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Good corporate governance in Nigeria: Antecedents, propositions and peculiarities

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GOOD CORPORATE GOVERNANCE IN NIGERIA: ANTECEDENTS, PROPOSITIONS AND PECULIARITIES[1]

ABSTRACT

Relying on an alternative theoretical framework (i.e. institutional theory), rather than the dominant agency theory, this paper examines the connections between corporate governance mechanisms and good practices, as informed by an empirical and contextual analysis. On the basis of research methods triangulation, this study presents nine specific antecedents of good corporate governance in weak institutional settings (Nigeria). The study proposes how each of these antecedents must be understood, articulated and harnessed, on the basis of relevant institutional peculiarities, in order to address contextual governance challenges. This study adds to the institutional theorising of good corporate governance, by paying attention to the context (African), efficiency (instrumentality) and legitimacy (symbolic) in explaining the firm-level drivers of good governance practices in an international business environment.

Keywords: Good Corporate Governance; Agency Theory; Institutional Theory; Nigeria; Africa; International Business; International Corporate Governance

1.1 INTRODUCTION

The agency theory was seminal in furthering modern corporate governance discussions. However, corporate governance in an international business context is notably influenced by institutional factors (Williamson, 1985; Powell & DiMaggio,

[1] This article majorly constitutes a part in Adegbite (2010a). An earlier version of this paper has been at the *Academy of Management Annual Meeting*, Boston, Massachusetts, USA, August 3rd -7th 2012. The author is grateful for the comments received at the conference. This research study also received funding from Durham University Business School, for which the author is grateful.

1991; Peng, Sun, Pinkham & Chen, 2009; Tolbert & Zucker, 1983; Creed, Dejordy, & Lok, 2011; Suddaby & Greenwood, 2005). Orientations towards the antecedents of good corporate governance across varying national economies should therefore inculcate a broader perspective of institutional contingencies (Aoki, 2001; Aguilera & Cuervo-Cazurra, 2004; Aguilera, Rupp, Williams & Granapathi, 2007). Institutionalism based corporate governance literature progresses discussions much further from the boards of directors, to the legal structures and financial markets, and to the wider cultural understandings about the role of the corporation in a modern society (Davies, 2005). This has led to a maturing recognition of the institutional effects on corporate governance in developed countries (Aguilera & Jackson, 2003; Aguilera, 2005; Lubatkin, Lane, Collin & Very, 2007). In developing countries, usually marred by weak institutions, there is a comparative lacuna in literature even though there are prospects of a promising debate.

In this debate, a question that remains unanswered is *how firms can, by themselves, promote good corporate governance in weak institutional settings?* This is an important question for both local and international business firms. In providing insights to this question, this research inquiry employs a case study of Nigeria in order to investigate how good corporate governance can be promoted at the firm level in a weak (corrupt) institutional environment. The Nigerian weak institutional context makes corporate law enforcement and self-regulatory initiatives remain in idealism (Yakasai, 2001; Ahunwan, 2002). Also, relevant market pressures such as the market for corporate takeovers and shareholder activism are either absent, non-vibrant or corrupt (Adegbite, Amaeshi & Amao, 2012). This study thus accounts for the institutionally peculiar challenges and deficits inherent in corporate Nigeria and suggests effective ways to address them at the firm level. This is done in the light of the applicability of main-stream theories, and the danger of ‘taken for granted assumptions’. The study approaches the phenomenon of good corporate governance from a less normative stance and presents how the agency and institutional perspectives both obtain in the Nigerian environment. As a result, this study highlights areas of similarities of the Nigerian environment in the context of the extant literature, as well as accentuates important institutional contingencies and how these shape corporate governance.

This forges ahead an institutional theorising of good corporate governance, by paying attention to the context, efficiency/instrumentality and legitimacy of good governance mechanisms in an international business environment. Discussions in this paper also help to contribute to the comparative institutionalist perspective of corporate governance with insights from a less discussed research site – Nigeria (Jackson & Deeg, 2006; Bohle & Greskovits, 2006; Taylor & Nolke, 2008; Adegbite, Amaeshi, & Nakajima, 2013). Empirically, this further adds to the budding literature on corporate governance in African countries (Briston, 1978; Abor, 2007; Kyereboah-Coleman, 2007; Mangena & Chamisa, 2008; Sanda, Mikailu & Garba, 2010; Bokpin, 2011; Mahadeo, Soobaroyen & Oogarah-Hanuman, 2012; Mangena, Tauringana & Chamisa, 2012; Ntim, Opong & Danbolt, 2012; Ntim & Soobaroyen, 2013). Also, the study highlights the benefits of a qualitative design and a reliance on institutional theory in examining the antecedents of good corporate governance in weak institutional contexts.

Nigeria, Africa's largest economy (The Economist, 2014), provides a useful empirical context due to the distinctiveness of its corporate governance system from the frequently researched Anglo-American systems. For example, the development of corporate governance in Nigeria is characterised by founding families who frequently retain control on boards and on the management. Most times, the family is also responsible for corporate strategic direction and performance outcomes of public listed companies (Husted & Allen, 2006; Lien, Piesse, Strange & Filatotchev, 2005; Adegbite et al., 2013). Also, corporate Nigeria presents a moderate representativeness of corporations in sub-Saharan Africa. However, whereas the cavernous lacuna in literature on corporate governance in Nigeria is receiving increasing scholarly attention (Okike, 2007; Adegbite & Nakajima, 2011a), authors have predominantly focussed on the environmental determinants of corporate governance in the country. This paper extends the macro-level descriptions of the budding empirical literature by presenting firm-level drivers of good corporate governance and offering suggestions on how African nations can structure their business corporations to prevent corporate corruption[i]. The rest of this study is organised as follows. The author first presents a review of relevant literature which guided the development of the research question and thereafter the methodology adopted in this study. Next, the findings are discussed. Lastly, contributions are summarised and some implications for theory, practice and future research are highlighted.

