THE DETERMINANTS OF GOOD CORPORATE GOVERNANCE: THE CASE OF NIGERIA

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Thesis submitted in fulfilment of the requirements for the Degree of PhD in Management

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May 2010

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Dedication and Acknowledgements

This thesis is dedicated to Mr and Mrs Adegbite for your financial and moral supports

With a deep sense of humility and great respect, the author gratefully acknowledges the painstaking supervision and valuable direction of Dr Chizu Nakajima and Professor Rob Melville. In connection, the author is indeed indebted to Dr Elewechi Okike and Professor Jenny Harrow, for examining this thesis, and for their very constructive comments, which have added significant value to this thesis. The author is also grateful to Professor Paul Palmer for chairing the viva session.

The author further wishes to thank Professor (s) Igor Filatochev, Andy Lockett, and Bob Garratt, for their credence in him and for letting him benefit from their proficiency and experience in the corporate governance field. The author's sincere appreciation also goes to Dr Kenneth Amaeshi and Olumide Aluko- for sharing with him in-depth insights on the academic and practical aspects of the subject. I also wish to express my profound gratitude to Malla Pratt and Abdul Momin, for their help and support, particularly during the final stages of the PhD process.

Cass Business School has provided the author with financial assistance severally during the course of this research, for which the author is grateful.

The author also thanks Mr Chris Ogbechie and the entire senior management team of the Lagos Business School, Pan African University, for facilitating the data collection process of this project. And to the numerous experts who participated in the survey- thank you for your time and in-depth comments.

To the author's siblings - Beatrice, Stephen and Florence, thank you all for your patience, understanding and support.

To Oluwatosin Okikioluwa Adegbite, thank you for being there always.

Declaration

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Abstract

This thesis investigates the key **(institutional, regulatory, external and specific)** determinants of good corporate governance in Nigeria. The study adopted a mix of the following qualitative research methods: in-depth interviews, focus group discussions, direct observations and case studies, to conduct a survey of corporate governance specialists in Nigeria, with sufficient capacity mix and diverse disciplinary and functional backgrounds. The study provides in-depth discussions with regards to the definitive motive of corporate governance and further demonstrates that developing countries face peculiar corporate governance challenges. The author shows how this peculiarity is contingent on certain national and firm-specific institutional environments. Furthermore, whilst there have been recent advocacy at implementing good corporate governance in Nigeria, as a means to re-shape the perceived negative institutional configurations, the author presents a case of institutional maintenance, where changes at the industry level are unable to change the self-reinforcing institutional landscape. As a result, whilst encouraging a deeper and less normative discourse, the author exposes possible challenges in transferring and enacting uniform corporate governance practices across different institutional contexts.

Upon this institutionalist background, the thesis further looks exhaustively into the subject of corporate governance regulation in Nigeria (including the role of government), and shows that countries will have to position their regulatory systems to tackle the particular challenges they face. Furthermore, given that the African business infrastructure cannot be separated from past and present external influences, the author provides a cross-examination of the impact and influences of external governance mechanisms and forces on Nigeria. Discussions here have specific relevance for the literature on corporate governance in the USA, the UK, Japan, China and India. Also, the author examines the impact of the varying dimensions of global (as posed, but Anglo-Saxon in principle and character) institutional initiatives, with regards to cross national corporate governance monitoring and development, on Nigeria. Lastly, guided by the ultimate need to promote good corporate governance in developing countries, the author identifies nine specific drivers of good corporate governance in developing countries, whilst taking into account the afore-mentioned determinants. It is anticipated that this thesis augments the budding literature on corporate governance in developing countries, with secondary contributions to the broad literature on comparative corporate governance studies and comparative institutionalism, and presenting implications, not only to the academy but, to the business sector and the polity of developing market economies.

CHAPTER 1 – INTRODUCTION

1.0 RESEARCH MOTIVATION AND FOCUS: WHY A NIGERIAN CASE STUDY?

Current global economic crisis has reiterated the importance of good corporate governance to the world economy and humanity as a whole. Indeed, the central role of the modern corporation in any nation's economy is an indication that good corporate governance is imperative to the economic wellbeing of both developed and developing countries. However, the corporate governance literature is yet to reflect this considerably. Despite budding evidence of prospects for a very promising future, a quick literature search on corporate governance in sub Saharan Africa would reveal a huge comparative lacuna, which has made scholarly knowledge of the subject in such developing countries feeble. Thus, with deep insights from a multi-theoretical and practical scrutiny of the subject in one of Africa's most important financial markets - Nigeria, it is anticipated that this thesis augments the literature on developing countries whilst drawing out significant implications for comparative corporate governance studies.

What are the key determinants of good corporate governance in Nigeria? In an attempt to answer this question, the author specifically explores the ***institutional**, **regulatory**, **external*** and ***specific*** determinants of good corporate governance in Nigeria. Given that weak governance in both private and public sectors has contributed immensely to the endemic corruption, poor state of economic development and poverty in the African continent, the cavernous lacuna of literature on corporate governance in developing countries calls for increased attention. Indeed while corporate governance discussions may be said to have attained some degree of "maturity" in developed nations, the subject is still at its infancy in the developing world, even though good corporate governance is clearly imperative to the survival and global competitiveness of African corporations in today's ever challenging business climate.

So, why Nigeria? What is particularly important about this country and why is it a good laboratory for this doctoral research on the determinants of good corporate governance, particularly in sub Saharan Africa? The notable cavity of literature on corporate governance in Africa, no doubt, provides an opportunity for profound and novel works. With this in mind, Nigeria presents a good case study for empirical investigations. Furthermore, notwithstanding the author's motivation to augment the budding literature on corporate governance in sub Saharan Africa, the choice of Nigeria is not arbitrary. On one hand, recent and current developments in the country have added an energetic momentum to the burgeoning corporate governance debate (Wallace 1987; Yahaya 1998; Okike 2000, 2002, 2004, 2007; Oyejide and Soyibo 2001; Yakasai 2001; Ahunwan 2002; Nmehielle and Nwauche 2004; Sanda, Mikailu and Garba 2005; Bolodeoku, 2006, 2008; Ajogwu 2007; Adegbite and Nakajima 2009; Adegbite, Amao and Amaeshi 2009). These include the 2003 Code of Corporate Governance in Nigeria; the 2006 mandatory Code of Corporate Governance for Nigerian Banks post consolidation; the 2007 Code of Conduct for Shareholder Associations in Nigeria; and notable/high profile corporate governance scandals. Indeed widespread corrupt corporate behaviour as exemplified by ongoing corporate disasters as well as near-disasters particularly in the country's financial sector, has brought to the fore the imperativeness of effective governance and accountability in modern day Nigerian corporations. Notably these have brought corporate governance discussions to the pinnacle of academic, practice and policy debates in Nigeria. As a result, while South Africa may be the leading contributor (Vaughn and Ryan 2006), corporate governance developments in Nigeria are becoming increasingly notable in the African corporate governance literature.

More importantly, with regards to the research questions of this study (as discussed later in this Chapter), the embryonic institutionalised corporate governance system in Nigeria presents a rich platform from which to examine the institutional, regulatory, external and specific parameters which shape the evolution, construction, expectation and expression of corporate governance, particularly in developing countries. Nigeria's institutional arrangements particularly provide a profound basis to investigate the barriers to effective corporate governance and accountability in developing Africa. Nigeria further presents a good case study, not only because it is at the fore-front of rigorous corporate governance research in the African continent, but largely because of her economic and political powers in Africa. Particularly, one would expect many poorer African countries to continue to look up to the rather less popularly acclaimed "giant of Africa".

Consequently, while the focus is on Nigeria, discussions have significant theoretical implications and contributions with regards to both Anglo-Saxon[1] and comparative corporate governance research. This thesis encourages a deeper discourse of the subject, challenging established Anglo-Saxon theoretical postulates with regards to their applicability in developing countries. It particularly points out some translational challenges, and suggests more caution, in the diffusion of corporate governance practices across different institutional environments. In this regard, it identifies the limitations of the agency theory in solely (and sufficiently) explaining the corporate governance dimension in developing sub-Saharan Africa. Particularly, this thesis brings insights from a case of a developing country to highlight the benefits of the theoretical bedrock of this thesis – institutional theory – in complementing the principal/agent model of the agency theory in cross national corporate governance research. It further creates an understanding of the institutional embeddedness of corporate governance and explores the self-reinforcing powers of institutions as vibrant shaping factors for national systems of corporate governance. It is anticipated that this thesis makes contributions to the field of international corporate governance research, particularly as it further draws on comparative cross-examinations of the corporate governance systems of developing, transitional and developed economies. There is also a secondary contribution to the broad literature on comparative institutionalism and comparative management, respectively.

1.1 RESEARCH OVERVIEW

To begin with, there is no doubt that the corporate governance literature originated and remains dominated by Anglo-Shareholder theoretical constructions and assumptions which were founded on the premise that there must be a mechanism in place to minimise agency conflicts and costs, and to align the interests of firms' managers with their owners. Traditionally this has been seen as crucial to reducing managerial self-serving tendencies, which can arise in a situation where a firm's ownership is separated from its

[1] The term Anglo-Saxon is used throughout this thesis to broadly represent the UK and the US

control - a common feature of the modern corporation. However, the financial economics' favoured spectacles of the agency theory (Jensen and Meckling 1976; Fama and Jensen 1983) do not take into account the institutional effects on corporate governance. This thesis analyses the relevance of key institutions in a corporate governance system, in the context of developing countries, and in particular, Nigeria. It specifically investigates the extent to which Nigeria's major institutional underpinnings, at the firm, industry and country levels, complement good corporate governance.

Furthermore, what happens when important institutional environments are uncomplimentary with good corporate governance but rather incubates and promotes bad corporate behaviour, making corporate law enforcement and self-regulatory initiatives remain in idealism? Also, what stimulates good corporate governance when relevant market pressures such as shareholder activism, market for corporate mergers and takeovers, and pressures from institutional investors are either absent, non-vibrant or corrupt? Furthermore, in a situation where there are limited market incentives to encourage compliance with self-regulatory initiatives, will significant governmental involvement drive the promotion of good governance principles and practices in Nigerian corporations? It is worth noting that in line with the desperation of the Federal Government of Africa's most populous country to attract foreign direct investments (FDI) through good corporate governance, the state has been recently prominent in the affairs of corporations. What, therefore, is (and should be) the role of the state in corporate governance? This research further explores and scrutinises the role of the Nigerian government in corporate governance. It analyses how the Nigerian government should go about achieving responsible behaviours in corporations without having them laden with undue regulations. Here, the author does not only probe deeply into a relatively less researched field, but scrutinises the role of the Nigerian government by examining the effectiveness of its regulatory policies in ensuring a good and competitive corporate governance system, even as the country faces a global competition for investments. This scrutiny of corporate governance regulation expressly examines the philosophy, structure, machinery and conduct of corporate governance regulation in Nigeria, including the statutory and self-regulatory mechanisms in place to guide corporate conduct and instil good behaviour. The author further develops a wider perspective of the regulatory framework of corporate governance by offering comparative analyses which draw on insights from the corporate governance regulatory structures and practices of various other countries. A case study of corporate governance regulation in the Nigerian banking industry, which is the country's most regulated sector, is also incorporated. This facilitates a better understanding of the strengths and weaknesses of the Nigerian corporate governance regime.

At this point, it is important to note that in the development of corporate governance structures, practices and regulatory initiatives especially in developing countries, there have been a lot of inputs and borrowed principles from other jurisdictions. In many cases these inputs and principles have engulfed indigenous practices and ideologies about the meaning and function of the corporate character. As a result, a study of corporate governance in developing countries would be significantly incomplete and defective without a thorough investigation and subsequent account of past and current external influences and interferences. In this thesis, the author further analyses the influences of external governance systems on Nigeria. The author specifically examines the influence of the Shareholder and Stakeholder models on the ideology, construction, structures and practices of corporate governance in Nigeria. To what extent can a "global template" for good corporate governance be achieved? To what extent is there evidence of Anglo-Saxon corporate governance imposition on developing countries?

This theoretically well-grounded and comprehensive scrutiny of the institutional, regulatory and external determinants of good corporate governance in Nigeria facilitates our understanding of the evolution and present state of the subject in the country. It further identifies the peculiar challenges inherent in corporate Africa, the applicability of widely-accepted theories, and the danger of "taken for granted assumptions". Upon these considerations, the author is subsequently able to highlight the specific determinants of good corporate governance at the firm level. This thesis assumes readers' superficial knowledge of corporate governance in developing countries particularly Nigeria. The author therefore presents a comprehensive survey which further constitutes a useful outlook towards understanding corporate governance in other developing countries. Following this overview, the rest of the introduction proceeds with a background to the study and concise introductions to the key research themes explored. The research agenda, objectives and questions are also discussed. This chapter ends with an overall structure of this thesis.

1.2 BACKGROUND TO STUDY

The last two decades have marked an exponential and extensive growth in corporate governance research. While the USA and the UK can be referred to as countries where the subject has been well established and very popular, increasing interest in the subject is evident across other countries in Europe, Asia and Africa. The dynamism and importance of the subject have attracted discussants ranging from academics across various disciplines, practitioners, policy makers to the entire public. However recent happenings in the corporate world have also contributed to the rapid development of the subject. In recent times, most academic literature, media reports and other stakeholders' summits on corporate governance have begun by citing the collapse of once seventh largest company in America. The Enron scandal has acted as an energetic catalyst to the recent scrutiny of corporate governance due to the enormity of its impact. The scandals at Parmalat, Adelphia, Conrad Black and WorldCom have also added momentum to the debate at different times. More importantly, they have enriched discussions on the subject, especially in the area of regulation, and as a result, raising serious concerns for policy makers.

