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BUSINESS FAILURE AND ACCOUNTABILITY CHALLENGES IN THE NIGERIAN CAPITAL MARKET: CAUSES, CONSEQUENCES AND THE WAY FORWARD

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Abstract

Business failure remains an important challenge to the development, stability and credibility of the Nigerian capital market. Although corporate failure may arise from legitimate commercial difficulties, persistent weaknesses in corporate governance, financial reporting, internal control, risk management, ethical conduct and regulatory compliance can increase the likelihood that corporate distress will become severe and difficult to reverse. The consequences extend beyond individual companies because shareholders may lose investments, employees may lose employment, creditors may experience losses, government revenue may decline and confidence in the capital market may deteriorate. This paper examines the relationship between business failure and accountability challenges in the Nigerian capital market. It adopts a conceptual review approach based on relevant corporate governance principles, regulatory documents, scholarly literature and institutional publications. The paper identifies weak corporate governance, ineffective boards, inadequate disclosure, financial reporting manipulation, poor internal controls, managerial opportunism, conflicts of interest, weak risk management, audit failures, regulatory compliance problems and ineffective enforcement as major accountability challenges. The paper argues that the existence of corporate governance regulations alone is insufficient unless directors, managers, auditors, regulators and other market participants are held responsible for compliance and misconduct. The Nigerian Securities and Exchange Commission has strengthened its governance framework, including requirements concerning board independence, disclosure and director tenure, while recent regulatory measures also seek to improve the resilience of regulated entities. However, gaps between regulatory requirements and actual implementation remain a concern. The paper recommends stronger enforcement, technology-driven regulatory surveillance, improved board independence, effective audit committees, enhanced financial disclosure, protection of whistle-blowers, greater accountability of directors and auditors, investor education and early-warning mechanisms for financially distressed companies. It concludes that sustainable development of Nigeria's capital market depends not merely on increasing market size and transactions but on building a culture of transparency, responsibility, ethical leadership and enforceable accountability.

Keywords: Business failure, accountability, corporate governance, capital market, financial reporting, Nigeria, investor protection, regulatory compliance.

1. INTRODUCTION

1.1 Background to the Study

A well-functioning capital market is an important component of economic development because it provides a mechanism through which savings can be mobilised and transferred to businesses and other productive activities. Through the capital market, companies can obtain long-term finance, investors can acquire ownership interests and governments and corporations can access funds for development. The effectiveness of this system, however, depends substantially on the confidence of investors and other stakeholders in the integrity of market institutions and participating companies. Business failure becomes particularly significant when it occurs within companies whose securities are publicly traded or when the failure affects capital-market operators and other institutions responsible for the mobilisation and management of investment funds. A failed or distressed company may create direct financial losses for shareholders and creditors while also generating wider economic and social consequences. Business failure should not automatically be interpreted as evidence of fraud or poor accountability. Companies operate in environments characterised by uncertainty, competition, technological change, inflation, exchange-rate movements, changing consumer preferences and other economic pressures. Consequently, some businesses may fail despite having reasonably sound governance systems. Nevertheless, where failure is associated with deliberate concealment of financial problems, misrepresentation, weak internal controls, abuse of corporate resources, conflicts of interest or inadequate disclosure, accountability becomes a major concern. Nigeria's capital market has a formal regulatory framework intended to promote transparency, investor protection and market integrity. The Securities and Exchange Commission (SEC) describes itself as the apex regulator of the Nigerian capital market and identifies transparency, accountability, integrity and investor protection among its core principles. The Nigerian Code of Corporate Governance 2018 and the SEC Corporate Governance Guidelines provide requirements relating to board structure, independent directors, audit committees, disclosure and ethical conduct. Public companies are required to comply with the relevant governance framework. Despite these regulatory structures, accountability challenges continue to attract attention. The SEC has, for example, identified and sanctioned cases involving false or misleading information, non-compliance with corporate-governance requirements, unauthorised transactions and other capital-market violations. These regulatory actions demonstrate that the problem is not simply the absence of rules; it also concerns compliance, monitoring, enforcement and organisational culture. Recent regulatory developments indicate continuing efforts to strengthen governance. In 2025, the SEC issued directives concerning the transmutation of independent non-executive directors into executive positions and introduced tenure limits for directors of significant public-interest capital-market operators. In 2026, the SEC also issued revised minimum-capital guidelines for regulated entities with objectives including investor protection, resilience, market integrity and financial stability. These developments suggest that accountability remains central to the sustainability of the Nigerian capital market.