1.2 INTERNATIONAL BUSINESS (CORPORATE) GOVERNANCE: THEORETICAL DEVELOPMENT AND RESEARCH FOCUS

Dominant perspectives on the drivers of good corporate governance across the world have been situated within the agency theoretical framework. An agency relationship is related to or resulting from a contract under which shareholders (principals) engage managers (agents) to perform some service on the former's behalf, involving the delegation of decision making authority to the latter (Jensen & Meckling, 1976). Agency theory provides a framework for examining the relationship and contentions between shareholders and management (Fama, 1976, 1980). This is due to the self-behavioural tendencies of managers, given the separation of firms' ownership from control (Berle & Means, 1932; Fama & Jensen, 1983). The principal-agent framework thus suggests how shareholders can ensure that managers protect and maximize their wealth by putting in place drivers of good corporate governance (Shleifer & Vishny, 1997). These drivers primarily seek to align the interests of managers with shareholders (Filatotchev, Jackson, Gospel & Allcock, 2007; Miller, 2010; Wahab & Holland, 2012; Lopes & Walker, 2012). Good corporate governance is therefore a reflection of a company's values, culture and policies concerning the maximization of shareholder value in a legal, ethical and sustainable way (Murthy, 2006; Demirag, Sudarsanam & Wright, 2000).

Agency theory, premised upon developed Anglo-Saxon markets, is however limited in shaping academic and organisational approaches to corporate governance in an international business context (Learmount, 2003; Bradley, Schipani, Sundaram & Walsh, 2000). For example, there is empirical evidence that normative drivers of good corporate governance cannot be transplanted across countries without significant misalignment (Hove, 1986; Chang, 1992; Adegbite & Nakajima, 2011a; Demirag et al., 2000). The agency framework does not encapsulate the multi-dimensional complexity and character of the corporate governance phenomenon in an international context (Filatotchev & Boyd, 2009; Van Eves, Gabrielsson & Morton, 2009; Adegbite

& Nakajima, 2011a; Gomez-Meijia & Wiseman, 2012). Furthermore, the agency conflict can be dealt with in different ways in different countries. For example, it is addressed through dispersed ownership, markets for corporate control and contractual incentives in the UK and USA, and through weaker managerial incentives and greater supply of debt in continental Europe and Japan (Aguilera & Jackson, 2003; Forker & Green, 2000; Miller, 2010). The agency theory is therefore unable to fully account for cross-country differences in its operationalization. This is particularly relevant to comparative discourse on national systems of corporate governance, and for the corporate governance of international businesses.

The agency theory also suffers from another important limitation in international business governance research. The theory presupposes the operation of an efficient and competitive market environment, where corporate ownership is dispersed, information asymmetries are minimal and competitive pressures are maximal (Udayasankar, Das & Krishnamurti, 2005). In many developing market economies, however, these agency theory presumptions are predominantly invalid. For example the aftermath of Nigeria's independence from Britain in 1960 led to an indigenisation programme which resulted in majority ownership (by government, individuals and families) in corporate Nigeria (Nmehielle & Nwauche, 2004). As a result, there is no single best institutional arrangement for organizing economic systems and corporate governance (Hollingsworth & Boyer, 1997). International business (corporate) governance scholarship is thus enriched by the appreciation of local institutionalisms which shape the configuration and dynamics of corporate governance in varieties of capitalism.

Institutional theory offers a helpful complementary lens to the agency theory. Institutional theory accounts for the deeper and resilient aspects of socio-cultural structure, and considers the processes by which organisational schemas, rules, norms, and routines are established as guidelines for corporate behaviour (Scott 1987, 2004). Local organisational structures arise as reflections of rationalised institutional rules which function as myths that organisations incorporate (Meyer & Rowan, 1977). Recent studies have thus begun to document the institutional effects on different areas of international corporate governance studies. These studies include the institutional effects on family businesses (Leaptrott, 2005); on corporate governance and director accountability (Aguilera, 2005); and on corporate social responsibility (Campbell, 2007). On the country level, Liu (2006) documented the effects of China's unique institutional setting in the pre-determination of its corporate governance model. Boehmer (1999) did a similar analysis with Germany. The institutionalist perspective provides insights into the complexity of corporate governance structures and practices with regards to their peculiarities across sectors, nations and regions. These peculiarities become even more important when comparison is drawn between strong and weak institutional contexts (such as Nigeria).

Recent and on-going developments in Nigeria continue to focus scholarly, practice and policy attention on the corporate governance debate.[ii] In addition, the peculiarities of Nigeria's turbulent history of public and corporate corruption provide a rich outlook to show how good corporate governance can be promoted amidst weak institutional parameters. Corruption is a measure of the strength of an institutional environment and corporate governance. For example, the World Bank Anti-Corruption and Governance Index is based on six broad measures of good governance including: (1) voice and accountability, (2) political stability, (3) government effectiveness, (4) regulatory quality, (5) rule of law and (6) control of corruption (Kaufmann, Kraay & Mastruzzi, 2008). Based on all of these criteria, Nigeria is regarded as a very weak and corrupt institutional context (Kaufmann et al., 2008; Adegbite et. al., 2012). Furthermore, at number 144 out of 177 countries on the Transparency International (TI) 2013 corruption index, Nigeria remains one of the most corrupt countries in the world, despite the country's anti-corruption efforts in the past decade. Also the World Bank's Report on the Observance of Standards and Codes (ROSC) in the corporate governance practices in Nigeria highlights significant institutional weaknesses in terms of regulation, compliance, and enforcement capacities (ROSC, 2004). The numerous corporate governance scandals in the past decade and the limited success of regulatory reforms and prosecution of offenders further help to underscore the usefulness of a Nigerian case study for this research inquiry (Okike, 2007; Adegbite et. al., 2012; 2013; Amao and Amaeshi, 2008; Yakasai, 2001). This research study is thus guided by the question: *How can firms promote good corporate governance (and prevent corporate corruption) in weak institutional settings? In other words, what are the key antecedents of good corporate governance at the firm level in developing countries?* The findings of this inquiry will help augment the literature on corporate governance in developing countries, which suffers from a comparative dearth, particularly in relation to the institutional (contextual) drivers of good corporate governance.