The Enron scandal and other recent corporate misdeeds and questionable business practices have undermined investors' confidence in the capital markets; notable business leaders, high-ranking senior managers and high profile auditing firms have been labelled thieves, some jailed and these have impacted on the public's faith in corporations. No doubt, stakeholders have demanded that business practices be ameliorated. These developments have resulted in significant investments in corporate governance guidelines and rules such as Sarbanes Oxley in the USA and revisions to the UK Combined Code on Corporate Governance. However, current global economic crisis fuelled by substantial irresponsible and risky behaviour by corporate managers and directors does little to suggest that the massive investments in corporate governance reforms and regulation have yielded much good.

Nigeria has had her share of corporate scandals; Cadbury Nigeria accounting scandal of 2007; the Halliburton scandal of 2008; and the Siemens bribery scandal of 2009; are recent examples. However, whilst the aforementioned 2003 Code of Corporate Governance and subsequent codes represent major developments in the country's corporate governance regulatory infrastructure, these developments have been unable to prevent these scandals. Notably also, the recent resuscitation of the Nigerian Stock Exchange and the subsequent escalation in the volume of daily trading activities have further brought to the fore the need to ensure that mechanisms are in place to ensure honesty and transparency in the custody of investors' wealth. There has also been a renewed governmental desire to attract more domestic and foreign investments in order to strengthen the country's economy. Thus major governmental policies and initiatives have since developed to promote transparency in corporate financial disclosure, encourage board's accountability and independence, and check managerial and board corruption.

In strengthening corporate governance and promoting good behaviour in the Nigerian private sector, discussions will have to reflect a broader horizon of ***institutional*** effects which enables us to understand the rationale and underlying machinery upon which business conduct and governance structures and practices are developed, nurtured and sustained. Consequently, a subsequent and detailed scrutiny of the ***regulatory*** infrastructure and the ***external*** determinants shaping the Nigerian corporate governance landscape creates a strategic position from which the ***specific*** drivers of good corporate governance can be identified. Before the introduction of these key themes, it is essential to briefly address some of the concerns which relate to the general relevance of corporate governance research and discourse. For example, do we really have to bother about corporate governance?

1.3 DOES CORPORATE GOVERNANCE MATTER?

"The proper governance of companies will become as crucial to the world economy as the proper governing of countries"

James Wolfensohn, Former President of the World Bank, (CACG 1999).

It was earlier mentioned that the subject of corporate governance has benefited from an enormous scholarly attention in recent times. However what is deeply lacking in the literature is a definitive motive behind these discussions. Why is corporate governance important? The author calls for a multi-theoretical and multi-disciplinary scrutiny of the corporate governance motive and agenda. This is vital to the survival and continued/future relevance of the already vast literature. It is worth noting that scholars have studied corporate governance less as a planned, systematic inquiry, but more as a response to observed problems in corporations which has resulted in the subject evolving as an aggregate of disparate studies without collective coherence (Murphy and Topyan 2005). Furthermore, whilst the recent scandals have enabled the rapid development of the subject, they could also account for some of the unresolved/never-to-be resolved conceptual disparities associated with it. Four decades ago, it would have been unlikely to anticipate that the subject would come to occupy such dominance on scholarly minds, notwithstanding its multi-disciplinary allure. However, in preparing for a stimulating and new knowledge-creating environment for future research, scholarly repository may benefit from unifications in reasoning, and lessening of disciplinary conflicts.

But why should we strive to achieve these? Is Adam Smith's invisible hand not applicable to the conduct of corporate players, who should create public good by acting dependently and independently in the pursuit of personal benefits? Does the operation of today's market forces fail to instil good governance in corporations? Why do we bother about corporate governance? Does corporate governance matter at all? There are limited evidence in the literature to suggest that scholars have exhaustively attempted to address these questions, rather the literature keeps maturing on a platform filled with silent doubts. Notably, however, scholars as well as other non-academic discussants overwhelmingly assume that the motive and relevance of the corporate governance subject are apparent. The normative undertone which trails this assumption centres on the belief that corporate governance is crucial to shareholders' protection (Shleifer and Vishny 1997; Chi and Scott Lee 2010), wealth creation (Healey 2003; Gill, Vijay and Jha 2009), firm performance (O'Sullivan 2003; Sueyoshi, Goto and Omi 2010) corporate accountability (Bradley, Schipani, Sundaram and Walsh 2000) and/or wider stakeholder interests (Donaldson and Preston 1995; Solomon 2004). However, to what extent are we convinced by available empirical and conceptual evidence? Are these interests actually being protected by corporate governance?

1.4 WHAT THEN IS GOOD CORPORATE GOVERNANCE?

The lack of clarity of the goals and concerns of corporate governance does not only cast doubts on the relevance of the subject but has also distorted scholarly interpretation and approach to the term "good corporate governance". While corporate governance has no doubt benefited from considerable attention from the numerous stakeholders of today's corporations, startlingly however, there remains no universally accepted definition despite numerous academic discourses on the subject. Indeed, while there are notable and exhaustive definitions in the literature, it is important to note at this juncture that it is unlikely for any one definition to fully describe the complex relationships within the realm of corporate governance, and to achieve universal acceptance.

However, definitions of corporate governance have traditionally differed theoretically along two major standpoints. The Anglo-Saxon economics and finance literature put shareholder primacy at the core of corporate governance and strive to ensure that there are mechanisms in place to align the interests of firms' managers with their shareholders so as to reduce managers' self-serving behavioural tendencies. At the other end of the spectrum, the traditional German and Japanese stakeholder models take a broader look at the firm and consider the legitimate interests of other firms' stakeholders with a view to providing a long-term sustainable value for all stakeholders. Certainly understanding the philosophy and rudiments of good corporate governance would therefore require a less normative approach to the subject but one with clearer perspectives. This is essentially what this thesis offers, particularly as the discussions in Chapter 2 will indicate.

1.5 THE RELEVANCE OF INSTITUTIONAL THEORY IN CORPORATE GOVERNANCE RESEARCH

From the preceding discussions, one can deduce that it has become generally accepted that corporate governance discussions originated from the agency problem (Jensen and Meckling 1976), created by the separation of a firm's ownership from its control. Indeed, the study of corporate governance has traditionally been within the framework of agency theory, with the "corporation" viewed as a nexus of contracts between principals (shareholders) and agents (managers), where mechanisms must be in place to align the interests of both parties (Aguilera and Jackson 2003). Corporate governance thus becomes the ways through which shareholders can assure themselves of getting maximal returns on their investments (Shleifer and Vishny 1997). Whilst there have been recent efforts towards the embeddedness framing of governance and opportunism in order to ensure a cross-nationally accommodating theory of agency (Lubatkin et al. 2005, 2007), conventional agency theory (Fama and Jensen 1983; Jensen and Meckling 1976) does not accommodate the institutional effects on corporate governance.

Institutions matter in corporate governance. Aguilera and Jackson (2003) noted that agency problems can be dealt with in different ways, for example, through dispersed ownership, markets for corporate control and contractual incentives in the UK and US, and through fewer market-oriented approaches to disclosure, weaker managerial incentives, and greater supply of debt in continental Europe and Japan. They therefore argue that the agency theory is unable to fully account for cross-country differences because it does not take into account the influence of institutions on corporate governance. Certainly comparative corporate governance scholars would agree that the diversity of national corporate governance ideologies, systems and practices is such that one might begin to wonder if we are still discussing the same subject. This diversity has been obscured by the dominance of the Anglo-Saxon's corporate governance dogmas and theories in the literature. Worse still, a considerable amount of comparative national corporate governance studies have only been descriptive, failing to convincingly provide explanations for the differences across countries. This is because certain institutional configurations have not been fully accounted for.

Institutional theory focuses on the deeper and more resilient aspects of social structure, considering the processes by which structures (schemas, rules, norms, and routines) become established as authoritative guidelines for social behaviour (Scott 2004). The behaviour of firms as well as the structure and responsibilities of stakeholders are deeply entrenched in the social values they uphold and their cultural, social, political, legal and economic environments. It is thus important that corporate governance discussions reflect a broader perspective of institutional domains (Aoki 2001). However while there is a growing knowledge that institutions shape corporate governance, much of the discussions in this area have been based on comparative evidence from studies of the UK and the US on one hand, and China and Japan as well as transitional economies such as Russia, on the other. From the lens of institutional theory, this argument is strengthened by examining the relevance of institutional theory in shaping the governance ideology, structure and practices of corporate Nigeria, thus contributing to the literature by providing important insights based on evidence from a developing country.

Similar to the corporate governance literature, contemporary institutional theory has indeed attracted a wide range of scholars across the social sciences, thus providing opportunities for exchange and cross-fertilisation of ideas, which have facilitated the use of the theory to deeply examine business systems ranging from micro interpersonal interactions to macro global frameworks (Scott 2004). Recognizing the institutional effects on corporate governance will therefore enable us to understand why certain governance mechanisms are more effective in some jurisdictions while they do not appear to work in others, and why certain governance challenges are characteristic of some environments.

In making generalisations about corporate governance systems around the world, scholars need to be cautious, as certain traditional and institutional mechanisms have already created firm bedrocks of informal/self regulation which makes subsequent regulatory initiatives effective in certain market economies such as the UK, while these structures are either not present or are just emerging in most developing economies (Nakajima 1999). Therefore, in conceptualizing the dynamics of business relationships and corporate governance, especially in developing economies, it is important to understand and account for certain firm-level and country-level institutional effects which constitute vibrant forces which shape the behaviour of managers and board directors, the level of investors' participation, the role of the state, as well as the degree of effectiveness of regulatory initiatives. In this thesis, the author accounts for certain national and firm-specific institutional effects in the case of Nigeria and investigate the extent to which they are complimentary with good corporate governance principles and practices. Furthermore, whilst there have been recent advocacy at implementing good corporate governance in Nigeria as a means to re-shape the negative institutional configurations, the author investigates the extent of deinstitutionalisation and institutional change. As a result, the author explores a possible case of institutional maintenance, where regulatory reforms at the industry level are unable to change the self-reinforcing institutional landscape. Upon this institutionalist background, the other three key themes of this research are explored.

1.6 CORPORATE GOVERNANCE REGULATION AND THE ROLE OF GOVERNMENT

Current global economic crisis has led to calls for increased regulation as an alternative to the "over-liberated" freedom of modern capitalism. Indeed many economists see regulation solely as a response to market failure (Ogus 1994). Most times, regulations are in place to prevent perceived/detected wrongdoings from reoccurring. Regulations can thus be described as sustained and focused controls exercised by a public or overseeing agency over activities that are valued by a particular community (Selznick 1985). Regulation can either be voluntary by virtue of association with a non-legally binding institution or a governmental order having the force of law. In both cases, the aim is to govern behaviour. Notably, until the 1970s, when commentators began to criticise the traditional "command and control" form of regulation as being over-intrusive, regulators were seen as experts who controlled private sector behaviour with the interest of the public at heart (Baldwin 2000). By the 1990s, less-restrictive forms of regulation that encouraged self-regulatory practices began to gain preference. In all, it must be noted that firms can be seen as profit-seekers that would comply with regulations only if the legal penalties for non-compliance exceeds the costs of compliance, or when there are substantial incentives to comply (Corneliussen 2004).

Indeed, corporate governance is not normally seen as a “regulated” activity (Dewing and Russell 2004), at least in terms of strictness and enforcement. Given that corporations are private institutions, should they be burdened with regulation in the first place? As a result, self-regulation has been traditionally prominent in the operation of securities markets (Coglianese, Thomas, Elizabeth, and Michael 2004). Self-regulation is a voluntary mechanism. It can be described as any regulatory regime which has been developed, funded and exclusively enforced by industry (Maaseen 2003). Corporate self-regulatory bodies have thus played a traditional role in monitoring both corporate behaviour and the conduct of professionals (such as accountants, auditors, lawyers amongst others) involved in corporate matters. Are the self-regulatory mechanisms in place in Nigeria efficient? Will government’s intervention in corporate governance mean the failure of self-regulatory institutions? What is the role of government in corporate governance?

In the wake of the Enron scandal, doubts (both globally and locally) have been cast on the efficiency of self-regulatory institutions to curb corporate malpractices and safeguard against the loss of investors’ money. Although corporate governance reforms are not new, there have been so many reforms, around the world, within the last six years that have sought to address several issues on different aspects of the subject. While the governments of most countries have not been totally passive with regards to these developments, most of the reforms, until very recently after the Enron case, have been championed by self regulatory organisations and stock exchange authorities.

Indeed regulating corporate governance is thorny. Globalisation is on the increase; protected markets are being opened up and one can argue that the stock market remains the most efficient means to provide funds for businesses in many countries. These developments require proper monitoring with adequate control measures in place to ensure corporate integrity, which continues to be questioned by scandals. Many states have now developed their own corporate governance guidance, and for many others they must comply with major codes of conduct in order to do business. However, discussants in favour of regulation have reckoned that the status quo is no longer acceptable and that it will take more than just corporate leadership to restore public confidence in the capital markets and ensure their vitality[2]; they have called for government's action in the form of reformed regulatory systems, improved auditing, and enhanced law enforcement (Coglianese et al. 2004).