1.2 Statement of the Problem

The Nigerian capital market has developed considerably, but the existence of regulatory institutions and corporate-governance requirements does not completely eliminate business failure or accountability problems. One major problem is the gap between corporate governance principles and their practical implementation.

Companies may have boards, audit committees, internal auditors and financial reporting systems on paper while the effectiveness of these structures may be weakened by management dominance, inadequate expertise, conflicts of interest or lack of independence. Another challenge concerns the quality and timeliness of financial information. Investors depend on corporate disclosures when deciding whether to buy, hold or sell securities. Where financial information is inaccurate, incomplete or deliberately misleading, investors may make decisions based on unreliable information. Weak accountability can also make it difficult to identify corporate distress at an early stage. When financial difficulties are concealed rather than transparently reported, corrective measures may be delayed. By the time the problem becomes visible to investors and regulators, the financial position of the company may have deteriorated considerably. Audit quality is another important concern. External auditors are expected to provide independent assurance concerning financial statements, while internal auditors and audit committees contribute to monitoring and control. Where these mechanisms fail to identify or challenge significant problems, accountability is weakened. Furthermore, enforcement must be sufficiently timely and effective to deter misconduct. The SEC has mechanisms for addressing violations, but the effectiveness of accountability ultimately depends on the certainty, speed and proportionality of enforcement. The central problem addressed by this paper is therefore the persistence of business failure alongside accountability weaknesses in a capital-market environment where formal governance and regulatory mechanisms already exist.

1.1 Objectives of the Study

The main objective of this paper is to examine business failure and accountability challenges in the Nigerian capital market. Specifically, the paper seeks to: examine the major causes of business failure in the Nigerian capital market; identify major accountability challenges affecting publicly quoted companies and capital-market participants; examine the relationship between corporate governance and business failure; assess the role of financial reporting and auditing in promoting accountability; examine the consequences of business failure for investors and the Nigerian economy; evaluate the role of regulators in preventing corporate failure and misconduct; and propose measures for improving accountability and reducing avoidable business failure.

1.2 Research Questions

The paper addresses the following questions: What are the major causes of business failure in the Nigerian capital market? What accountability challenges contribute to corporate vulnerability and failure? How does corporate governance influence business survival? How can financial reporting and auditing strengthen accountability? What are the consequences of business failure for investors and the Nigerian economy? How effective are regulatory and governance mechanisms in addressing accountability challenges? What measures can strengthen accountability and reduce avoidable business failure?

1.3 Significance of the Study

The paper is significant to several groups. Investors: It highlights governance and accountability issues that investors should consider when evaluating companies. Corporate directors and managers: It emphasises the importance of ethical leadership, effective risk management and transparent disclosure. Auditors: The paper reinforces the importance of independence, professional scepticism and effective communication of material risks. Regulators: It provides a framework for considering stronger surveillance, enforcement and early-warning mechanisms. Government: The study demonstrates how

corporate accountability contributes to financial-market stability and economic development. Researchers and students: The paper provides a basis for further empirical research into business failure, corporate governance and capital-market accountability in Nigeria.

2. CONCEPTUAL REVIEW

2.1 Concept of Business Failure

Business failure refers broadly to a situation in which a business is unable to achieve sustainable operations or meet its financial, legal or strategic obligations. Failure can occur gradually through declining profitability, liquidity problems, excessive debt, loss of market share or ineffective management. It can also become evident through insolvency, restructuring, liquidation or cessation of operations. Business failure should be distinguished from temporary financial difficulty. A company may experience a short-term decline in earnings and subsequently recover. Failure becomes more serious where the underlying problems undermine the company's ability to continue as a going concern. In the capital market, business failure can have consequences beyond the company itself. Because publicly traded companies involve numerous shareholders and other stakeholders, failure can affect investment wealth, employment, suppliers, creditors, tax revenues and confidence in the market.