1.3 METHODOLOGY

The study adopted a mix of the following qualitative research methods: in-depth interviews, focus group discussions, direct observations and case studies.[iii] This helped in the development of knowledge, in the exploration of experience and context, in understanding multiple perspectives, and in understanding the complexity in which corporate governance exists in Nigeria (Morse, Swanson & Kuzel, 2001; LeCompte & Schensul, 1999; Creswell, 1998; Yin, 1994). This further helped to provide a flexible relationship with the respondents, encouraging a great depth and richness of context (Aaker, Kumar & Day, 2001). It thus offered a better understanding of the subject matter as they relied on understanding processes, behaviours, and conditions (Flick, 1992; Wang, 2006; Van Maanen, 1979). The mix-method approach allowed access to corporate governance specialists, across different professional/disciplinary backgrounds and institutional capacities (see Tables 1 and 2). Given their positions, this research benefited from their insider views of the drivers of good corporate governance in sub-Saharan Africa (see also Filatotchev et al., 2007; Aguilera, Filatotchev, Gospel & Jackson, 2008; Hendry, Sanderson, Barker & Roberts, 2007; Bogdan & Taylor, 1975; Das, 1983; Van Maanen, 1998; Patton, 1980). This further brought high degrees of objectivity and reliability into the process of identifying the drivers. Also, this enriched data, prevented similitude, and served as an experimental control mechanism upon which different views were assessed and compared.

From the outset, 112 key potential respondents, were identified and contacted via emails, telephone calls, and in person, outlining the research agenda. Snow-balling technique and third party informants who have useful industry links also proved helpful to gain access to these high-calibre respondents (see also, Amaeshi, Adi, Ogbechie & Amao, 2006) until data saturation was reached.[iv] Part of the data collection process included a two month field work in Nigeria between May and July, 2008 and another one month data collection in September 2012. The latter data collection efforts in 2012 helped to validate, update, as well as gather further evidence on the themes that emerged from the data from 2008. Particularly, the data respondents in 2008 were re-consulted in 2012 and the views they expressed were consistent and helpful in addressing and re-examining the research inquiry.

INSERT TABLES 1 AND 2 ABOUT HERE

An interview/focus group guide was sent to potential respondents in order to facilitate their preparation (Lynn, Turner & Smith, 1998). This also enabled respondents to broadly discuss issues which led to in-depth comments, beyond the ‘confines’ of the questions asked, thus constituting a rich data on the research topic. The guide (see appendix) are in line with previous studies (Filatotchev et al., 2007; Hendry et al., 2007; Aguilera et al., 2008), and were pre-tested to ensure their validity, reliability and contextual relevance. The participants were promised confidentiality to encourage uninhibited responses. Therefore, numerical codes (from D1 to D42) have been used to anonymise their identities. This is also the case with responses from focus group respondents. The use of numerical codes further indicates the spread of responses across the entire respondents. Wide-ranging questions were asked in order to gain a set of comparable responses drawn from real life business and personal experiences free from fear or bias (Sewell, 2008). The average duration of interviews was 60 minutes. In total, there were 26 interviews, which were face-to-face and tape-recorded.

Furthermore, two focus group sessions were held in Lagos – the financial capital of Nigeria; one had 9 members and the other had 11, totalling 20 respondents. In order to increase the efficiency of the focus groups and to allow members to expressly discuss the topics of interest without actual or perceived intimidation, the size of the groups were kept small (see Ewings, Powell, Barton & Pritchard, 2008). Certain degrees of overall representation were achieved with participants drawn from different backgrounds and functions, so as to harness a mix of different perspectives. Discussions were tape recorded and each took an average of 90 minutes. The total number of respondents for the interviews and focus group discussions is 42[v], representing a response rate of 37.5% of the original 112 key contacts. Direct observations of annual general meetings and case study analysis further facilitated the triangulation of evidence across different sources.[vi]

The overall methodology helped to understand, contextualise and rigorously verify the impediments as well as the antecedents of good corporate governance in Nigeria and thus formed the basis of the subsequent descriptions and discussions. There was a very high degree of agreement amongst respondents' comments, which were also in alignment with the observations made and cases studied. The data collected were largely representative due to the multi-stakeholder participation and the lack of commonality among the respondents who refused/or could not be interviewed or participate in focus group discussions.[vii] In order to minimise respondents' position bias (Miller, Cardinal, & Glick, 1997), respondents who satisfied the purposive sampling requirement of competence were those selected (Hughes & Preski, 1997).

The data collection techniques employed generated over 1,000 pages of transcribed texts which were qualitatively analysed in two phases. The first phase was a pilot, which constituted some familiarisation and random sense making of the data. This preliminary interpretation of the data suggested some patterns around the drivers of good corporate governance in Nigeria as it relates to her institutional context. A coding scheme was then developed around these emergent themes. The data were analysed with Nvivo 8 – qualitative data analysis software– and the inter-coder reliability was well over 90%. Extracts from the data (see Table 3 for the demographic information of related respondents), presented in italics, have been employed to further indicate the link between the findings and discussions.

INSERT TABLE 3 ABOUT HERE

1.4 FINDINGS AND DISCUSSIONS

1.4.1 The Corporate Governance Challenge in Nigeria

Following independence, Nigeria's economic liberation strategy gave rise to four main groupings of corporations in terms of their ownership structure (see Table 4). With a possible exception of Group B companies, the findings of this research, in the main, suggest that the state of corporate governance in Nigeria is notably unimpressive across all groups, despite some achievements in the past decade. The history of corporate enterprising and governance in the country has been tainted with several high-profile corporate failures and corruption in various sectors of the economy.[viii] Findings suggest that corruption is rife in the Nigerian private sector (Punch, 2010; Yakasai, 2001; Adegbite et. al., 2012).