Part of the premise of this thesis is the recognition that the role of government is very important as well as highly delicate. Indeed, the Nigerian corporate governance regulatory framework is faced by numerous challenges. These challenges have their roots in corruption coupled with the poor state of development in the country. In Nigeria, as in many other developing countries, firms have somewhat conventionally been less encouraged to adopt good corporate governance principles, thus leaving investors (particularly minority shareholders) without adequate protection. The 2004 World Bank's Report on the Observance of Standards and Codes (ROSC) in the Nigerian accounting and auditing practice revealed enormous institutional weaknesses in regulation, compliance, and enforcement. But why are the regulatory institutions weak? Widespread corruption following several political turbulences coupled with massive institutional shortcomings. Indeed the situation in Nigeria may not be not a matter of "lack of laws", but that of the institutional capacity to ensure enforcement. Thus there is a clear need to assess the effectiveness of government's policies in ensuring that there exists a robust, yet flexible and competitive regulatory mechanism to promote good corporate conduct.

Thus, it is worth reinstating that the federal government of Nigeria has been recently prominent in the governance of corporations in order to enhance the country's competitiveness for investments and avoid the reoccurrence of the aforementioned Cadbury, Unilever and related scandals. However this study explores ways in which public policy responses can be strategically formulated to ensure corporate vitality and prevent market failures. This is because an over- proactive/radical governmental policy

[2] Corporate vitality relates to the overall well-being of corporations. It encompasses their long-term financial profitability and growth.

approach simply as an overreaction to corporate scandals could seriously limit the flexibility and competitiveness of corporations. Therefore, to what extent is the Nigerian government's regulatory response well measured to avoid excessive regulatory burden. Also, is there a need for the government to balance pressures from foreign investors to adopt "global standards" and the desire to attract those investments with the need to foster indigenous competitiveness? As the following section discusses, the author (specifically in Chapter 7) looks into the extent to which advocates of global standards are pushing the standards in their own countries covertly through the World Bank, International Monetary Fund (IMF) and the Organisation for Economic Corporation and Development (OECD).

1.7 THE EXTERNAL DETERMINANTS OF GOOD CORPORATE GOVERNANCE IN NIGERIA

Considering the thesis's overall aim of identifying the key parameters of good corporate governance in Nigeria, it is important to examine some influences from external corporate governance systems. Indeed there is limited evidence in the literature of comprehensive studies which specifically examine the influence of a country's corporate governance system on that of another although comparative studies are common. This thesis further provides an extensive review of the impact and influences of external governance systems on Nigeria. It reviews the influences of the Anglo-Saxon (Shareholder) and Japanese or Continental European (Stakeholder) corporate governance models on the ideology, structure and practices of corporate governance in Nigeria. It considers the influences of these two dominant governance models through case studies of the UK, Japan, China and India given their specific relevancies and connections with Nigeria. Let us start with the UK influence. Nigeria, as a former British colony, has inherited the British corporate governance system. The UK has traditionally influenced the development of corporate governance structures and practices in Nigeria, as in the case of her other former colonies. Furthermore, to what extent does the UK, posited as a globally recognised voice in corporate governance innovations, assert any present authority and influence on Nigeria?

In particular, it is important to note that the London Stock Exchange (LSE) houses about 24 percent of foreign-owned firms and plays host to many of the world's cross-border securities trades and management (Clark 2002). Furthermore, Aguilera (2005) argue that the UK Financial Reporting Council (FRC) and the accountancy profession have always been pace-setters in corporate governance innovations. She also noted that the UK operates under a common law system with strong protection for minority shareholders. These two factors further allow corporate governance within the UK, and essentially within the LSE, to have a great influence on the rest of the industrialised world (Aguilera 2005). Given that less industrialised nations themselves particularly some African countries such as Nigeria were former British colonies where the foundations of their company law and regulation lie, the study examines the degree to which the influence of the UK corporate governance system extends beyond the industrialised world. Viewing the UK as a global corporate governance innovator, any UK regulation, code of conduct and/or listing standard could become a "model of best practice" particularly for the countries of origin of the companies listed on the LSE (Aguilera 2005). Furthermore as Nigerian banks have begun what appears would be a strong presence on the LSE in few years to come[3], it has become important to account for the UK's influence on the system of corporate governance in Nigeria. To what extent will the UK's comply or explain principle work in Nigeria? To what extent are corporate governance structures and practices being mimicked?

On the other hand, the dominant ideology of the Nigerian people and the country's cultural settings appears to be tilted towards the stakeholder model of corporate governance. Indeed, whilst the conceptual configuration of corporate governance and accountability in Nigeria has been influenced by several other theories associated with the subject, a strong cultural notion in the country - that corporations should be accountable to the wider society - finds an expression in the stakeholder hypothesis (see also Yakasai 2001).[4] The author thus considers the influence of the stakeholder model on

[3] Guarantee Trust Bank, Nigeria Plc and Diamond Bank, Nigeria Plc, both Nigerian banks, have recently become listed on the LSE. GT Bank issued global depositary receipts (GDR) while Diamond Bank was listed on the Professional Securities Market (PSM)
[4] These discussions are developed further in Chapters 4 and 7.

Nigeria using Japan, China and India as reference points. It must be noted that these countries have recently focussed on investing aggressively in Nigeria, especially in the country's oil sector (Bala 2003; Hanson 2008; Ajayi 2009). Thus, to what extent will this amount to the pushing of their own governance standards in other to secure their investments and cater for their oil dependent economic future? The prospects of these are investigated in this thesis. Indeed to what extent can these traditionally/predominantly stakeholder countries promote good corporate governance in Nigeria? To what degree are the corporate governance practices in these countries worthy of emulation? If there are influences of the stakeholder and shareholder approaches to corporate governance in Nigeria, to what extent does the country constitute a fertile ground for a hybrid corporate governance system to emerge? Indeed, to what extent can a truly hybrid corporate governance system develop amidst strong regulatory advocacy for the "preferred" shareholder model?

Indeed, the debate on the convergence or divergence of national systems of corporate governance has stemmed from research on comparative corporate governance. But are we talking of convergence or conforming to the Anglo-Saxon model? This question further brings critical questions to mind. For example, why should any country adopt international best practises? What impact does the push for global standards have on Nigeria? What are the projected and actual roles of the OECD, IMF and World Bank in promoting good corporate governance? To what degree can governance mechanisms be exported? To what extent are the external influences on corporate governance in Nigeria culminating to promote better corporate behaviour? How effective are local institutional initiatives in ensuring good corporate governance? To what extent are external influences and local initiatives conflicting in terms of corporate governance development and monitoring in sub Saharan Africa? What are the specific Nigerian institutionalised limitations to the adoption of "globally recognised principles of corporate governance"?

1.8 WHAT DRIVES GOOD CORPORATE GOVERNANCE AT THE FIRM LEVEL?

Since the aim of this thesis is to explore, understand and identify the determinants of good corporate governance in Nigeria, the study further examined the specific drivers of good corporate governance at the firm level. This provides a rich and internal/firm level perspective to complement the discussions on the climate of corporate governance in the country. On the basis of the institutional, regulatory and external determinants, this thesis further generates a rich and practical discourse on how to specifically improve corporate governance practices in developing countries. Here, attempts were made to add practical perspectives to facilitate an encompassing discourse on the determinants of good corporate governance in Nigeria.

1.9 RESEARCH STATEMENT

By harnessing the above described research themes which this research has explored, the thesis seeks to make precise theoretical contributions just as it significantly augments the literature on corporate governance in sub-Saharan Africa, which suffers from dearth. It must be reinstated that whilst there are increasing interests in the corporate governance subject across the globe, corporate governance discussions in Africa can still be comparatively referred to as “premature” with the possible exception of South Africa. In Nigeria, while there have been notable previous and ongoing works (Wallace 1987, 1989; Yahaya 1998; Okike 2000, 2002, 2004, 2007; Yakasai 2001; Ahunwan 2002; Ajogwu 2007; Amao and Amaeshi 2008; Adegbite, Amaeshi and Amao 2009; Adegbite and Nakajima 2009), this thesis is an up-to-date and in-depth analysis of corporate governance and accountability in Nigeria. This thesis further contributes to scholarly knowledge with regards to the corporate governance phenomenon in developing countries.

With regards to precise theoretical contributions, it must be noted that whilst the agency theory will remain the starting point for corporate governance discussions, this thesis identifies the need to complement it with an institutionalist perspective, in order to provide an encompassing understanding of the corporate governance dimension in

Nigeria. It specifically forges a fundamental examination of the evolution and complex configurations of corporate governance in developing market economies, from the spectacles of institutional theory (Meyer and Rowan 1977; Zucker 1987; Scott 2004). Here, institutional theory serves as a complimentary theory and not a replacement for the agency theory. In particular, the notion of "institutions" in this thesis depicts certain underlying national conditions, such as the political, economic, legal and social environments as well as firm/industry values, culture, ethics and history. The thesis examines the roles of these institutions in shaping corporate governance in Nigeria. Thus this thesis brings further insights from a developing country perspective, to augment the evolving institutional theory of corporate governance (Aoki 2000 and 2001; Aguilera and Jackson, 2003; Jackson 2005; Lubatkin, Lane, Collin and Very 2007; Adegbite and Nakajima 2009). This further creates an avenue to enrich discussions from a multi-theoretical perspective. Particularly, complementary with the need to promote effective corporate governance and accountability in Nigeria, is the need to progress such discussions in ways which reflect their broader horizon of institutional, regulatory and external under-tones. These would enable the understanding of the rationale and underlying machinery upon which the structures and practices of corporate governance are developed, nurtured and sustained. As a result, whilst the thesis primarily contributes empirically to the literature on corporate governance in Africa, it furthers an understanding of the institutional embeddedness of corporate governance in different institutional contexts – another stride towards an institutionalised theorising of corporate governance in varieties of capitalism.

1.10 RESEARCH KEY OBJECTIVES

Having introduced the major themes explored in this research and their empirical and theoretical implications, the author proceeds to highlight the work-template upon which this research was carried out. This includes the research aim and objectives, as well as the research questions and their relevance. The author has earlier stated the benefits of a Nigerian case in exploring the key research themes. Eisenhardt and Graebner (2007), however, argue that the challenge of justifying inductive case research depends on the nature of research questions. In the author's attempt to make the afore-mentioned theoretical and practical contributions to corporate governance research, the author follows their advice, by framing the research questions within the context of institutionalism in ways which facilitate inductive theory building through a mix of qualitative data. As a result, questions are framed in ways which increases the prospects of enriching findings and subsequent robust analysis, in ways which altogether culminate to identifying the key determinants of good corporate governance in Nigeria. The foregoing has prompted the author to hook the research mainly on the question: ***what are the key determinants of good corporate governance in Nigeria?*** Nigeria presents a good empirical site upon which the following interrelated sub-research questions are explored for this doctoral study:

(1) Which firm and national level institutional environments matter most in corporate governance, especially in developing countries? To what extent are these institutional environments complementary with good corporate governance?
(2) Why do corporate governance systems remain largely unchanged despite regulatory reforms? What is the role of government in corporate governance?
(3) What effects do external corporate governance systems have on Nigeria? To what extent is there an imposition of "good" corporate governance on developing countries?
(4) On the basis of the institutional, regulatory and external determinants, in what ways can good corporate governance be promoted, particularly at the firm level in Nigeria?

By answering these, this thesis further provides insights concurrently to the following intertwined sub-questions:

- To what extent will certain firm and national level institutional environments continue to matter in corporate governance? To what extent will they loose their influential powers over time due to globalisation and global competition for investments?

- To what extent can (should) corporate governance be regulated? To what extent is government capable of regulating corporate governance efficiently considering the underlying legal systems? How has government's intervention in corporate governance evolved over time? What are the aims of government in corporate governance? To what extent are these aims being achieved?
- To what extent can corporate governance mechanisms be exported? What can Nigeria learn from the corporate governance regulatory frameworks of other countries? To what extent are developing countries tilted towards the Anglo-Saxon/Shareholder model orientation or the Stakeholder model? What are the implications of the imposition of Anglo-Saxon corporate governance principles on developing countries?

1.11 STRUCTURE OF THESIS

The rest of this thesis is organised into eight more chapters as summarised below.

In Chapter 2, the author provides a theoretical discussion of corporate governance. In the chapter, a comprehensive and well-grounded review of relevant literature is undertaken to analyse the conceptual and contextual meanings of the term "good corporate governance". The rationale behind the evolution of modern corporate governance discussions, as well as the subject of the firm in the context of corporate governance, and the corporate governance convergence debate are examined. The author further analyses their overall implications for the corporate governance subject. Thereafter, the author sets the perspective of this thesis with respect to related literature, examining the gaps in literature, which further gives sufficient rationale with regards to the derivation of the afore-mentioned research questions. Chapter 2 provides the background to examine our Nigerian case and gives illumination to applicable research methodology.

The literature review further acts as a methodological instrument which serves as a background for the mix-method qualitative research approach adopted for this study, as discussed in Chapter 3. In Chapter 3, the research method; research strategy and data collection; research instruments; data saturation; data analysis; and related issues are discussed. The findings of this research are thereafter presented, making use of extracts from the survey (typed in italics and single spaced) from the raw data, in a way which facilitated useful deductions, and ensured a clearer link between existing literature, the research findings and analysis, in an attempt to make scholarly, practice and policy contributions.

Chapter 4 discusses the state of corporate governance in Nigeria, as a background to subsequently present the specific findings of this research. This exposition examines the disparity in orientation with regards to the theoretical construction of the subject in Nigeria. It therefore takes into account relevant historical underpinnings including the traditional ownership structure of Nigerian corporations. Specific corporate governance issues in Nigeria are also discussed. These include the particular expressions of the agency relationship and conflict; the workings of the market as a form of corporate control; stakeholder activism; and other issues relating to corporate social responsibility and ethical business conduct.