2.2 Concept of Accountability

Accountability refers to the obligation of individuals or organisations to explain, justify and accept responsibility for decisions, actions and outcomes. Within a corporation, accountability operates vertically and horizontally. Directors are accountable to shareholders and other stakeholders within the relevant legal and governance framework. Management is accountable to the board. Financial and internal-control personnel are accountable through professional and organisational structures. External auditors are accountable for fulfilling their professional responsibilities. Effective accountability requires at least four elements: Responsibility – individuals must have clearly defined duties. Transparency – relevant information must be available. Answerability – decision-makers must explain their actions. Consequences – misconduct or negligence must attract appropriate sanctions. Accountability without consequences can become largely symbolic. Similarly, sanctions without transparent procedures can undermine confidence. Therefore, accountability requires a balanced system of disclosure, oversight, investigation, due process and enforcement.

2.3 Nigerian Capital Market

The Nigerian capital market provides mechanisms through which long-term funds are mobilised and invested in securities. It involves issuers, investors, stock exchanges, brokers, registrars, fund managers, investment advisers, custodians, auditors, regulators and other intermediaries. The Securities and Exchange Commission is the apex regulator of the Nigerian capital market. Its stated mandate includes promoting equitable, effective and open financial markets and protecting investors. The Nigerian Exchange Group's 2025 report indicates that the Nigerian equity market experienced substantial growth during 2025, with the NGX All-Share Index rising by 51.19% and equity-market capitalisation reaching approximately ₦99.38 trillion by year-end. Such growth makes accountability even more important. As market participation and valuations increase, weaknesses in governance and disclosure can have increasingly significant consequences for investors.

3. THEORETICAL FRAMEWORK

3.1 Agency Theory

Agency theory provides a useful foundation for understanding accountability challenges in corporations. Jensen and Meckling (1976) explain the potential conflict between principals and agents. In a corporation, shareholders are generally the principals, while managers act as agents responsible for managing corporate resources. The problem arises because managers may possess more information than shareholders and may have personal interests that differ from those of shareholders. This information asymmetry can create opportunities for managerial opportunism. In the Nigerian capital market, agency problems may arise through excessive managerial compensation, related-party transactions, misuse of company resources, manipulation of financial information or decisions that benefit management at the expense of shareholders. Corporate governance mechanisms such as independent directors, audit committees, external audits, shareholder oversight and disclosure requirements are therefore important mechanisms for reducing agency problems.

3.2 Stakeholder Theory

Stakeholder theory, associated particularly with Freeman (1984), extends corporate responsibility beyond shareholders. It argues that corporations affect and depend on several stakeholder groups, including employees, customers, suppliers, creditors, government and communities. From this perspective, business failure is not simply a matter of shareholders losing investment. Corporate failure may cause job losses, unpaid obligations, disruption of supply chains, loss of government revenue and broader economic consequences. Stakeholder theory therefore supports a broader conception of accountability in which corporate leaders consider the legitimate interests of affected stakeholders while pursuing sustainable corporate performance.

3.3 Stewardship Theory

Stewardship theory provides a contrasting perspective to the assumption that managers will necessarily pursue self-interest. It suggests that managers can act as responsible stewards whose objectives are aligned with the long-term interests of the organisation. This perspective highlights the importance of organisational culture, ethical leadership, commitment and trust. However, stewardship should not eliminate independent oversight. Even well-intentioned managers operate in complex environments where independent challenge, risk monitoring and accountability remain necessary.

4. LITERATURE REVIEW

4.1 Corporate Governance and Business Failure

Corporate governance concerns the structures and processes through which companies are directed and controlled. Strong governance helps define responsibilities, establish oversight and protect stakeholder interests. The Nigerian regulatory framework places considerable emphasis on corporate governance. The SEC Corporate Governance Guidelines include requirements concerning board composition, independent directors, nomination and governance functions, audit committees, ethical conduct and disclosure. Weak governance can contribute to business failure through several channels. First, ineffective boards may fail to challenge management decisions. Second, weak audit committees may not sufficiently examine financial reporting and internal controls. Third, conflicts of interest can influence corporate decisions. Fourth, excessive concentration of power can reduce independent oversight. The SEC's 2025 directive against the conversion of independent non-executive directors into

executive directors illustrates the regulatory concern about compromised board independence. The Commission stated that such transmutation could undermine objective judgement and directed that the practice be discontinued.