INSERT TABLE 4 ABOUT HERE

Four major recurring themes, at the firm level, emerged from the research data with regards to the rationale behind the corruption and the poor state of corporate governance in Nigeria. They are as follows:

1. Weak board governance: encompasses the lack of sufficient capability, independence and heterogeneity in board composition, bogus board reputation and non-robust board evaluation.
2. Weak executive monitoring and accountability: due to corrupt shareholder activism by shareholders' associations and the lack of vibrant institutional shareholders.
3. Corporate (private) corruption: between the board and managers, mostly at the expense of uninformed minority shareholders and other stakeholders. This allows for an opaque executive compensation structure which reinforces corporate corruption.
4. Public - private corruption: involves collaboration of regulators with corporations to circumvent regulatory provisions and perpetrate corruption.

Taking into account Nigeria's institutional climate on the one hand and grounding in prior literature on the other hand, the following discussions examine nine firm-level antecedents of good corporate governance in Nigeria as generated by the research data. Respondents were generally unanimous with regards to the vital importance of these antecedents although there were subtle differing perspectives regarding how to promote some of them. Discussions take a less normative approach towards these drivers, which is prevalent in the extant literature, but accounts for the peculiarity and specificity of the sub-Saharan African context. As a result, discussions herein suggest alternative approaches and modifications in enacting these drivers to collectively promote good corporate governance in an international business context.

1.4.2 Good Corporate Governance in Nigeria: Antecedents and Propositions

1.4.2.1 Board independence

Board independence connotes a willingness to bring a high degree of rigour, scrutiny and objectivity to the evaluation of a company's management (Langevoort, 2001). For instance, consolidating the roles of the CEO and that of the chairman into one position amounts to undue concentration of power and influence into one individual, which jeopardises board independence (Daily & Dalton, 2003; Filatotchev et al., 2007). Whilst there is inconclusive evidence to correlate board independence with firm performance in the finance literature (see Bhagat and Black 2002), an interviewee D41 noted that *"…. We were able to improve our corporate governance when we separated the two roles."* In another interview, D3 notes as follows; *"I stepped down as chairman voluntarily to improve our governance structure and processes."* Also interviewee D25 highlights that: *"a board needs the benefits of "two wise men" to administer the responsibilities of the CEO and Chairman."* This is in agreement with the management and international business strategy literature which suggests that the absence of CEO/Chairman duality promotes efficiency and better firm performance (Filatotchev et al., 2007; Black & Kim, 2007). However, this study found out that many CEOs, upon retirement, become the chairmen and continue to retain strong influences on their successors. As a focus group respondent (D7) notes, *"we still need real board independence."*An interviewee (D39) also highlights thus: *"I became the chairman after I retired as the CEO"*. This situation is common especially as many Nigerian CEOs are majority (or strong minority) owners of their company's shares which enables easy transmutation of CEOs into the Chairmen of companies (Ahunwan, 2003). This study proposes that a *dispersal of share ownership is a precursor to achieving board independence in Nigeria.*

Furthermore, there are regulatory provisions which encourage all board committees (especially board audit committees) to be composed of independent directors, including members of shareholders' associations. However this research study found out that even as *members of shareholders' associations may be appointed to the board and board committees, executive managers corrupt their independence* (D7). This study proposes that *board independence in Nigeria will have to extend beyond the legal framework and the prescriptions of corporate governance regulation, but must address the executive management capture of the regulatory arrangement.* Also, findings of this study show that the traditional role and overbearing influence of family ownership on the appointment of board members limits their oversight function and independence (see also Klein, Shapiro & Young, 2004; Macavoy & Millstein, 2003). Although reliance on certain independence standards can lead to practicable structural reforms and promote effective corporate governance (HLR, 2006), the author proposes a *healthy combination of directors who are and who are not linked to the controlling shareholder and management* (D41).

1.4.2.2 Board heterogeneity

Board heterogeneity is important (Coffey & Jia, 1998; Cox & Blake, 1991; Robinson & Dechant, 1997). However, board heterogeneity, in terms of age, human capital and ethnic tribe are important diversity parameters that must be contextually considered in order to promote board cohesiveness and effectiveness in Nigeria. The requirements for directorship appointments as prescribed by the SEC Code and the CBN Code are that individuals of high calibre must occupy board positions. However, a respondent D29 notes that *"there are not that many highly experienced executives, such that you have to appoint the same people on different* *boards.*" This study proposes that *imposing a limit on multiple directorships may inhibit board effectiveness and efficient governance.* This view was widely held by other respondents.

Furthermore, boards of Nigerian firms, especially those that operate nationally, have to reflect the diverse cultural ethnicity of the country in their composition. Although, there is no regulatory requirement for this, the rationale behind it extends to the essence and informal resolutions of the post-colonial Nigerian republic[ix]. As a result, there is a strong societal expectation for ethnical spread in the governance of corporations. "*Boards with sufficient tribal diversity are considered to have better governance systems and will further have a sense of belonging and identity throughout the country" (D10).* This is also important to customer loyalty, brand reputation and eventual firm performance. Hence the author proposes that *tribal diversity should be reflected in board composition in Nigeria*. The reflection of tribal identities in boards could itself be informed by consideration of religious differences along tribal lines in Nigeria.[x]

Lastly, there were inconclusive results from this research with regards to the role played by age heterogeneity in board composition. According to interviewee (D3) younger directors "*ask more searching governance related questions*". Some respondents however noted that experience of the Nigerian complex business environment, spanning over many years of executive life, is important in the board of large companies. A proposition which thus emerges for Nigeria is that of *a healthy combination of both young and older directors* (see Fox, 2007). Also, an interesting line of future research inquiry would be to examine the relationship dynamics between young and old directors. This would be insightful given that the Nigerian society is culturally characterized by a large power distance and strong uncertainty avoidance (The Hofstede Centre, 2013), with board appointments usually based on age and seniority.

1.4.2.3 Board (directors') reputation

This study proposes that *reputable board members bring credibility to the company.* A respondent (D9) noted that *"the problem we have … in the corporate sector is that of leadership crisis. We simply have corrupt leaders at the helm of affairs. There are only few reputable people"*. According to respondent (D20); *"directors with high repute are more objective"*. *"There is a very strong link between the quality of our governance and the reputation of our board members"* (D4). However, there is a limited market for this group of highly experienced and reputable directors. This highlights the need to increase the number of such individuals, which relates to raising aspirations towards professionalism and good behaviour (Chun-An & Chuan-Ying, 2008).