Following on, Chapter 5 examines corporate governance in Nigeria in the context of institutional theory. It analyses how institutions have shaped/are shaping the state of corporate governance in Nigeria, thus providing a basis to understand the rationale behind the preceding discussions in Chapter 4. Chapter 5 further highlights the need to complement the agency theory with an account of the institutional determinants of corporate governance, especially when attempting to conceptualise the corporate governance dimension in developing economies. It specifically discusses the national and firm/industry specific institutional determinants of good corporate governance in Nigeria. Discussions here aim to extend the literature on the institutional effects on corporate governance with evidence from a developing country.

Bearing in mind the limited complimentarity of the Nigerian institutional setting with good corporate governance, Chapter 6 analyses the corporate governance regulatory framework in Nigeria, essentially with regards to the mechanisms in place to promote good governance. It discusses the internal and external disciplinary mechanisms aimed at addressing bad corporate behaviour. It further examines the laws/legislations governing corporate conduct as well as other non-statutory forms of regulation. A case study of corporate governance regulation in Nigerian Banks is also incorporated. This chapter further aims to add to the literature on corporate governance regulation by providing an assessment of the role of government in corporate governance.

In Chapter 7, the author discusses the influences of external governance systems on Nigeria. Here the author particularly examines the corporate governance systems of the UK, Japan, China and India. The author further investigates what lessons can be learnt from the governance systems in these countries and the pitfalls to be weary of. The roles of the IMF, World Bank and OECD and other Anglo-Saxon conceived initiatives at global corporate governance monitoring and development are also cross-examined. These are done in relation to local institutional initiatives, particularly those of the African Development Bank (AfDB). In this regard, the extent of Anglo-Saxon corporate governance imposition on developing countries is investigated.

Chapter 8 examines the specific drivers of good corporate governance in Nigeria. Following on from preceding analysis and inferences, it highlights nine key drivers of good corporate governance in Nigeria.

This thesis is summed up in Chapter 9. Here, in an attempt to harness previous discussions and make more sense of the determinants, important deductions were made from previous chapters. An apposite understanding of the determinants was further ensured with a view to improve the standard of corporate governance in Nigeria and her bargaining power to attract foreign investments. The academic, practice and policy contributions of this research are also summarised. Lastly, the reality of corporate governance in today's business environment is examined, drawing out implications and making recommendations for future research on Africa and across the world.

CHAPTER 2 – AN APPRAISAL OF RELEVANT LITERATURE ON CORPORATE GOVERNANCE

"The origins of the word - governance - can be found in the Latin – gubernare- meaning to rule or to steer, and the Greek – kybernetikos - which means . . . (steering, eds.). Norbert Wiener used the Greek root as the basis for cybernetics - the science of communication and control in the animal and the machine. The idea of steersman - the person at the helm - is a particularly helpful insight into the reality of governance"

Tricker (1984:9)

"Governance is a cybernetic concept…….Cybernetics critically refers to the feedback and control mechanism by which a system, and any system for that matter, keeps itself oriented towards the goals for which it was created"

Rwegasira (2000: 258)

2.0 INTRODUCTION

The academic research in the field of corporate governance has developed rapidly since the 1992 Cadbury report in the UK and more recently since the 1997 literature review of Shleifer and Vishny. Furthermore, the seminal papers of Jensen and Meckling (1976) and that of Fama and Jensen (1983) remain well referenced in the corporate governance literature. However the shock of major corporate scandals and failures is sufficient to bring the discussion of corporate governance and responsibility back to its basics (Child and Rodrigues 2003). The debate on the definition and essence of corporate governance is being gradually revitalised and discussants are increasingly concerned about what the terms "corporate governance" and "good corporate governance" represent. What is the aim of corporate governance? What is it there to achieve? To what extent is it always important or becomes important only in the advent of a scandal? Which is good or bad corporate governance?

La Rocca, La Rocca, and Cariola (2008) argue that the profitability and overall performance of a firm are strongly influenced by the quality of managerial decisions. They further stressed that these depend on managers' capabilities and on the incentives they have to make decisions which create value for stockholders. This brings to fore the need to understand areas where the incentives of managers and stockholders may diverge in order to appropriate various governance mechanisms to align them (La Rocca et al.

2008). However, this basic discourse of the corporate governance function has taken on board several multi-dimensional tasks, which has made the scope, concerns, and boundaries of the subject less clear. Indeed one cannot overemphasize scholars' disagreement on the subject. While corporate governance is globally seen as key to corporate vitality, there is a variability of approaches towards the subject across countries.

Corporate governance research has no doubt focussed on many areas of interest. For example, the academy has longed sought to establish a relationship between corporate governance and firm's performance (Weston, Siu and Brian 2001). There has also been a great attention devoted to evaluating the shareholder and stakeholder models of corporate governance (Doremus, Keller, Pauly and Reich 1998; Gamble and Kelly 2001). The importance of independence in board composition (Higgs 2003) is also among the cornerstones of corporate governance research. The academic discipline of corporate governance continues to grow with several variants. For example, Belcher (2003) described corporate killing as a corporate governance issue. Certainly, discussions on corporate governance could easily become distorted. While the volume of research on the subject is increasing, often times, its aims can become vague and its objectives rather ambiguous. There is a growing debate on the corporate governance motive (Adegbite 2007).

The seemingly endless list of corporate governance definitions requires scrutiny due to the apparent incoherence. Whilst some discussants have called it a fancy term for the way by which directors and auditors handle their responsibilities towards shareholders, some others have used the term as though it was synonymous with shareholder democracy (Maw and Craig-Cooper 1994). The underlying philosophy of corporate governance can be ranked on a continuum. At one end of the continuum, corporate governance can be perceived as the ways in which investors assure themselves of getting a return on their investments (Shleifer and Vishny 1997). At the other end, it can constitute the system of checks and balances, both internal and external to companies, which ensures that companies discharge accountability and social responsibility to all stakeholders (Solomon

2004). Grounded in agency theory, the former definition perceives corporate governance as a means to align managerial interests with that of shareholders. The sole goal of this alignment is to maximise shareholder value. The latter definition is based on a broader orientation which stipulates that managers should strive to balance and maximize the interests of all parties with a stake in the firm. Given the varying ideological definitions which range between this Shareholder--------Stakeholder continuum, this chapter offers a less normative approach to the subject but one with clearer perspectives. As a result, it generates a useful discussion based on insights from a multi-disciplinary theoretical review. This creates a better understanding of the subject as well as acts as a solid background to subsequently investigate the determinants of good corporate governance in Nigeria.

The rest of the chapter is structured as follows: first, the author provides an overview of the evolution of intense discussions on corporate governance, emphasising the impact of relevant recent and current occurrences, and following on, the subject of the firm, which is core to the corporate governance phenomenon, is discussed. Thereafter, the author conducts a survey of the literature on corporate governance definitions whilst registering the associated multi-disciplinary, multi-contextual and multi-ideological disparities. This further enabled a collation of the limitations of Anglo-Saxon scholarly approach towards the subject, especially with regards to the conceptualisation of corporate governance in developing countries. The evidence of convergence of the two theoretical models were subsequently analysed to investigate the extent to which these indicate the "hybrid" conception of good corporate governance. Lastly the author lays out the thesis's perspective in relation to the term "good" corporate governance'.

2.1 THE INTENSITY OF CORPORATE GOVERNANCE DEBATES: RATIONALE

The term "corporate governance" is relatively new in both public and academic debates, even though the issues it addresses have existed for ages (Farinha 2003). However, recent history has been characterised by high profile corporate scandals which have seriously undermined the confidence of the investing public in corporate governance. Here the author examines some of these notable scandals, and how they have transformed the corporate governance landscape. The Maxwell scandal, as at the time it occurred, could be described as the biggest example of corporate corruption. Consequently it injected the matter of corporate governance and accountability into academic minds. For example, corporate governance in the UK originated from a series of corporate misconducts in the late 1980s and early 1990s, following the scandals at BCCI bank and Maxwell pension funds (FRC 2006). The Maxwell's scandal specifically highlighted the need to separate the role of the chairman from the CEO, and further marked a scrutiny of the functions of non-executive directors as well as audit firms.

Furthermore, corporate governance is hardly taught in today's lecture rooms without reference to the Enron scandal. The former seventh largest company in America has taken its place as one of the largest corporate bankruptcies in history. The scandal particularly drew attention to the following; the need for auditors to scrutinise executive directors' excesses; the importance and responsibilities of non-executive directors; and the need for all corporate stakeholders (shareholders, senior management, board directors and auditors) to behave responsibly (FRC 2006). The aftermaths were global spontaneous reactions including the rapidly passed Sarbanes Oxley Act in the US and the revisions to the UK Combined Code. In the post-Enron age, the paradigm of corporate governance changed. However, current global economic crisis has further highlighted the need to challenge the postulate upon which our understanding of the corporate governance phenomenon is based. Is there an alternative to the "over-liberated" freedom of modern capitalism? In the following section, the author examines the relevant theoretical backdrop upon which corporate governance is discussed among academic circles. Here, the author reviews the literature on the theory of the firm, given that this is central to our understanding of corporate governance.

2.2 THE FIRM: THEORIES AND RATIONALISATIONS

"There are a few things anyone who comes in touch with a firm should know: the first is that there are people called "owners". They put in the money, thanks to which the firm is able to operate, and in exchange, society recognizes their right to call the shots. So despite the boss's self-sufficient airs, he is a mere stand-in for the real boss, the owners.

Next, owners put their money in the firm expecting rewards. They do not do so out of selflessness, love of neighbour or some other lofty ideal. They expect to earn more money after a given time. That is the logic of investment"

Sison (2007: 471)

The theory of the firm has always been one of the cardinal elements of the economics' literature (Hawkins 1973). As early as 1937, Coase stressed the need to provide a definition for the firm which is realistic and tractable. By realistic, he meant that the definition must correspond to what is regarded as a firm in the real world. This definition must also be tractable by the instruments of economic analysis which are the concepts of margin and substitution (Coase 1937). His publication enabled a fundamental scrutiny of the concept of the firm from the perspective of economic theory. In this regard, a firm is generally accepted to be a "nexus" of contracts; which includes (1) the persistence of certain types of contracts in the nexus, (2) the variation detected in other types that are somewhat included in the nexus, and (3) the range of activities covered by these contracts (Demsetz 1988).

The theory of a firm in a neo-classical theory is more straightforward; a firm simply maximizes profits (Cyert 1988). The more conventional control theory and the behavioural theory of the firm further allow for periods of uncertainty within the firm, on the basis that critical aspects of behaviour involve the control actions which firms take when performance are below expectations (Cyert 1988). The behavioural theory of the firm resulted out of the inability of neoclassical economic theories to account for actual decision making behaviour within organisations due to the latter's assumption that economic actors are perfectly rational (Bowen 2007). Indeed the behavioural character of the firm provides a more grounded theory of organisational goals, expectations, and choices (Bowen 2007). In the same vein, but from a different angle, Barney and Arikan describe the resource-based theory of the firm as "a theory of persistent superior firm performance using a firm's resource as a unit of analysis" (2001: 134). They made a case for firm's resource heterogeneity and immobility which explains why certain firms achieve competitive advantage in an industry while others do not (Bowen 2007). Nevertheless, since most firms operate within a competitive environment, the objective of the firm is generally perceived to be profit maximisation.

Anglo-Saxon theories of the firm thus dictate academic and institutional approaches to corporate governance throughout the world, even though their underlying assumptions have been widely criticised (Learmount 2002). Indeed they have become so dominant in the literature that they are almost automatically accepted (Bradley et al. 2000). Who owns the firm? Shareholders do. They are also entitled to the profit generated by the firm; shareholders part with their capital to be used by managers productively thus acquiring a degree of risk which may be proportional to the possible gains (Sison 2007). An individual also forms part of a firm when he or she signs a contract which could be an employment contract, a supplier's contract or a buyer's contract; from a legal perspective, the firm can be defined as a bundle of these contracts (Sison 2007). Thus the core structural characteristics of the business corporation are: legal personality, limited liability, transferable shares, centralised management under a board structure, and shared ownership by contributors of capital (Hansmann and Kraakman 2004).

The concept of a firm's ownership is thus a precursor to conventional treatments of corporate governance (Learmount and Roberts 2002). It is generally accepted that discussions on corporate governance arose due to the problem created by the separation of a firm's ownership from its control. Jensen and Meckling, (1976) whilst building upon the earlier works of Coase (1937); Knight (1957); and Alchian and Demsetz (1972), posit that the incentives of managers to maximize shareholder value are proportional to the fraction of the firm's shares they personally hold (Bradley et al. 2000). No doubt, in a situation where firms are not controlled by their owners, especially in large firms, there must be a mechanism in place to ensure that corporate management seeks to maximize the interests of stockholders. Corporations are therefore legal institutions with an exclusive structure and a set of imperatives which direct the actions of people within it, so as to pursue the corporations' interests (Bakan 2004).

Large corporations have, nevertheless, amassed significant economic and political powers. Possible misuses of these powers by managers have been exemplified by recent corporate collapses. Notably, these developments have highlighted the fact that the impact of the modern day corporation's decisions is felt beyond its immediate environments. To this extent, a corporation can constitute a pathological institution as well as a dangerous possessor of power; it wields this power over people and societies regardless of the probable harmful consequences (Bakan 2004). As a result, whilst there is consensus that shareholders genuinely own the corporation and its voting rights (La Porta, Lopez-de-Silanes and Shleifer 1999), the existence of the corporation is increasingly being perceived to extend beyond profit maximisation. Corporations shape our lives; we eat what they produce; wear their products; and work for them. Governments of the world depend on them for economic sustainability and competitiveness. Ideally they do not only shape our lives, but our future inclusive. Corporations are the engines of any market economy and their proper behaviour has become crucial to economic and human security (Okabe 2004).