4.2 Financial Reporting and Accountability

Financial statements are central to capital-market accountability because they provide information to investors and other stakeholders. Quality financial reporting should be relevant, reliable, understandable, comparable and timely. When reporting quality deteriorates, information asymmetry increases and investors face greater uncertainty. The corporate-governance framework emphasises timely, accurate and continuous disclosure. The SEC's governance code also stresses that information communicated to shareholders and the public should provide a balanced and fair view of the company's affairs. Financial reporting problems can arise from deliberate manipulation or from weaknesses in accounting systems and professional judgement. Regardless of the cause, material reporting weaknesses can delay recognition of financial distress and make corporate failure more costly.

4.3 Auditing and Corporate Accountability

Auditors play an important role in the accountability chain because they provide independent assurance regarding financial statements. An effective audit should help identify material misstatements and communicate significant findings to those charged with governance. However, auditing cannot guarantee that every instance of fraud or future business failure will be detected. Auditor independence is particularly important. Long relationships between auditors and companies may create familiarity risks, while financial or other relationships may create conflicts of interest. The SEC stated in 2024 that public companies and capital-market operators should comply with applicable auditor-rotation requirements, including the Financial Reporting Council's provisions relating to joint audits. Audit quality should therefore be complemented by strong internal audit functions, effective audit committees and active boards.

5. MAJOR CAUSES OF BUSINESS FAILURE IN THE NIGERIAN CAPITAL MARKET

5.1 Poor Corporate Governance

Poor governance remains one of the major potential contributors to corporate failure. Where directors lack independence, expertise or commitment, they may be unable to effectively supervise management. Governance weaknesses can result in inappropriate investments, excessive borrowing, poor strategic decisions and inadequate monitoring.

5.2 Weak Internal Control

Internal controls provide mechanisms for safeguarding assets, preventing errors, detecting irregularities and ensuring compliance. Weak controls can permit fraud, unauthorised transactions, asset diversion and inaccurate financial reporting. Over time, these problems can materially weaken a company's financial position.

5.3 Financial Mismanagement

Poor financial management may involve excessive borrowing, inadequate working capital, uncontrolled expenditure, poor investment decisions or ineffective cash-flow management. A company may report accounting profits but still experience liquidity problems if cash flows are poorly managed.

5.4 Fraud and Corruption

Fraudulent activities can directly reduce corporate resources. They can also damage reputation and create legal and regulatory consequences. The SEC's enforcement decisions demonstrate that violations in Nigeria's capital market can involve false or misleading information, unauthorised transactions, non-compliance with corporate governance and other regulatory breaches.

5.5 Poor Risk Management

Companies face financial, operational, market, technological, regulatory and reputational risks. Where risk identification and monitoring are weak, management may fail to respond appropriately to emerging threats. Strong risk management requires clear risk appetite, effective reporting and regular board oversight.

5.6 Information Asymmetry

Managers generally have greater access to information about corporate performance than external investors. Where this information advantage is abused, investors may be unable to assess the true condition of the company. Timely and transparent disclosure therefore remains a fundamental accountability mechanism.

5.7 Economic and Macroeconomic Pressures

Business failure cannot always be attributed to management failure. Inflation, foreign-exchange volatility, interest rates, reduced purchasing power, energy costs, policy changes and economic recessions can significantly affect corporate performance. The appropriate response is therefore not to treat every failed company as evidence of misconduct, but to distinguish legitimate business risk from avoidable governance and accountability failures.

6. ACCOUNTABILITY CHALLENGES IN THE NIGERIAN CAPITAL MARKET

6.1 Board Accountability

Directors are responsible for providing strategic oversight and ensuring that management operates within appropriate controls. Accountability is weakened where boards are dominated by individuals with close relationships to management or controlling shareholders. The SEC's recent emphasis on director tenure and independence demonstrates the importance attached to this issue.

6.2 Management Accountability

Management controls many day-to-day corporate decisions. Poor accountability can arise when managers fail to disclose problems, misuse corporate resources or make decisions without adequate risk assessment. Clear performance measures, internal controls, board oversight and ethical codes are necessary to strengthen management accountability.

6.3 Auditor Accountability

Auditors must maintain independence and professional competence. They should exercise professional scepticism and communicate material matters appropriately. Where auditors fail to identify or report significant problems, investor confidence can suffer.

6.4 Regulatory Accountability

Regulators must also be accountable. Regulatory institutions require adequate resources, competent personnel, effective surveillance systems and transparent enforcement processes. The regulator's credibility depends partly on the consistency and timeliness with which rules are applied.

6.5 Shareholder Accountability

Shareholders are not merely passive recipients of dividends. They have responsibilities to participate in corporate governance, attend meetings, review reports and question management where necessary. Institutional investors in particular can contribute to improved governance through active ownership.

7. CONSEQUENCES OF BUSINESS FAILURE

7.1 Loss of Investment

The immediate effect of corporate failure on shareholders may be a decline or complete loss in the value of their investment. This can discourage future investment participation, particularly where investors perceive that governance failures are common or poorly sanctioned.

7.2 Loss of Employment

Business failure can lead to job losses and reduced household income. The consequences may extend to communities that depend heavily on large employers.

7.3 Loss of Government Revenue

Failed businesses may contribute less in taxes and other government revenues. Government may also incur costs associated with addressing the consequences of major corporate distress.

7.4 Reduction in Investor Confidence

Investor confidence is essential to a functioning capital market. Repeated governance failures can cause investors to perceive the market as excessively risky.

7.5 Damage to the Capital Market

Where corporate failures are associated with inadequate disclosure or fraud, confidence in listed companies, auditors, intermediaries and regulators may decline. This can undermine the capital market's ability to mobilise long-term finance.

8. REGULATORY FRAMEWORK AND RECENT DEVELOPMENTS

Nigeria has developed a number of mechanisms aimed at strengthening corporate governance and accountability. The Nigerian Code of Corporate Governance 2018 applies across sectors, while the SEC has developed additional guidelines reflecting the peculiarities of public companies and the capital market. Public companies are required to comply with the applicable requirements. The SEC's governance framework addresses areas including board structure, independent directors, audit committees, disclosure and ethical conduct. Non-compliance can attract monetary penalties and other sanctions. The SEC's 2025 guidance concerning director appointments and tenure further demonstrates the continuing development of governance regulation. The SEC also issued revised minimum-capital guidelines in March 2026. The stated objectives include strengthening investor protection, resilience, market integrity and financial stability among regulated entities. These measures are important, but regulation must be accompanied by effective implementation. A strong regulatory framework has limited impact when compliance becomes a box-ticking exercise.

9. DISCUSSION

The evidence reviewed indicates that business failure and accountability are closely related but should not be treated as identical

concepts. A company can fail because of external economic circumstances even where its governance is sound. Conversely, a company may appear profitable for a period while serious accountability weaknesses exist beneath the surface. The most important issue is therefore the ability of corporate governance and regulatory systems to identify problems early, disclose them accurately and impose appropriate corrective measures. Agency theory helps explain why accountability mechanisms are necessary. Managers possess information and decision-making authority that shareholders may not possess. Without effective oversight, this asymmetry can be exploited. Stakeholder theory broadens the analysis by demonstrating that corporate failure affects groups beyond investors. Employees, suppliers, customers, creditors and communities can suffer significant consequences. The Nigerian regulatory framework provides many of the formal mechanisms needed for accountability. However, implementation remains critical. The existence of rules regarding board independence, financial reporting, auditing and disclosure does not automatically produce ethical behaviour. The challenge is therefore to transform accountability from a compliance requirement into an organisational culture. Technology offers an additional opportunity. Regulators can use data analytics, artificial intelligence and automated surveillance to identify unusual trading patterns, delayed reporting, unexplained financial movements and other indicators of possible misconduct. Companies can similarly use digital internal-control systems to improve transaction monitoring, risk management and reporting.

10. THE WAY FORWARD

10.1 Strengthen Regulatory Enforcement

Regulatory sanctions should be timely, proportionate and sufficiently certain to deter misconduct. Enforcement should focus not only on corporate entities but, where legally established, on individuals whose decisions or actions caused violations.

10.2 Improve Board Independence

Companies should ensure that independent directors are genuinely independent and capable of challenging management. Board appointments should emphasise competence, integrity, relevant experience and diversity of expertise.

10.3 Strengthen Audit Committees

Audit committees should possess sufficient financial and accounting expertise to question management and auditors. They should regularly review internal controls, financial reporting, risk management and audit findings.

10.4 Improve Financial Disclosure

Companies should provide timely, accurate and understandable information. Material financial difficulties should not be concealed until the company reaches an advanced stage of distress.

10.5 Strengthen Internal Audit

Internal audit departments should have sufficient independence, resources and access to the board or audit committee. Their role should include risk-based examination of financial, operational and compliance risks.

10.6 Protect Whistle-Blowers

Employees and other stakeholders who report suspected wrongdoing should have reasonable protection against retaliation. Whistle-blowing systems should permit confidential reporting and independent investigation.

10.7 Use Technology for Market Surveillance

The SEC and other relevant institutions should expand technology-driven surveillance. Artificial intelligence, machine learning, data analytics and automated reporting systems can assist in detecting unusual transactions, suspicious disclosures and emerging corporate distress.

10.8 Improve Investor Education

Investors should be educated about financial statements, corporate governance, investment risks and warning signs of corporate distress. Better-informed investors can contribute to market discipline.

10.9 Strengthen Auditor Independence

Audit appointments and auditor rotation should be managed in ways that reduce conflicts of interest and preserve independence. Auditors should communicate significant risks clearly to audit committees and boards.

10.10 Establish Stronger Early-Warning Mechanisms

Companies and regulators should develop indicators for identifying potential corporate distress. Such indicators may include: persistent negative cash flows; excessive leverage; repeated losses; declining liquidity; delayed financial statements; qualified audit opinions; significant related-party transactions; unexplained changes in accounting policies; and repeated breaches of regulatory requirements. Early intervention can reduce the cost of corporate failure.

11. CONCLUSION

Business failure represents a significant challenge to the sustainability and credibility of the Nigerian capital market, particularly where failure is associated with poor governance, inadequate disclosure, weak internal controls, financial mismanagement, fraud or ineffective oversight. The analysis demonstrates that accountability is a central mechanism for preventing avoidable corporate failure. Directors, managers, auditors, regulators, shareholders and other stakeholders each have roles to play. Nigeria has an established regulatory framework that provides important governance requirements. The SEC's framework emphasises transparency, accountability, ethical conduct, board independence and disclosure, while recent regulatory initiatives have continued to strengthen governance and the resilience of regulated entities. However, the existence of regulation is not sufficient. The real challenge is implementation. Accountability becomes meaningful only when responsible individuals and institutions are required to explain decisions, disclose relevant information and face appropriate consequences where laws or professional obligations are violated. The growth of Nigeria's capital market makes this issue even more important. Strong market performance should be accompanied by equally strong governance, because rapid expansion without adequate accountability can increase systemic and investor risks. The paper therefore concludes that reducing avoidable business failure in Nigeria requires a combination of strong corporate governance, high-quality financial reporting, independent auditing, effective risk management, technology-driven regulation, investor education and credible enforcement. A sustainable Nigerian capital market should not be measured only by market capitalisation, trading volume or index performance. It should also be measured by the quality of corporate governance, investor protection, transparency, accountability and public confidence.

12. RECOMMENDATIONS

Based on the discussion, the paper recommends that the SEC should strengthen continuous corporate-governance monitoring rather than relying primarily on periodic compliance reporting. Public companies should strengthen board independence and ensure that independent directors possess adequate professional competence and genuine independence. Audit committees should be strengthened through appropriate financial expertise, independence and direct access to internal and external auditors. Corporate financial reporting should be more timely and transparent, particularly where material financial distress exists. Regulatory enforcement should be faster and more consistent, subject to due process and applicable law. Directors and senior managers should face appropriate personal accountability where investigations establish deliberate misconduct, gross negligence or regulatory violations. Companies should establish stronger internal-control and risk-management systems supported by appropriate technology. Regulators should increase the use of data analytics and artificial intelligence to identify abnormal market and corporate activities. Whistle-blower protection should be strengthened to encourage early reporting of corporate misconduct. Investor education should be expanded to enable shareholders to evaluate corporate governance and financial risks more effectively. Auditor independence should be protected through strict compliance with applicable audit-rotation and professional requirements. Early-warning mechanisms should be developed to identify companies showing signs of financial distress before failure becomes irreversible.

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