1.4.2.4 Board evaluation

The regulatory framework (the CBN and SEC codes) notes that board performance appraisal should be done by an outside consultant. However, this practice has resulted in a box-ticking exercise, where the performance of all board members is rated optimum. The results of this study are consistent with Carey (1993) as well as Bassett (1998) and posit that self-evaluation of directors is the preferred alternative.While self (internal) evaluation and external evaluation are options which have their benefits and limitations, this study proposes that "*one thing not to do because of the Nigerian cultural peculiarity is to conduct a board appraisal which resembles a 'boss-employee' type*" (D35). Although board evaluation is still relatively unpopular in

Nigeria, board performance should be assessed in terms of individual members' appraisal as well as the entire board. With respect to this, there is the need for relevant stakeholders to be educated on the benefits of effective board evaluation.

Furthermore, Nigeria is witnessing the emergence of advisory groups, nominated by shareholders, to guide, monitor and provide board evaluation. Advisory groups are comprised of retired board chairmen of high repute and useful experience in board processes and corporate governance. Although boards are not bound by their recommendations, their persuasion, calibre and reputation create a sense of authority and an indirect/informal but effective board evaluation. This *"is taken very seriously by board members" (D20). "An advisory board can be regarded as a "council of elders"" (D41).* This research study proposes that *advisory boards should be encouraged as overarching informal governance mechanism*, as this further draws legitimacy from the Nigerian culturally inclined regard for the opinion of elders.

1.4.2.5 Foreign (Large) institutional shareholders

Institutional investors are expected to provide adequate policing of corporate management in ways which individual dispersed shareholders are incapacitated to do (Jacoby, 2007; Prevost & Rao, 2000; Romano, 2001). In Nigeria, both local and foreign institutional investors are currently playing limited roles in the corporate governance of listed firms. *"Like ordinary passive individual shareholders, they tend to be focused only on the short term returns… not corporate governance" (D33).*The impact of the few indigenous institutional shareholders has also been constrained by the size of their investments. This study found out that there is a significant expectation that large institutional investors, especially foreign/international ones, can promote good corporate governance in Nigeria. However, this study proposes that *in* *order for foreign institutional investors to be effective, their board member representative needs to be someone with sufficient human capital and knowledge of the Nigerian business terrain(D39)"* The board member representative must have the courage to challenge executive corruption. Foreign institutional shareholders can further constitute a rich resource for new ideas and can provide the long-term financing that corporate Nigeria requires (Sherman, 1990).[xi]

1.4.2.6 Effective shareholder activism

The recent emergence of shareholder associations in Nigeria was encouraged to coordinate several small, passive and dispersed shareholders (Adegbite et. al., 2012; Okike, 2007; Amao & Amaeshi, 2008). However, the undermined capacity of shareholder activists to get useful information from companies constitutes an executive management constructed barrier to impede activism. Commenting on the problem, respondent D3 noted thus: *"during my time as CEO, we had a policy of inviting members of shareholder associations …to our factories. By keeping them … informed, we ... could improve the quality of our AGMs through informed shareholder participation."* This study proposes that *only informed and non-corrupt shareholder activism is capable of promoting good corporate governance in Nigeria.*

Nigeria is also witnessing the rise of two types of shareholder activists. The first classification is the emergent middle class (mainly young and middle-aged professionals), who do not necessarily belong to any shareholder association. They make efforts to attend AGMs and other meetings regularly and in the process have developed a degree of sophisticated expertise with regards to scrutinising companies' governance. For example, they are able to ask important questions on issues bordering on several aspects of corporate disclosures – including financials, ethical investments, corporate social responsibility and employee relations – during AGMs and through other means such as letter writing. The author refers to this classification as "**the sophisticated shareholders**". Given the high level of illiteracy in Nigeria, many small investors have limited capacity to make reasonable deductions from companies' financial statements and accounts in order to inform their investment decisions. As such "*these shareholders constitute a very helpful and powerful expression of activism in the Nigerian environment*" (D35).

The second classification consists of reputable shareholders who *are high-calibre individuals with a record of excellent behaviour and distinguished accomplishments in various high profile corporate positions* (D6). During AGMs, they constitute a major voice and are able to scrutinise the board and management, who would not want to be seen as going against the recommendations of highly regarded corporate leaders. The author refers to this class as "**the reputable shareholders**." Given the challenge of corporate corruption and recurring corporate scandals in Nigeria, persons of high standards of integrity continue to constitute a powerful and positive force for informed and 'veteran shareholder activism'. The results of this study suggest that both classes have demonstrated a considerable amount of genuine activism. The author thus proposes that *these emergent shareholder classes, if institutionally encouraged, would be instrumental in promoting effective shareholder activism and good corporate governance.*

1.4.2.7 Performance related executive compensation

The agency theory perspective on performance related executive compensation summits that when managers' wealth is not tied directly to firm value, managers may lack incentives to maximize shareholder interests and ensure good governance (Jensen & Meckling, 1976; Harvey & Shrieves, 2001; Randøy & Nielsen, 2002). In developing countries such as Nigeria, performance related executive compensation is still in its infancy. Although there are increasing evidences of monetary based executive compensation schemes in the Nigerian banking industry, findings of this study suggest that executives do not appear to be well compensated. There is not yet a strong performance related executive compensation culture in Nigeria, which is impacting on corporate governance and managerial conduct. Respondent D1 notes that *"if executives are not well compensated, they create other avenues to accrue money to themselves, at the expense of shareholders."*

However, given the high rate of poverty in the country, there is a societal disapproval with regards to paying executives huge bonuses by the Nigerian public and the regulatory bodies. For example, the 2003 SEC code states that there should be disclosure where a director's earnings are in excess of N500, 000 ($3,260). When companies make such disclosures about their executive compensation, *"what normally follows is a public highbrow that the directors are milking the company dry* (D24)*"*, which encourages executives to resolve to more corrupt and hidden means to accrue wealth. However, while better performance related executive compensation schemes will promote good corporate governance in Nigeria, caution must be exercised. Specifically, the profitability *"potentials of a particular company must inform its executive compensation" (D3)*. Executive compensation schemes must consider the overall performance of business operations, thus limiting the tendency of management to engage in accounting mal-practices to misrepresent the position of the company. Thus the author proposes that a *decent and explicitly defined reward system is needed to inform good corporate governance in Nigeria.*

1.4.2.8 Full and transparent information disclosure

Findings from this research suggest that timely, comprehensive and transparent disclosure on some fundamental issues will improve the quality of corporate governance in Nigeria. These issues include the following: “financial/ operating results; ownership structure; members of board of directors and management; quantitative and qualitative matters relating to employees and other stakeholders in the corporation; governance structures and policies; corporate targets and prospects; as well as execution of unusual and complex transactions” (Mallin, 2002: 253). In particular, Nigerian companies with employee share ownership schemes (ESOs) must make such disclosures. ESOs potentially benefits two classes of individuals, whose agenda could be different. On the one hand, it benefits “*employees through the returns they can potentially get on their investments as well as some degree of employment security”* (D6). On the other hand, it gives the “right to vote” and since *most employees/employee representatives focus less on this important power* (D4), managements are able to influence employee representatives to vote in their favour. For example, during take-over bids and potentially positive changes in the governance of companies, managers are able to remain in control by convincing employees that their jobs are more secure with them than the potential in-coming management. The author proposes that *full disclosure, including disclosures on ESO, contributes to effective monitoring of the firm and good corporate governance.* This would necessitate the identification of weaknesses in existing disclosure requirements and/or inadequate enforcement of the disclosure regulations (Hawley & Williams, 1997; Clausen, 1979).

1.4.2.9 Independent audit committees

Research into board audit committees has not extensively explored the subject of their independence (Spira, 1999), especially in developing economies (Al-Mudhaki & Joshi, 2004). Independence is crucial to board audit committees. However, "*in Nigeria, we have statutory provisions for the independence of board audit committees, but in a situation where members lack personal integrity but are greed driven, they only become managerial puppets*" (D8). Furthermore, the relationship between board audit committee members and managements of companies have long been "*too cordial*" (D27) to ensure an independent supervision of the audit process (Mautz & Neumann, 1970; Okike, 1994). This research study proposes that *moral uprightness and individual integrity are the major instruments of an independent board audit committee function in Nigeria, beyond regulation*.

1.5 FURTHER DISCUSSIONS

The foregoing discussions indicate that the successful operationalization of the highlighted drivers must account for relevant socio-cultural and institutional contingencies. Although, some of these drivers have been highlighted in prior literature, a 'one size fits all approach' remains undesirable for international business (corporate) governance. Also, certain perspectives based on the peculiarities of developed countries, may not be able to prescribe the antecedents of good corporate governance for developing countries such as Nigeria. Discussions have shown important peculiarities and variations with regards to how good corporate governance mechanisms need to be understood and assembled to address contextual challenges and promote good corporate governance in an international context. The main drivers of good corporate governance and their Nigerian peculiarities (*in italics*) are presented in Table 5.

INSERT TABLE 5 ABOUT HERE

Accounting for the institutional effects on corporate governance in Nigeria have helped to shed more understanding on the legitimacy, necessity, applicability, dynamics and effectiveness of certain governance mechanisms in weak institutional settings. Thus it is important that models for good corporate governance are not populated in isolation of the rest of the institutional underpinnings (Adegbite & Nakajima, 2011a; Guillen, 2000). The institutionally based peculiarity of the Nigerian context suggests that taking a normative (agency theory centric) approach to good corporate governance in an international context would be inherently limiting and over-assuming. No doubt, some of the findings connect with the logic of agency theory, but in the main, they suggest that a variant of agency theory will constitute a cornerstone of corporate governance theory (Jensen, 1998; Lubatkin et. al., 2005, 2007). Indeed, a significant amount of the data elaborated on governance issues not captured by the basic construct of the principal-agent model. This study has therefore provided insights which go beyond the generalizations inherent in the extant literature. For example, international business firms operating in developing countries such as Nigeria must especially bear in mind the peculiarities of the Nigerian context and the uniqueness of the interdependent drivers.

1.6 CONTRIBUTIONS

This study presents important implications for scholarly, practical and policy discourses on comparative/international business (corporate) governance research. Discussions herein also forge ahead a critical and contextual perspective on corporate governance in Sub-Saharan Africa. This study provides evidence on the antecedents of good corporate governance practices in Nigerian firms using qualitative research methodology through a non-rational theoretical lens. In particular, relying on an alternative theoretical framework (i.e. institutional theory) rather than the dominant agency framework (e.g., Filatotchev & Boyd, 2009; Van Eves et al., 2009; Gomez-Meijia & Wiseman, 2012), discussions offer new theoretical and empirical insights. These insights bring to the fore the limitations of some international business approaches that focus on formal institutions and neglect how they work in practice. Alternatively, the study highlights the usefulness of an institutional analysis in understanding firm behaviour in weak institutional contexts (Wood, Dibben, Stride & Webster, 2010; Lau, Fan, Young & Wu, 2007; Aguilera, et. al., 2008; Puffer & McCarthy 2003; Adegbite, et. al. 2013; Park & Kim, 2008; Judge, Naoumova & Koutzevol, 2003; Pedersen & Thomsen, 1997). Therefore, there is need for modifications to our understanding of agency relationships, as the nine antecedents discussed indicate. International organisations involved in corporate governance monitoring/development across borders must take note.

Theoretically, this study also adds to the institutional antecedents of good corporate governance, by paying attention to the context (African), efficiency (instrumentality) and legitimacy (symbolic) in explaining why firms may engage in good governance practices in an international business environment (Aguilera & Cuervo-Cazurra, 2004;

Zattoni & Cuomo, 2008; Judge et al., 2008, 2010; McCarthy & Puffer 2008; Lien et al., 2005; Lau et.al., 2007). This paper also adds to the empirical literature on the institutional determinants of corporate governance, with a sub-Saharan African (Nigerian) perspective. This is much needed as the literature on comparative corporate governance across countries has been mainly concerned with the debate across Western - Eastern countries and/or along Anglo-American - European lines. Also, most discussions on less developed countries have centred on the BRICS economies.

Methodologically, this research brings to the fore the need for more qualitative research on corporate governance relationships aimed at advancing extant governance theories and working towards the development of new streams of governance frameworks and understandings. A step forward in this regard is this study's integration of participants' commentaries across multiple sources of data, which helps to bring to light, representative and contextualized interpretation of good corporate governance. Indeed, as much of the literature on corporate governance continues to employ hypo-deductive quantitative research designs (e.g., Zattoni & Judge, 2013), this study contributes to the literature by offering a more nuanced insight from this close-up approach.

This paper also contributes to the African topical policy debate regarding the effectiveness of corporate governance mechanisms (Wijewardena & Yapa, 1998). Nigeria is a regional power.[xii] The Nigerian government has tasked itself to make the country to be one of the 20 largest economies in the world by year 2020, by being able to maintain its economic leadership role in Africa. However, Nigeria must put in place an effective corporate governance framework in order to become a respected and significant player in the global (and African) political economy. The discussions in this paper are not only useful to the Sub-Saharan African business scholarship but offers suggestions on how African nations can structure their business corporations to address corporate corruption through good corporate governance.

1.7 FUTURE RESEARCH

First, although discussions herein are about the antecedents of good corporate governance, distinguishing between good and bad governance suggests that there is an element of comparison. The data collected for this study does not lend itself significantly to such quantifiable measurement. This provides an opportunity for future studies to quantitatively test the relationship between the nine interdependent drivers (and propositions) and actual corporate governance improvements at the level of individual firms[xiii]. In essence, future studies could develop the propositions presented in this paper into testable hypotheses.

Second, such research across different African economies would present a basis for identifying similarities which would guide the theorising of corporate governance in Africa. Although the discussions presented in this study have implications for many developing countries, caution must be exercised in making complete generalisations with regards to their applicability in other jurisdictions, due to differing institutional arrangements. Moreover, identifying which governance practices are relevant, those not readily applicable, and those requiring additional considerations/contextualisation can inform more empirical corporate governance research in Africa. In Africa, South Africa (Vaughn & Ryan, 2006; Ntim, et. al. 2012) and Nigeria (Okike, 2007; Adegbite, et. al. 2012, 2013) seem to be leading the debate on corporate governance with an emergent literature in Ghana (Mensah, Aboagye, Addo, & Buatsi, 2003) and in Egypt (Abdel & Shahira, 2002; Boutros-Ghali, 2002). The author hopes that this paper will encourage further corporate governance research in other African jurisdictions where the subject is even at a more infantry state. Another useful line of future research inquiry would be to examine if there are any parallels between the governance challenges reported in this study and those experienced by small/family businesses in developed nations.

Third, although this paper's institutional account provides a promising avenue to supplement some of the limitations of agency theory, neo-institutionalism may not fully capture the dynamics of corporate governance. Theories of political institutionalism (North, 1990; Acemoglu & Robinson, 2008) are also useful in offering insights applicable to similar weak governance environments. This will go beyond the Nigerian case and help in providing coherent theoretical generalizations that could result from other methodological stances. Future research should take note.

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Appendix: Experts' Interviews and Focus Groups 'Guide/Areas for Discussions' (see Filatotchev, et. al. 2007)

In terms of promoting good corporate governance in Nigeria, how important are,

1. The following aspects of the board: board size; board independence; human capital of independent board members; and board heterogeneity; Regular evaluation of board members; Frequency and lengths of board meetings; Regular meetings of independent directors; Regular communications with major shareholders/investors; Board focus on financial controls; Board focus on strategic controls; Directors' financial incentives; age and term limits for directors; Extensive and timely provision of information to independent directors; Bottom-up information flow from functional departments to independent director; and Independent directors' social ties with CEO/executive directors. Please indicate other aspects/factors that you consider important.

2. The following types of shareholders: Pension funds, mutual funds, foundations, corporate pension funds; Banks; Insurance companies; Private equity investors; Individual (non-family) blockholders; Family blockholders; and Dispersed individual shareholders Please indicate any other types that you consider important

3. The following aspects of shareholder activism: Publicly criticizing board members; Influencing board and management turnover; Influencing revisions of executive compensation; Regular discussions with board members of strategy issues; Maintaining stable shareholding; Voting at the AGM; Use of electronic voting systems; Disclosure of voting at shareholder meetings; and Use of lawsuits against managers and auditors for negligence or breaches of duty. Please indicate any other aspects that you consider important

4. The following executive pay related items and processes: Performance-related bonus ; Share option incentive scheme; Long term incentive plan; Non-remuneration based incentives (e.g. firm's pension contribution); Caps on the size of executive pay; Shareholders to vote on remuneration; Incentives tied to performance targets; Issuing "out of the money" options; High levels of pay disclosure; Remuneration committee's access to external profession advice ; and The costs of issuing share options clearly shown in the annual report and accounts. Please indicate any other items and processes that you consider important.

5. The following forms of public and private disclosure of information: Annual report and related documents; Quarterly or monthly reports; Operating and financial reviews; Information specifically on corporate governance (e.g. director's pay); Information on related party transactions; Information on corporate social responsibility, employment policies and environmental policies; Audit committee's oversight of publicly disclosed information; Private information to key investors; Private information to analysts; Provision of information to employees and other stakeholders. Please indicate any other important aspects

6. The following audit related items and mechanisms for internal control: Board approval of external auditor appointment; Shareholders' vote on appointment of the

external auditor; Regular rotation of appointed external auditor; Professionally qualified members on the audit committee; Reporting from the audit committee to shareholders; Please indicate any other important audit related items or internal control mechanism

7. The following aspects of the market for corporate control: An active M&A market; Hostile takeovers; Leveraged buy-outs; Management buy-outs; Public-to-private transactions; Mandatory bid rule; Principle of equal treatment of shareholders; Transparency of ownership and control (inc. defensive measures). Please suggest other aspects that you consider important

8. The involvement in company decision-making process of the each of the following stakeholders: Debtholders; Employees; Customers; Suppliers; Local communities; NGOs; and the government? Please suggest other stakeholders who are important

ENDNOTES

[i] "Corruption which has traditionally been at the centre of corporate governance issues in Nigeria (and especially in Nigerian banks) thrived and became a 'way of life', during the military regimes which followed the country's independence from Britain. For example, in the early 1990s, the country's financial sector experienced a major turbulence which resulted in the collapse of several financial institutions, and led to the erosion of investors' confidence (ROSC, 2004). This was as a result of several corrupt practices and dealings which involved managers and directors of listed banks" (Adegbite, 2012a; 214).

[ii] Some of the recent regulatory reforms on corporate governance in Nigeria include the 2003 Code of Corporate Governance in Nigeria (SEC Code); the 2006 mandatory Code of Corporate Governance for Nigerian Banks post consolidation (CBN Code); the 2007 Code of Conduct for Shareholder Associations in Nigeria; and the National Code of Corporate Governance which is currently being developed. Whilst these codes have helped shape the debate on corporate governance in Nigeria, they have led to a plethora of regulation, at times, conflicting and encouraging non-compliance.

[iii] This study is part of a larger research project which critically examined the major internal and external determinants of good corporate governance in Nigeria (Adegbite, 2010a), including a scrutiny of corporate governance (Adegbite, 2010b), the state of corporate governance and responsibility in Nigeria (Adegbite and Nakajima, 2011b), the institutional determinants of good corporate governance in Nigeria (Adegbite and Nakajima, 2011a) and the emergence of institutional maintenance (Adegbite and Nakajima, 2012), the regulation of corporate conduct in Nigeria (Adegbite, 2012b), the politics of shareholder activism in Nigeria (Adegbite et al., 2012) and the implications of the multiple influences on corporate governance practice in Nigeria (Adegbite et. al, 2013); hence the extensive methodological approach adopted

[iv] Data saturation occurs when the data already collected copes adequately with new data without requiring continual extensions and modifications (Dey, 1999).

[v] The total number of respondents is 42, as opposed to 46 (26+20) given that 4 interviewees were also part of the focus group respondents.

[vi] Direct observations were made in order to complement and validate the data collected through interviews and focus group discussions. For example, the annual general meetings (AGMs) of two listed corporations were attended and observed. Here, the author took down notes of proceedings and interactions. Attending these AGMs allowed for more access into the complex interactions between stakeholders, which inform corporate governance in Nigeria, providing insights into what research subjects do, and not what they say (Wells & Lo Sciuto, 1996). This engagement through observation further helped to understand the context of study and offered a very fast and focused investigation, in such a way that the researcher is watching rather than taking part and become immersed in the entire context (Trochim, 2000). Furthermore, in ensuring further validity of data collected from prior methods, findings were further interrogated by looking deeper into the specific situations and contexts (case studies). Two of the major sources of information were documents and archival records. Documents included relevant memoranda, corporate agendas, media reports, and regulatory administrative documents. Archival records included past companies' annual reports and accounts, annual general meeting minutes, chairmen's statements, past regulatory records, amongst others.

[vii] In the main, their very busy engagements, inability to fix a suitable appointment, and the time/resource constraints during the data collection process are responsible for their refusal/non participation. Furthermore, notably beneficial to the data are the views of the representatives of civil society bodies in Nigeria, such as the aforementioned SCGN, Convention of Business Integrity (CBI), and Transparency Nigeria. The research further leveraged on these to identify and gain access to respondents whose perspectives on the research topic are largely homogenous and similar to those non-affiliated with these organisations. Throughout the data collection process, the author remained flexible and ensured adequate methodological self-consciousness to avoid potential bias in data collection and interpretation, thus minimising negative obtrusiveness and ensuring conceptual flexibility (Glaser & Strauss, 1967) and as a result, enhancing both the data-gathering and eventual credibility (Harrington, 2002).

[viii]See: Ahunwan, 2002; Okike, 2007; and Yakasai 2001 for in-depth review of the corporate governance system in Nigeria and how it has evolved over time. For more discussions on the corporate governance mechanisms in Nigeria such as equity ownership structure and board composition see Ahunwan 2002; Adegbite 2012b.

[ix] Nigeria became independent in 1960 and a republic in 1963, amalgamating three major geographical/ethnic characters of the country (Northern Hausa, Western Yoruba and Eastern Igbo).

[x] Nigeria is roughly divided between a mainly Muslim North and a Christian South.

[xi] Institutional investors who are playing increasingly active roles in the Nigerian corporate governance system include Actis, Renaissance Capitals and Capital Alliance. They demand, as part of their terms of investments, that they get specific board member allotment (s).

[xii] In a 2005 Goldman Sachs report (see Wilson & Stupnytska, 2005), Nigeria was listed among the "Next Eleven" economies as having a high potential to become one of the largest economies in the world Nigeria (alongside Bangladesh, Egypt, Indonesia, Iran, Mexico, Pakistan, Philippines, South Korea, Turkey, and Vietnam) was listed among the "Next Eleven" economies as having a high potential to become one of the largest economies in the world. Goldman Sachs ratings centred predominantly on the degrees of economic and political stability, and based on these parameters suggested that Nigeria retains the potential of becoming a true pace setter in economic development in Africa). Furthermore, Nigeria is important in sub-Saharan Africa, in terms of size, location, population, and natural resources and particularly the role it plays in the African economy. Corporate governance in Nigeria, Africa's most populous country and largest market for goods and services, continues to attract notable local and international interests and influences, given the significant influx of foreign investments in the country (NSE, 2012; Adegbite, et. al. 2013). Nigeria has also recently become the largest economy in Africa, following the country's GDP rebasing.

[xiii] As Nigeria is currently undergoing a process of developing a National Corporate Governance Code, the institutional provision for some of these drivers would facilitate research into their effectiveness and impact in the future.