2.3 CORPORATE GOVERNANCE

2.3.1 Introduction

The vital importance of corporate governance to organisations around the world has been reflected in an explosion of research and writing in the field (Mallin 2006). Corporate governance definitions have consequently attracted extensive controversy and scrutiny. One of the probable explanations for this is that corporate governance enjoys multi-disciplinary interests from accounting, economics, management, finance, law, politics, international relations, amongst others, which has led to the numerous definitions of corporate governance. Each of these disciplines tends to perceive corporate governance in differing ways as they focus on different issue (s) and component (s). As a result, discussants have come up with different definitions which reflect their specific interest (s) and bias in the field. Here, the literature on the various definitions of corporate governance is examined and insights into areas of scholarly consensus and dispute are provided, in an attempt to progress the debate.

2.3.2 Corporate Governance Defined

There are no agreed definitions or boundaries for investigating corporate governance (Turnbull 2000), and this has created a sense of intellectual vertigo in the ever increasing debate on corporate governance reforms (Pound 1993). Simply put, the definition of corporate governance depends on one's view of the world (Gillan 2006). The model of corporate governance has thus been defectively defined and perhaps the best way to describe the concept is to list a few of the different definitions rather than mentioning one (Maw and Craig-Cooper 1994). These definitions vary across countries/regions, being contingent on differing legal, political, economic, cultural and ethical environments. The presence of several definitions in the literature is, however, an indication that the academy of corporate governance is a rich one (Maassen 2000). These definitions vary in focus, simplicity, scope and breadth.

A narrow definition is that of Shleifer and Vishny (1997). They described corporate governance as a means through which suppliers of finance to corporations are assured that they get a return on their investment. Keasy, Thompson and Wright (1997) also defined corporate governance as the system of accountability of corporations' senior management to shareholders. Both definitions refer to the existence of potential conflicts of interests, arising from the separation of firms' ownership and control, over the partition of wealth generated by the firm (Farinha 2003). Issues relating to corporate governance thus "arise in an organisation whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organisation……;second, transaction costs are such that this agency problem cannot be dealt with through a contract" (Hart 1995: 678). Thus corporate governance has traditionally invoked a narrow consideration of the relationships between the firm's shareholders and management, as mediated by its board of directors (Bradley et al. 2000).

A fairly broader definition which is consistent with that of Cadbury (1992) is provided by the OECD (1999). This definition describes corporate governance as a set of relationships between a company's board, shareholders and other stakeholders, which provides the system by which companies are directed and controlled. Corporate governance is thus concerned with structures within which a corporation receives its basic orientation and direction (Rwegasira 2000). Here, both definitions refer to corporate governance as a tool which must ensure transparency, accountability and control.

O'Sullivan, (2003) defined corporate governance as concerned with the institutions that influence how business corporations allocate resources and returns. She further argued that corporate governance shapes who makes investments decisions in corporations, what type of investments are made, and how returns are distributed. Corporate governance can therefore be said to describe all the influences affecting the institutional processes involved in organizing the production and sales of goods and services (Turnbull 1997a). John and Senbet (1998) also defined corporate governance as the mechanism through which stakeholders exercise control over corporate insiders and management in order to ensure that their interests are protected.

In an attempt to harness the aforementioned definitions, corporate governance becomes an umbrella term relating to concepts, theories and practices of corporate participants as well as the inter- relationships between boards, stockholders, senior management, regulators, auditors and other legitimate stakeholders (Cochran and Wartick 1998; Maasen 2000). Monks and Minow (2001) stressed that these inter- relationships must work in ways which ensure that the right questions are asked, and that they get the right answers. They further argued that the aim must be to create sustainable value for the firm. The OECD (2001) report also describes these inter- relationships as involving various rules and incentives, which provides the structure through which the objectives of the company are set, the means of achieving them, as well as the ways to monitor performance.

Gillan (2006) argued that scholars generally view corporate governance mechanisms as falling into one of two groups: those internal to firms and those external. As a result, he broadened the balance sheet model of the firm to examine a wider set of governance influences, incorporating elements that may not traditionally be viewed as part of corporate governance structures. He divided corporate governance into two broad but interconnected classifications:

"Internal Governance, comprising of 5 basic categories: 1) the board of directors, including their role, structure, and incentives, 2) managerial incentives, 3) capital structure, 4) bylaw and charter provisions/anti-takeover measures, and 5) internal control systems) and External Governance, also comprising of 5 categories: 1) law and

regulation, specifically federal law, self regulatory organisations, and state law, 2) Markets 1, including capital markets, the market for corporate control, labor markets, and product markets, 3) Markets 2, emphasizing providers of capital market information, such as that provided by credit, equity, and governance analysts, 4) Markets 3, focusing on accounting, financial and legal services from parties external to the firm such as auditing firms, directors' and officers' liability insurance, and investment banking advice, and 5) private sources of external oversight, particularly the media and external lawsuits"

(Gillan 2006: 5)

In a similar vein, Cunningham (2000) divided corporate governance into three categories. The first category constitutes those internal governance mechanisms which address the relationship between those in control of the corporation and all other constituents such as the shareholders, workers, lenders and communities. He referred to this category as the vertical internal mechanism. The second group, which is the horizontal internal governance mechanisms, directly regulate the inter-relationships between these various constituencies. Lastly the third group constitutes the external governance mechanisms which describe the rules and regulations imposed upon corporations, including rules about competition, antitrust, national trade and security.

Conclusively, corporate governance describes how the authority (decision power) and responsibility of management are allocated and exercised in relation to the need to protect the interests of all stakeholders (La Rocca et al. 2008). According to Ira Millstein,[5] corporate governance thus becomes that "blend of law, regulation and appropriate voluntary private-sector practices which enables the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long term economic value for its shareholders, while respecting the interests of stakeholders and the community as a whole" (World Bank, 1998: 7).

2.3.3 Discussions

The (1997a) study of Turnbull outlined the conceptual, cultural, contextual and disciplinary scopes of corporate governance and registered that there is ambiguity in its meaning. He went further to assert that this ambiguity extends to other terminologies

[5] Ira Millstein, former principal advisor on corporate governance to the OECD and World Bank.

often associated with the subject, for example, “control” and “regulation”. In an attempt to understand the corporate governance definitional discrepancy, figure 2.1 highlights the differing “points of emphasis” which are evident in notable definitions. Figure 2.1 is clearly not an attempt to box scholars into particular corners, as this comes with difficulty given that many definitions do seem to have more than one of the focal points highlighted below. As a result, the figure represents an attempt to depict a definitional discordance, based on the major points emphasized by the scholars.

Focus	Direction, Control, Regulation	Performance	Shareholder Protection	Stakeholder Protection	Social Responsibility
Experts	Cadbury 1992; OECD 1999	Keasy, Thompson and Wright 1997; O’Sullivan 2003	Shleifer and Vishny 1997; Parkinson 1993; 1995	Monks and Minnow 2001; Aguilera 2005	Solomon 2004

Figure 2.1 The corporate governance definitional discordance

Whilst the definitional variance helps to enrich academic discussions, future debates need to address these issues before deciding what might be achieved. Clarity of the goal of corporate governance is imperative to sustainable good corporate behaviour. As a result, whether corporate governance is seen as a subject or as a goal, a healthy definition is instrumental to any successful governance reform.

2.4 THE LIMITATIONS OF ANGLO-SAXON SCHOLARSHIP

Anglo-Saxon scholarship implicitly assumes publicly traded firms as the sole subject of analysis, which limits corporate governance discussions to approximately 260 firms in Nigeria and around 60,000 firms world-wide; Turnbull (2000) pointed out that these represent a very low percentage of world's economic activity. He therefore concluded that the notable and influential Anglo-Saxon corporate governance scholarship has limited application as it seriously undermines investigations into the most efficient institutional arrangements for undertaking productive activities. Furthermore, Anglo-Saxon researchers often discuss the subject as solely involving a relationship between the firm and its shareholders. According to Bradley et al. (2000), corporate governance does not only transcend the relationship between a firm and its capital providers but also implicates how the various constituencies that define the business enterprise serve, and are served by, the corporation. They further stressed that seeing corporate governance as predominantly involving shareholders and the firm underestimates the implicit and explicit relationships between the corporation and its employees, creditors, suppliers, customers, local communities, government and the inter-relationships among these constituencies.

Turnbull (2000) pointed out another normative overkill which trail Anglo-Saxon corporate governance research. This is the covert assumption that firms generally operate a unitary board system without an influential shareholder; this limits the relevance of much of Anglo-Saxon research because dominant shareholders often act like a supervisory board and they are not uncommon, as witnessed, for example, in Japan (Nakajima 1999). Therefore attempts to describe corporate governance in the context of developing countries should undoubtedly reflect the above mentioned fundamental concerns with regards to relevance and applicability, given that the notion of the term differs from one context/country to another. Lastly, the issue of what "good" corporate governance constitutes has been less debated in the literature than one would expect despite its importance. In order to make significant and sustainable achievements in the academy and practice of corporate governance, these fundamental issues must be addressed and the subject of "good" corporate governance should be central to future discussions.

2.5 GOOD CORPORATE GOVERNANCE: INSIGHTS FROM THE CONVERGENCE DEBATE

2.5.1 Introduction

In an attempt to progress the foregoing discussions on the corporate governance agenda, it is important to look into the subject of convergence, in order to investigate the extent to which it points to the direction of a universally accepted definition/motive of corporate governance. But first, are national systems of corporate governance converging? If they are, to what extent does convergence indicate the globally accepted postulate of good corporate governance? There are two dominant systems of corporate governance: the Shareholder (outsider) model prevalent in the UK and the US and the Stakeholder (insider) model which is prevalent in Germany and Japan.

Shareholder	**Stakeholder**
executive and non-executive directors are fiduciaries of shareholders;	executive and non-executive directors are fiduciaries of a variety of claimants;
executive and non-executive directors should adopt policies consistent with the maximisation of shareholders' wealth;	executive and non-executive directors should balance pluralistic claims;
profitability and economic efficiency are the standards of efficacy;	profitability and economic efficiency are important in addition to survival, long-term growth and stability;
the corporation is subordinate to the interests of shareholders.	the corporation is seen as a superordinate entity.

Figure 2.2 Shareholder and Stakeholder Perspectives of Corporate Governance

Source: Gedajlovic (1993:53-54)

Figure 2.2 shows that when these competing perspectives are taken into consideration, the corporate governance concern becomes less clear, such that definitions of corporate governance and the roles of corporate boards can move on a continuum from a purely shareholder view to a purely stakeholder view (Maassen 2000). The shareholder –centred model includes dispersed ownership, strong legal protection for shareholders and traditional disregard to other stakeholders. The priority is to enhance shareholders' value. The stakeholder model requires that all parties affected by managements' decisions, including managements themselves, shareholders, employees, customers, suppliers, the local and global environments, and the government must all be considered fairly. As a result, whilst shareholders occupy a significant position, managements seek to balance the interests of a large group of stakeholders in ways which aim to ensure that the decision making process is consensus-oriented. The focus of the stakeholder model is on the whole network of formal and informal relations which determine how control is exercised within corporations and how the risks and profits are distributed among various stakeholders (Lane 2003).

2.5.2 Evidence of Convergence?

The growing economic globalisation has stimulated a brilliant debate on the similarities and differences between national corporate governance systems; it has particularly highlighted the emergence of a single "best" approach to corporate governance (McCahery and Renneboog 2002). To what extent does a particular corporate governance model have a clear-cut competitive advantage over the other? Given that countries across the world would have to adopt the most competitive model, this question is key and underlying to the subject of convergence. Research evidence as represented in the extant literature on corporate governance suggests that the shareholder model is winning the debate. Discussants, notably law and economics academics proclaim the superiority of the Anglo-Saxon oriented corporate governance model (Goergen, Martynova and Renneboog 2005). Consequently, there are traces of convergence. Shleifer and Vishny (1997) reported that corporate governance systems in Germany, Japan, and the US indicate a trend towards uniformity. Some of the principal factors driving economies towards convergence include the failure of alternative models and the competition for global commerce, (Shleifer and Vishny 1997; Braendle and Noll 2006).

For example, whilst large shareholders are on the increase in US firms, board structures in German and Japanese firms are also moving towards the US model of a relatively small single-tier board (Braendle and Noll 2006). Wojcik (2001) further observed that the level of ownership concentration in German firms fell significantly over the period of 1997 through 2001, and therefore concluded that German firms are moving towards the Anglo-Saxon model. In Japan, the pattern of shareholding is also changing. Notably there has been a decline in stable shareholdings as well as cross-shareholdings and the last decade has witnessed the rise of foreign institutional investors. Patrick (2004) also reported that Japanese CEOs have begun engaging in investor relations and travelling regularly to the United States to meet with institutional investors; as a result, more Japanese firms are being listed on the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE). In the UK and the US, the separation of the CEO and the Chairman of the Board, as well as the introduction of audit committees and the increasing proportion of non-executive directors, could also be interpreted as a potential move towards the two-tier board system (Braendle and Noll 2006; Kaplan 1997). To a large extent, these developments represent a substantial push factor towards convergence. Convergence has also been largely driven by modifications in legislations across different countries. These modifications are also closely linked with the efforts of the World Bank, IMF and other globally influential authorities.

However, we must take an important caution. Palepu, Khanna, and Kogan (2002) argue that whilst nations may formally adopt corporate governance systems which resemble those elsewhere, the acceptance of the enshrined principles may significantly lag in their legislations. Although, functional convergence is a reality (Halpern 1999), this brings to bear the extent to which convergence indicates the convergence of principles and philosophies about the corporate character or simply a convergence of structures. Furthermore, the traces of convergence around the world generally appear to point in the direction of the Anglo-Saxon model. Indeed, to what degree does convergence mean major restructuring in stakeholder oriented countries and mere improvements/modifications in shareholder oriented countries. In order words, is there a convergence towards another model which is not the same as any of the two principal models or a convergence to a slightly modified Anglo-Saxon model?

As discussed in subsequent chapters, corporate governance models should not be seen in isolation of the rest of the institutional underpinnings of the economy (Guillen 1999). The dominant view here is that the existence of different national institutions means that increased global competition as well as the integration of financial markets would not express themselves in the same ways in different national governance systems. Since different systems of capitalism will produce different responses to similar pressures, total convergence is unlikely to occur. In this regard, firms remain institutionally embedded. Therefore, the conventional knowledge that the cross-border activities of multinationals will compel a convergence to the "superior" Anglo-Saxon model requires immense scrutiny. For example, La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) noted that the proportion of the world's foreign investment accounted for by Anglo-Saxon countries fell from 66 percent in 1980 to just over 50 percent in 1997, while the combined shares of Stakeholder countries grew from 34 to 49 percent over the same time period. Could it be assumed that there will be a significant convergence towards shareholder countries when their share of total foreign investments is falling?

However, if the evidence of convergence are not convincing, is there any evidence of divergence? To start with, while there has been the recognition of the importance of the stock exchange in both France and Germany, the stock markets in these countries remain comparatively less important as the UK or US for raising new funds (O'Sullivan 2003). Indeed French and German firms' listings in the US are primarily as a result of intended or actual merger activities (O'Sullivan 2003). There has not been a major change in ideology and intent. Also the adoption of long-term incentives and stock options to encourage CEOs to maximize shareholder's wealth still appear to be incentives only used extensively in Anglo-Saxon countries. Another clear indicator which suggests that corporate governance models may not be converging is in relation to the market for corporate control; here, the occurrence of hostile takeovers is still not a worldwide phenomenon, but one largely confined to the US and the UK, both in terms of targets and acquirers (Guillen 1999). O' Sullivan, (2003) also argue that whilst co-determination (strong employee representation at all levels, which is common in stakeholder oriented countries) has weakened, it has not been dismantled and remains very important.

2.5.3 Conclusion

Following a discourse on the contrasting shareholder and stakeholder orientations, the analysis which followed indicates that the convergence debate is far from being settled. Indeed the process is essentially on-going. Whilst the equilibrium of evidence appears to be tilted in favour of a convergence towards the Anglo-Saxon model, the literature remains puzzling and contradictory. In an attempt to reconcile both models of corporate governance, some scholars have talked about the "enlightened shareholder value" or "instrumental stakeholder theory" or "strategic corporate social responsibility" or "the good firm" (Parkinson 1995; Jones 1995; Kay and Silberston 1995; Filatotchev, Jackson, Gospel and Allcock 2006), as the hybrid model. This hybrid possibly points in the direction of good corporate governance, given that it harmonises the strengths of the two traditional models.

2.6 PARAMETERS OF GOOD CORPORATE GOVERNANCE

The foregoing discussions have clearly shown that there is no universally accepted definition for the term "good" corporate governance. Indeed whilst this thesis makes no attempt to resolve the debate between shareholder and stakeholder orientations, it is important to note that both perspectives share some common prescriptions in promoting basic accountability of executive directors for the stewardship of company assets (Filatotchev et al. 2006). In this vein, the notion of good corporate governance can be usefully discussed. It certainly imbibes elements from the two traditional models. For example, good corporate governance entails the maximisation of shareholder value legally, ethically and in a sustainable way while ensuring fairness to all stakeholders, including customers, employees, partners, governments and local communities (Murthy 2006). A good corporate governance structure is the one which "selects the most able managers and makes them accountable" Tirole (2001: 2). This structure will not only ensure that executives respect the rights and interests of stakeholders, but also make sure that stakeholders act responsibly with regard to the resources invested in and generated by the enterprise (Filatotchev et al. 2006). To this extent, good corporate governance becomes a reflection of a company's values, culture and policies, in relation to its stakeholders, and its commitment to these values (Murthy 2006). This may also imply significant public interest elements which regulate the purposes for which managerial power over the corporation may be legitimately administered (Parkinson 1993).

How can firms ensure good corporate governance? What mechanisms promote good governance? Filatotchev et al. (2006: 83-95) highlighted 18 drivers of good corporate governance, based on a profound analysis of corporate governance in relation to associated economic, strategic, social, and legal configurations. The drivers include the following;

1. Board independence
2. The diversity, human and social capital within the board
3. High engagement in board processes
4. Presence of large-block shareholders
5. Shareholder activism
6. Breadth and depth of public information disclosure
7. Breadth and depth of private information sharing
8. Independence of the external auditors
9. Competence of the audit committee
10. Presence of internal control systems and support of whistleblowing
11. Long-term performance-related incentives:
12. Transparent and independent control of the remunerations committee
13. An active market for corporate control
14. Transparency and protection for shareholders and stakeholders during mergers and acquisitions
15. Board power regarding takeover bids, subject to shareholder veto
16. Stakeholder involvement within corporate governance
17. Voice mechanisms for debtholders
18. Employee participation in financial outcomes and collective voice in decision-making

A summary of the drivers is provided in appendix 1. The authors rightly noted that their analysis focused on certain isolated sets of corporate governance practices. They argue that since the effects of corporate governance structures are contingent on the presence or absence of other corporate governance elements, some caution must be exercised in looking at the "drivers" as a cross-country benchmark for good corporate governance. Indeed in the context of developing countries, considerable caution must be taken in seeing these drivers as universally applicable. In particular, the relevance of these drivers were investigated in the case of Nigeria, and as discussions in chapter 8 further indicate, some of the drivers were found to be of minimal importance in the Nigerian context. Nevertheless, whilst their evidence was based on a UK specific study, they nevertheless give important indications into how good corporate governance can be facilitated. Furthermore, in limiting the barriers to good corporate governance, especially in developing countries, Koppes (1999: 12-13) argues that the following structural and cultural issues must be addressed:

A. Structural Issues:

1. Does the board include members who have conflicting interests that prevent them from effective representation of all shareholders?
2. Does the compensation of directors encourage them to act in shareholders' interests?
3. Are new director candidates nominated using a process that is controlled by insiders?
4. Are incumbent directors nominated for re-election without a thoughtful consideration and evaluation of the continuing skills and perspectives that they bring to the board, and the time they have available to commit to board service?
5. Does the director nomination process include the opportunity for effective shareholder input?
6. Do insiders control key committees?
7. Has the board failed to establish and evaluate appropriate performance criteria for the board, for individual directors, and for the CEO?
8. Are directors provided with insufficient training or education (both on a one-time and continuing basis) regarding the business of the company and the role of directors?
9. Are directors able to both access internal and hire independent resources, as needed to make informed decisions and exercise effective oversight?
10. Have directors and managers instituted anti-takeover measures to entrench themselves?

B. Cultural Issues:

1. Do directors overly identify themselves with management of the company?
2. Are directors overly prone to yield to the CEO?
3. Do the directors insufficiently recognize their accountability to shareholders?
4. Do directors participate actively in the decision-making process?

5. Have directors made an adequate commitment of time to every company on whose board they serve?
6. Does management provide directors with incomplete or inadequate information?
7. Is the board excluded from major company decisions (such as strategic planning and decisions affecting the company's capital structure)?
8. Are directors unable to express disagreement and yet continue to work as a collegial board?
9. Does the board micro-manage (*i.e.*, focus on daily operations instead of strategic direction)?
10. Is there a significant percentage of shareholders who do not vote and are shareholders knowledgeable about the issues and do they make informed voting decisions?

Good corporate governance can thus be described as a voluntary ethical code that specifies the process of structuring and controlling a company, and further enables it to operate efficiently and effectively through a sound board monitoring system which ensures that the best interest of the company is put first at all times (Sapovadia 2007). The bedrock of good corporate governance is thus to conduct the affairs of a company in ways which ensure fairness to all stakeholders through quality leadership, good values, transparent management, clear vision and goals, respect for the rule of law, and a sense of social and communal responsibilities (Waknis 2007). Consequently, good corporate governance will enhance "the performance of corporations, by creating an environment that motivates managers to maximize returns on investment, enhance operational efficiency and ensure long–term productivity growth" (Murthy 2006: 1-2)

Lastly, according to the Australian Stock Exchange Corporate Governance Council, corporate governance should represent the system by which a company gets directed and managed, including how the company's objectives are set and achieved, as well as how risk is minimised and performance is maximised (ASX 2003). Good corporate governance structures will thus encourage companies to create value (through entrepreneurial activities, continuous innovation, and development) whilst providing robust accountability and control systems that are commensurate with the risks involved (ASX 2003).

2.7 THE WORTH OF GOOD CORPORATE GOVERNANCE

The field of international corporate governance research has been transformed in the last decade. Pitelis and Clarke (2004) noted that there have been several publications of corporate governance codes across many countries; numerous global and regional initiatives at corporate governance developments and monitoring; huge development in corporate governance activity, sources and databases; as well as the development of several corporate governance agencies and research centres across the world. If good corporate governance truly benefits businesses, it is rational for companies to generally subscribe to it.

It is possible to conclude that good corporate governance is advantageous to business. Having discussed the relationship between good corporate governance and efficient corporate governance regulation, it must be stated that any serious company in developing economies that is actively seeking foreign investments must have a good corporate governance system irrespective of the necessity of this for local investments. Clearly good corporate governance maintains investor confidence in the markets (Milne 2006). Corporate governance is an important determinant of inward foreign investments and plays a determining role in the bargaining power of developing countries to attract foreign investments, especially low-income countries (Rueda-Sabater 2000). Bad corporate governance is costly whilst good corporate governance is highly beneficial. Good corporate governance generates wealth and manages risk in a simultaneous and continuous manner (Pitelis and Clarke 2004).

Indeed good corporate governance has long been considered crucial for enhancing the long-term value of corporate stakeholders; in today’s technology-driven information age, good corporate governance is much more than good business practice but an indispensable component of market and business discipline (Levitt 2000; Cohen, Krisnamoorthy and Wright 2002). There is evidence which suggests that investments in firms which have bad corporate governance systems yield abnormally negative returns for prolonged periods of time while firms with good corporate governance have higher stock market valuations and increased profitability (Causey 2008). Assessing corporate governance thus become more than a box ticking exercise; the board structure, compensation practices and shareholder rights must be examined individually as well as collectively to ensure that they protect the interests of the shareholders (Milne 2006). The presence and effectiveness of these factors produce good corporate behaviour.

Anson, White and Ho (2005) concluded that good corporate governance pays well based on evidence from the California Public Employees' Retirement System (CALPERS). Good corporate governance builds credibility, first at the company level, then at the industry and country levels. High degrees of credibility and reliability are crucial elements necessary to generate investor confidence in developing countries. Given that the private sector is the main driver of a country's economic growth in today's market economies, good corporate governance will increase the integrity and effectiveness of the private sector (DFID 2003). It will further make markets operate more effectively which will boost the investment climate of developing countries and amongst others have the following secondary effects (DFID 2003; 2):

- Prevent business scandals, which damage trust in business.
- Increase the value placed on good corporate governance by institutional investors.
- Enable increased involvement of the private sector in service delivery.
- Prevent and deter corporate corruption.
- Allow deregulation and integration of capital markets.
- Facilitate the harnessing of domestic savings for economic growth.
- Reduce the risk of financial crisis and contagion.

The quality of corporate governance influences the kind of foreign investment that a country is able to attract; good corporate governance attracts good investments into important areas of the economy (Rueda-Sabater 2000). According to Jack Keenan (former CEO of United Distillers and Vintners), "good corporate governance can save a company from the trash heap!" (Pitelis and Clarke 2004). Good corporate governance will enhance the quality of managerial stewardship and eventually result in more efficient capital markets (Cohen, Krisnamoorthy and Wright 2002).

Legislation alone cannot dictate how each conflict of interests among corporate stakeholders can be resolved, but it must assure all stakeholders that the structures and processes are in place to sensibly maximize the interests of all parties; interaction and responsiveness in this wider societal context is the ultimate test of good corporate governance (Morrison 2004). Good corporate governance could also indicate good overall corporate practices; if a company is good at corporate governance, it would probably be good at accounting, risk management (Milne 2006), strategic decision making and entrepreneurship. For developing countries, corporate governance issues do not only affect the distribution of income and wealth but also affect their competitiveness and growth potential (Rueda-Sabater 2000). There is no substitute for good corporate governance. As Dalton and Daily (1999) posit, good corporate governance makes board members to proactively develop the strategy and long-term direction of the firm, otherwise, as Jensen (1993) points out, corporate governance matters will only come to the forefront in times of corporate crisis or collapses (Cohen, Krisnamoorthy and Wright 2002).

2.8 CONCLUSION: RATIONALE BEHIND THE DERIVATION OF RESEARCH QUESTIONS

A country's corporate governance framework is vital to the health of her companies, their access to capital, and ultimately the wealth created and retained in the country. The following deductions can be made from the foregoing discussions. To start with, the overview of academic debates on corporate governance (including references to relevant historical developments) provides a rationale behind the extensive scholarly and media attentions, which the subject has enjoyed in recent times. The discussions on the theory of the firm also help to enrich scholarly knowledge with regards to the corporate governance bedrock. A further survey of the corporate governance definitional contest draws attention to the fact that Anglo-Saxon theories based on the peculiarities of highly developed markets may be limited in their ability to prescribe the dimensions of good corporate governance to developing countries such as Nigeria. Furthermore, taking a normative approach to good corporate governance would be inherently limiting and over-assuming, as this would only lead us to judge good corporate governance thinking, structures and practices solely by Anglo-Saxon standards. The analysis of the convergence debate enabled an investigation into the extent to which national corporate governance systems will converge to the best (good) corporate governance model. Thereafter, discussions were able to highlight the parameters of good corporate governance.

The huge comparative lacuna with regards to corporate governance in sub-Saharan Africa has been severally noted in Chapter 1; particularly as one of the motivational factors behind this study. The particular importance of Nigeria as the empirical site, in which this study is situated, has also been addressed. Notably, the evolving literature on corporate governance in Nigeria (Wallace 1987; Yahaya 1998; Okike 2000, 2002, 2004, 2007; Oyejide and Soyibo 2001; Yakasai 2001; Ahunwan 2002; Nmehielle and Nwauche 2004; Sanda, Mikailu and Garba 2005; Bolodeoku, 2006, 2008; Ajogwu 2007) has achieved a coherent description of the state of the subject in the country, and as a potential outlook to view corporate governance in most of the other countries of the sub-Sahara. In augmenting the achievements of these works, this thesis adds to the literature on developing countries by conceptualising the dimension of the subject in developing countries, from an institutionalist perspective, in order to account for the state of corporate governance in the countries of the sub-Sahara. In complementing this institutionalist background, the regulatory dimension and external influences on corporate governance in Nigeria further helps our understanding of the determinants of good corporate governance in varieties of capitalism. It is based on a critical reflection on these literature deficiencies, that the following exploratory research questions were prompted, around which a research design was developed (Harrow and Palmer 1999), as detailed in the following chapter. As a reminder, the main research question - ***what are the key determinants of good corporate governance in Nigeria?*** - has been divided into the following interrelated sub-research questions, which are explored for this doctoral study:

(1) Which firm and national level institutional environments matter most in corporate governance, especially in developing countries? To what extent are these institutional environments complementary with good corporate governance?

(2) Why do corporate governance systems remain largely unchanged despite regulatory reforms? What is the role of government in corporate governance?
(3) What effects do external corporate governance systems have on Nigeria? To what extent is an imposition of "good" corporate governance on developing countries?
(4) On the basis of the institutional, regulatory and external determinants, in what ways can good corporate governance be promoted, particularly at the firm level in Nigeria?

Subsequent discussions will clearly indicate that developing countries face peculiar corporate governance challenges. The means of facilitating good corporate governance would thus differ from one institutional context to the other. The viewpoint adopted in this thesis is that "no one size fits all." Indeed, given that each country has its peculiar legal system and business traditions, there can be no "one size fits all" model of corporate governance (Allegrini, D'Onza, Paape, Melville and Sarens 2006). However, the pursuit of good corporate governance, despite the existence of disparaging definitions, remains imperative to corporate and economic sustainability and survival. According to Sapovadia (2007), the corporate sector is confronted with huge challenges that corporate governance on its own cannot solve, but which good corporate governance can solve. He further argued that whilst corporate governance can be imposed by legislation, good corporate governance is essentially an addition to the minimum required adherence to rules, and that which comes from within the promoters and directors of corporations. Good corporate governance is the mechanism of wealth maximisation for all stakeholders (Sapovadia 2007). Good corporate governance can thus be usefully discussed, given the basic principles of honesty, accountability, transparency and fairness that it promotes. This chapter has provided a multi-theoretical and practical scrutiny of the corporate governance phenomenon, and thus provides a solid background for subsequent presentation of findings on the determinants of good corporate governance in Nigeria. The following chapter discusses the research methodology and data collection processes.

CHAPTER 3 – RESEARCH METHODOLOGY AND DATA COLLECTION

3.0 INTRODUCTION

The comprehensive review of relevant literature in the last chapter provides a well-grounded theoretical insight into corporate governance. It has also helped in the identification of the appropriate research methodology for this study. This chapter outlines the research design, and discusses the methods and methodology employed in this study to answer the research questions and provides insights into the key themes explored. Due to the nature of the issues being addressed in this study, the research method adopted was qualitative. Particularly, given the nature of the research questions and objectives, the author adopted a mix-method qualitative strategy for this research. Qualitative research methods are valued in the development of knowledge, in the exploration of experience and context, in understanding multiple perspectives on an issue or topic, and in understanding the complexity in which a phenomena exists (Morse, Swanson and Kuzel 2001; LeCompte and Schensul 1999; Creswell 1998; Yin 1994). According to Aaker, Kumar and Day (2001), qualitative methods have a more flexible relationship with the respondents; consequently, the resulting data will have great depth and greater richness of context. This study adopted a mix of the following qualitative research methods: in-depth interviews, focus group discussions, direct observations and case studies.

This chapter is structured as follows: the next section examines the appropriateness and benefits of qualitative research methodology for this research. The analytic induction research method which is employed in this study is subsequently evaluated, also with respect to its suitability. Following on, the data collection strategy of this research is examined. The afore-mentioned mix of qualitative research instruments is thereafter discussed. Relevant information is also given with regards to their appropriateness and advantages. Furthermore, the mechanisms employed to manage the researcher's obtrusiveness in data collection, specifically with regards to the in-depth interviews, focus group discussions and direct observations are discussed. Issues relating to the researcher's flexibility and data saturation are also addressed. Thereafter, an analysis of the sample and findings from this survey of this research is discussed. Lastly, the appropriateness of this research strategy, methodology and methods, with adequate references to relevant literature, are presented.

3.1 QUALITATIVE METHODS: BENEFITS AND APPROPRIATENESS

Qualitative research methods are the most suitable for investigating research questions which focus on "how", "why" and "what", in an attempt to describe, interpret or explain a certain social phenomenon (Lee 1999). Qualitative methodologies, thus, refer to research procedures which produce data, with respect to subjects' account of observable behaviour (Bogdan and Taylor 1975). Qualitative research approaches rely on understanding processes, behaviours, and conditions, in order to determine causal relationships through methods rather than by establishing counterfactuals (Wang 2006). A qualitative research is "highly descriptive and often recounts who said what, to whom, as well as how, when, and why" (Gephart 2004: 455). Qualitative research aims "to describe, decode, translate or otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world" (Van Maanen 1979: 520). Therefore, a good qualitative research normally adopts a multi-method strategy that uses an interpretive and naturalistic approach to its subject matter (Denzin and Lincoln 1994). Indeed qualitative data consist of detailed descriptions of events, situations and interactions between research subjects, thus providing depth and detail (Patton 1980).

Bogdan and Biklen (1982) suggested five characteristics of qualitative research which give further illumination into the appropriateness of a qualitative approach for answering the previously mentioned research questions. They include the following:

1) Qualitative research commonly takes place in a natural setting, where individuals are most directly involved in what is being studied. Context is important; behaviour can be understood more fully when observed in its own setting.

2) The data generated is considered to be descriptive and "rich" in that it retains as much of its original meaning as possible. The data can include transcripts, photographs, videotape, official documentation, and personal correspondence.

3) The researcher places primary importance on the process, rather than on the outcome. Collecting the data, probing and uncovering meanings that may be new or common to situations or that may explain variations or new dimensions to themes, is the process that helps to explain phenomena or changes that have occurred.

4) It relates to how theory is developed through induction. In this regard, qualitative research builds theory from observations. Inductive reasoning is often referred to as grounded theory and suggests that generalisations are grounded in the observable data.

5) It concerns meaning. As a qualitative researcher, one asks, what is the meaning of a particular social construct to the participants; what are their experiences and perspectives?

Inglis (1992: 175-176)

Clarity can be gained by contrasting qualitative research with quantitative research; the latter "emphasizes measurement and analysis of causal relations among variables" (Denzin and Lincoln 2000: 8). Morgan and Smircich (1980) made a case for qualitative research in social science. They argue that the quantitative methods used in the social sciences draw principally on the methods of the natural sciences, in an attempt to capture a view of the social world as a concrete structure. Furthermore, they noted that this reduces the role of human beings to elements which are subject to the influence of a more or less deterministic set of forces. They subsequently stressed that social scientists can no longer remain as only external observers, measuring what they see; they must move to investigate from within the subject of study and employ research techniques which are appropriate to that task. According to them, many of such techniques offer themselves as a basis for qualitative forms of investigation, each adaptable to different kinds of assumption about ontology and human nature.

Qualitative research directs itself at settings as well as the individuals within those settings in an holistic manner; as a result, the subject of the study, be it an organisation or an individual, is viewed as a whole, and not reduced to an isolated variable or hypothesis (Bogdan and Taylor 1975). Qualitative research approaches aim at the production of serendipitous findings and are in many cases broader in perspective than quantitative tools (Das 1983). Whilst quantitative research methods focus on empirical measurements of relationships, qualitative methods remain firmly grounded in the social science discipline and seek to investigate, beyond surface levels, causal relationships and explanations. This is done in a deep fashion which generates in-depth insights that would normally elude the scope of a quantitative approach. No doubt, qualitative and quantitative approaches to the study of organisations are not mutually exclusive (Das 1983). Whilst the two research genres may overlap, qualitative research can be conceived of as inductive and interpretive (Van Maanen 1998).

Therefore, the author does not see the two research approaches as competing models, given that they clearly have their respective strengths and weaknesses. It is, however, evident from the foregoing discussions that a qualitative approach would best suit the research agenda as well as answer the previously highlighted research questions. This will further generate well enriched and robust data required to understand as well as produce universal explanations with regards to the institutional, regulatory, external and specific determinants of good corporate governance in Nigeria. This is because qualitative research is not simply non-numerical, but able to penetrate the experiential social worlds of intentional and self-directing actors (Mangen 1999) whether through spoken or written words. Qualitative research methodology combines the rational with the intuitive approach to knowledge creation; the focus is on the unfolding process rather than the structure (Das 1983). Thus, it addresses questions about how social experience is created and gives meaning and explanations/representations of the world in ways which make the world visible (Denzin and Lincoln 2000) and understandable. It seeks to understand the meaning of naturally occurring events and actions through the interpretation given by active participants (Henwood 1996). The strengths of a qualitative approach to this study further lies in their ability to reconcile complexity, detail and context (Mangen 1999), which is particularly important, given the institutional setting of the Nigerian corporate environment. This is particularly useful because qualitative methods are flexible, and can be tailored to meet specific requirements (Wang 2006).

3.2 RESEARCH METHOD

This research lends itself to an analytic induction research method. This is a research method described by Znaniecki (1934) who named the method and systematized many of its associated ideas (Ratcliff 1994). Robinson (1951) argued that analytic induction can be described as a research procedure; as a method of causal analysis; and as a method of proof. He argued that as a research procedure, analytic induction begins with an explanatory hypothesis and a definition of something to be explained. As a method of causal analysis, he stressed that analytic induction takes a number of instances in which a phenomenon occurs and finds certain conditions which always accompany the phenomenon. As a method of proof, he argued that analytic induction proves that the generalisations to which it leads will be substantially applicable and generalisable.

Analytic induction research method enables the making of universal statements which may be modified later if exceptions are discovered, but ultimately can reflect exhaustive knowledge of what is researched (Znaniecki 1934). It facilitates reasoning and allows for modification of concepts and relationships throughout the research process, with the goal of most accurately representing the reality of the situation (Ratcliff 1994). Analytic induction therefore calls for the progressive redefinition of the phenomenon to be explained and of relevant explanatory factors, such that a perfect relationship is maintained (Smelser and Baltes 2000).

Glaser and Strauss (1967) emphasize that analytic induction involves generating and testing theory concurrently. Thus the theory produced by analytic induction can be described as universal and precise (Ratcliff 1994), given that analytic induction aims to develop the most economical set of inquiries which are capable of unveiling the distinctive processes that constitute a social phenomenon (Smelser and Baltes 2000). Notably inductive research is a way of thinking which enables researchers to approach their research sites with an open mind and watch for emergence of patterns and processes in order to identify core variables and then gradually develop hypotheses, typologies and or provide detailed descriptions of their observations (Gilgun 2001).

As a result, this methodology was used to build explanations in qualitative analysis by constructing a set of causal links between relevant literature, events, findings and actions and the iterative extension of these to emerging issues. This research logic allowed the scrutiny of corporate governance and allowed a cross-national and cross-disciplinary survey, collection of data, development of analysis, and organisation of the presentation of findings (Smelser and Baltes 2000; Katz 2001). Analytic induction further allowed a constant "back and forth" interaction with the data, theory and research methods throughout the research process, with the overall aim of theory building, as depicted in Figure 3.1.

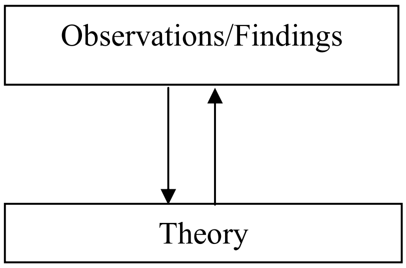


Figure 3.1: Analytic Induction. Source: Adapted from Bryman (2004:10)

3.3 RESEARCH STRATEGY AND DATA COLLECTION

This study adopts a mix of qualitative research methods in order to provide an informative and a comprehensive account of the key determinants of good corporate governance in Nigeria. According to Flick (1992:194) the "combination of multiple methods in a qualitative study depicts the researcher's intention to add rigour, breath and depth to his/her investigation." This strategy also increased the richness, validity, reliability and potential acceptability of findings. It also facilitated the presentation of robust conclusions. A mix of qualitative research methods also enabled respondents to give very valuable insights into the state of corporate governance in Nigeria, without any confinement to box-ticking and ratings, which are normally the case with quantitative designs. The qualitative methods employed include in-depth interviews, focus groups, direct observation and case studies. These were employed to conduct a survey of corporate governance professionals within the academia, practice, and the Nigerian polity.

Part of the data collection process necessitated a two month field work in Nigeria, between May and July, 2008. The overall methodology further allowed a judicious access to numerous corporate governance specialists, with sufficient capacity mix. Sufficient industry mix was also achieved. Respondents were drawn from diverse industry backgrounds including business, banking, law, management, amongst others. Adequate mix was also ensured in terms of the discipline/research field of the academic respondents. All in all, these brought high degrees of objectivity and reliability into the process of identifying the determinants of good corporate in Nigeria. Furthermore, this strategy enriched data, prevented similitude, and served as an experimental control mechanism upon which different views were assessed and rated against one another. Lastly, it is important to note that the survey respondents are leading contributors to the corporate governance debate in Nigeria.

3.3.1 Access

In a qualitative inquiry, the problem of access to a particular research site is often increased due to the need for access at different levels, such that researchers are faced with the challenge of securing the initial participation of potential participants (Flick 2002). Thus, from the outset, the key contributors to the corporate governance debate, ranging from the academia, through practice to the regulators in Nigeria were identified. Exhaustive attempts were then made to contact them via emails and subsequent follow-ups with telephone calls, outlining the research agenda. The influential contacts of the author's supervisors were also very helpful with respect to negotiating access, given that the author initially experienced a degree of difficulty with regards to obtaining access to certain high profile respondents. Some of their other efforts include the writing of official letters to potential respondents, as well as having discussions with potential respondents and other influential persons, at various international conferences, many of which the author was also in attendance. Furthermore, it must be noted that the author is a member of the organising secretariat for the annual Cambridge International Symposium on Economic Crime. The eight day annual symposium, which is held at the University of Cambridge, attracts significant number of Nigerians, who are influential in the country's private and public sectors. As a result, it is important to state that the author benefited from useful relationships (developed at this annual symposium) with many of these high-calibre individuals. They include senior politicians, senior officials of relevant regulatory agencies, CEOs, chairmen and board directors of listed African corporations, renowned academics, as well as corporate governance consultants. It should also be noted that the author is a member of the Society for Corporate Governance in Nigeria[6], which further minimised access difficulties, given that many respondents are members of this society. Snow-balling technique also proved very helpful to gain access to these high-calibre respondents until data saturation was reached (see also Amaeshi, Adi, Ogbechie and Amao 2006). Third party informants such as research colleagues who have important industry links further helped to overcome the problem associated with gaining physical access (see also Aluko 2009). In line with this, networking and personal relationships further minimised access difficulty, as against the well defined protocols and procedures which one may have to follow strictly when researching in large organisations in developed countries. However, in few cases, a number of respondents required that the author writes a letter formally to their organisations, and have this approved before access was granted. Finally it is worth noting that the author enjoyed some degree of respect and repute, based on his affiliation with Cass Business School, which further minimised difficulty in gaining physical access to respondents.

However gaining access to research sites involves 2 stages – gaining physical access and gaining mental access – (Soulsby 2004). In gaining mental access which involves the ability to understand the happenings, the author followed the advice of Stebbins (2001:6) which is to "approach the research setting with two mental orientations: flexibility in looking for the data and open – mindedness about where to find them" (see also Aluko 2009).

3.4 RESEARCH INSTRUMENTS

By utilising a variety of interconnected methods such as case studies, interviews, and observations, qualitative researchers are well positioned to get a better understanding of

[6] The Society for Corporate Governance in Nigeria is a newly formed platform which provides its members and the general public with value-added services, benefits and regular activities to aid networking opportunities. Further discussions are provided on the society in Chapter 6.

the subject matter (Flick 1992). Whilst privileging no method over the other (Denzin and Lincoln 1998), the choice of the research instruments employed in this study is based on the aforementioned research questions and the research context of this study. Thus it is based upon these considerations that the following data collection tools are selected. The author will now proceed to explain their specific benefits for this study as well as the processes and procedures followed in employing them for this research.

3.4.1 Interviews

Kvale (1996) described qualitative research interviews as attempts which aim to achieve the following; understand the world from the subjects' point of view; unfold the meaning of peoples' experiences; and uncover their lived world prior to scientific explanations. He further noted that interviews promote intellectual understanding and change. Whilst interviews are challenging, they are very rewarding forms of measurement in the social science discipline, given their personal sensitivity, adaptability, and ability to stay reasonably within the boundaries of a pre-designed procedure (William 2006). Sewell (2008: 3-4) highlighted the following advantages of qualitative interviewing, which are very relevant in the context of this research;

- It allows the participant to describe what is meaningful or important to him or her using his or her own words rather than being restricted to predetermined categories; thus participants may feel more relaxed and candid.
- Provides high credibility and face validity; results "ring true" to participants and make intuitive sense to lay audiences
- Allows the evaluator to probe for more details and ensure that participants are interpreting questions the way they were intended
- Interviewers have the flexibility to use their knowledge, expertise, and interpersonal skills to explore interesting or unexpected ideas or themes raised by participants

The qualitative research interviews, conducted in this research, allowed the exploration, description and understanding of in-depth facts (Kvale 1996) as well as the implicit and explicit meanings of the respondents’ comments.

Interview guides, which contained questions and issues primary to the survey, were sent to potential respondents in order to facilitate their utmost preparation[7]. Lynn, Turner, and Smith (1998) noted that this is a good practice for interview surveys, as it helps to reduce the amount of efforts required to contact sample members and gain cooperation. Whilst some of the interview questions were drawn from the literature (see Filatotchev et al. 2006), the interview questions were pre-tested to ensure their appropriateness. This also helped to ascertain potential respondents' understanding and proper interpretation. Also, where appropriate, control questions were asked to ensure further validity and reliability of responses. Adequate professional conduct was ensured throughout interviews. Issues relating to respondents' confidentiality were also addressed.

During the interviews, closed and open questions were asked in order to gain a variety of responses drawn from real life business and personal experiences free from fear or bias. Sewell (2008) argued that this is a very efficient technique which does not only reduces bias but also helps to compare the responses of different respondents. The design of questions was modified to substantially adapt to respondents' individual styles. Questions which pertain to particular areas of the corporate governance system in Nigeria were addressed to respondents that were best suited to comment on them. Essentially, planning, modification and implementation of the interview programme structure was a continuous process. Reliability and authenticity of the interview data were ensured by sufficient preparation of questions before hand and reflecting on responses before the next interviews. Furthermore, attention was given to the following: information given to the interviewees, their understanding of questions, style of questioning and behaviour; listening skills, and approach to recording information (Saunders, Lewis and Thornhill 2003). As advised by Valenzuela and Shrivastava (2008), attention was also given to the following: the need to ask one question at a time, the need to remain as neutral as possible, encouragement of deeper responses where appropriate, the need to provide transition between major topics, the need to write down any observations during interviews, and the need to occasionally verify that the tape recorder is working.

[7] Please find details of the survey questions in appendix 6.

Questions were thus wide-ranging and explored corporate governance issues in sufficient details. The average duration of each interview was 60 minutes. Respondents were mainly high profile individuals, including present and former CEOs, Chairmen, board directors, renowned academics, corporate governance consultants, as well as senior officials of relevant regulatory agencies. Notably these are key stakeholders in the Nigerian corporate governance system. Given their positions, this research benefited from their insider views of the corporate governance situation in Nigeria. In order to bring further elements of objectivity and subsequent reliability, a number of Nigerian, but international contributors to the corporate governance debate were also interviewed. In all, there were 26 structured interviews, all face-to-face and tape-recorded. As subsequent discussions would indicate, the in-depth responses to questions provided many quotations, which constituted a rich source of raw data (Sewell 2008). As a result, quotations/extracts from respondents are used severally in this thesis in order to reveal respondents' levels of emotion, including the way in which they have conceptualised the corporate governance scenery, and their experiences, basic perceptions and thoughts about what is happening (Patton 1987).

3.4.2 Focus Groups

Focus group methodology can be described as a qualitative data gathering approach that takes advantage of structured interviewing techniques performed in a group setting; however unlike the traditional one-on-one interviewing, it encourages discussions among group members in order to stimulate ideas that would not have been available otherwise (Fontana and Frey 1994; Morgan 1988; Hartman 2004). Morgan and Spanish (1984) argue that the focus group method brings together several participants to discuss a particular topic or topics; it is thus a unique and independent form of data collection which can usefully complement other qualitative data collection strategies. They further argue that the strengths of the focus group method come from its ability to aggregate the strengths of other qualitative methods, especially participant observation and in-depth interviewing. They noted that like participant observation, focus groups allow access to the process of interaction; and like in-depth interviews, they allow access to the content of respondents' experiences. Indeed the direct accessibility to data and the insights which come from the group interaction is a key strength of focus groups, given that it allows respondents to articulate their experiences and values (Morgan 1988; Inglis 1992). Patterns which emerge from focus groups can forecast trends that interview research might miss, given that the comments of focus-group participants can give deep insights, especially with regards to disagreements with generally accepted ideas (Langer 1991).

Since the interviews were predominantly structured, the utilisation of the focus group methodology thus enabled further discussions on corporate governance-related aspects in a more unstructured way which gave further insights into the overall picture (Filatotchev et al. 2006). In order to enhance the quality of the focus groups and to allow members to engage in the discussions without actual or perceived intimidation, the size of the groups were kept deliberately small at all times (see Ewings, Powell, Barton, and 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. As advised by Langer (1991), attention was further given to sensitive responses in order to detect a shift in prevailing values, and compare conventional ideas with the groups' ideas. Adequate attention was also given to the following; the correlation of respondents' reactions with the author’s assumptions; the segments which appear to exist in the focus groups; the patterns which emerged after the focus group discussions; the interesting remarks coming from particular participant (s); the manner in which comments are made; and the intrinsic meanings behind the words of the participants (Langer 2001). Two separate focus group discussions were held; one had 9 members and the other had 11, totalling 20 respondents. Discussions were also tape recorded and each of them took an average of 90 minutes. The two focus group discussions offered the opportunity to observe participants engaging in interactions that are concentrated on experiences which are highly relevant to the research agenda (see Morgan and Spanish 1984).

3.4.3 Direct Observations

Direct observation, as a qualitative data collection method, ensures a systematic observation and documentation of a phenomenon in its natural setting. Wells and Lo

Sciuto (1996: 227-228) highlighted two principal advantages of direct observations. According to them, direct observation, as a qualitative research method, gives in-depth insights into the following;

1) What People Do, Not What They Say: Direct observation produces a highly detailed, nearly complete record of what people actually do. It does not depend on the respondent's ability to interpret a questionnaire question correctly, or on the respondent's memory of a not very important and perhaps not very recent event. It is not influenced by any tendency to rationalize behaviour to make it appear in the best light.

2) Serendipity: A secondary but sometimes important advantage of this method is that it occasionally produces an idea that can be tested later.

Furthermore, direct observation offers a very fast and focused investigation, such that the researcher is watching rather than taking part and become immersed in the entire context (William 2006).

Apart from seeking respondents' views about the determinants of good corporate governance in Nigeria, direct observations of the situation at hand were made in order to complement and validate some of the information collected through interviews and focus group discussions. The Annual General Meetings (AGMs) of two listed corporations were attended and observed. Here, unlike a participant observer, the author remained unobtrusive and detached from the observed situations, so as not to bias the observations (William 2006). The author was granted permissions to observe proceedings and interactions but not to tape-record or video-record. Significant note taking of proceedings and interactions thus constituted helpful alternatives. Specifically, whilst the author remained as a silent observer, he engaged in useful conversations with research subjects in order to gain deeper insights into "what was going on". Attending these AGMs allowed insights into the complex dynamics and relationships which inform AGMs and shape corporate governance in Nigeria.

3.4.4 Case Studies

The case study methodology is an in-depth study of a single person (s), group (s) or event (s): this technique is simply a description of individual research subjects (Ewings et al.

2008). Case studies offer very specific and intensive investigations. The case study is a research strategy which focuses on understanding the dynamics present within particular settings (Eisenhardt 1989a). It focuses on bounded and specific organisations, events, or phenomena, and scrutinizes the activities and experiences of the subjects involved, as well as the context in which these activities and experiences occur (Stake 2000). A case study research may address several research questions, examine several processes, or survey a large sample of individuals or research subjects; as a result, case studies reflect a broad variety of designs (Jensen and Rodgers 2001).

Nevertheless, whilst the term case study is commonly used as an all-purpose catchall name for "other" research methods, case study research is underpinned by a specific philosophical orientation and a set of qualifying guidelines (Remenyi, Money, Price and Bannister 2002). Yin (1989) argues that case studies are suited to answer the "how" and "why" questions. Cooper and Morgan (2008: 160) also argue that the case study research approach is useful to investigate the following;

• Complex and dynamic phenomena where many variables, including variables that are not quantifiable, are involved
• Actual practices, including the details of significant activities that may be ordinary, unusual, or infrequent
• Phenomena in which the context is crucial because the context affects the phenomena being studied, and where the phenomena may also interact with and influence its context.

The use of this qualitative method enabled further investigations with respect to key issues which were generated from previous methods. It must be noted that respondents gave very in-depth comments and intriguing insights with regards to the perpetrators of bad corporate governance practices in Nigeria. In order to ascertain validity, these responses were further investigated by looking deeper into the specific situations and contexts. In this regard, the author conducted case studies of certain listed corporations (such as Halliburton, Siemens, