fraud and corruption are often reflected in the financial statement of the entity which engages in it; and may invariably not reflect on the stock exchange. RANK and SCORE had positive non-significant coefficients and values for the variables. Shahbaz et al. (2013) in Pakistan discovered that an increase in corruption had a favourable effect on financial development using the ARDL bounds testing strategy, cointegration, and VECM granger causality method. This is somewhat contrary to the study by Udeh and Ugwu (2018) using empirical data from the Nigerian banking sector and OLS procedure found that fraud had a negative insignificant effect on profit. Abdullahi and Mansor (2015), using a sample of DMBs in Nigeria showed that three out of six banks involved in fraudulent practices performed poorly on the stock market. Another perspective was offered from the study by Adeyemo (2012) using a sample of DMBs in Nigeria showed that fraud-prone banks outperform their counterparts in terms of their revenues and profits. But underperformed on the stock exchange in comparison to their peers.

The study is in contrast with Cherif and Gazadar (2010) using empirical data from the MENA to find a negative relationship between corruption and stock market development. Using stock market data from 46 countries, Bolgorian (2011) found that nations with higher relative stock market development have lower levels of corruption,

and at a significance threshold of 5%, the power-law relationship between the two variables is significant. Abdel-Jalil (2014), found a significant inverse effect of corruption on the equity value.

## 7. Conclusion

The study concludes that fraud and corruption have no significant effect on the stock value traded in the capital market. Through the accumulation of savings and the attraction of portfolio investments, the capital market has continued to be one of the institutions that ensure the progress of every economy. By giving investors a place to invest, the distribution of resources is kept as optimal as possible. However, the degree to which it accomplishes its many responsibilities depends significantly on the extent of corruption and fraud in the sector but most likely not on stock value traded. In the study, empirical research was done to determine the impact of fraud risk and corruption intensity on capital market development in connection to stock value traded on the capital market. The indicators of fraud and corruption had no discernible impact on the market value of all stocks traded.

## 8. Recommendations

- 1) Stock value traded as one of the performance indicators in the Nigeria Capital Market should be expanded in such a way that investors both local and foreign will have the knowledge of a stock that is devoid of fraud and corruption and this will help them to appreciate the market and equally enhance their confidence.
- 2) There should be an increase in the stock value traded in the Nigeria capital market. This will help towards the expansion of the market and also attract foreign direct investment in the capital market.
- 3) The development of the Nigeria capital market is vital because this will help the Nigeria Capital Market to compete favourably in the international market and also boost the instruments traded in the market.

## Conflict of Interest Statement

The authors declare no conflicts of interest.

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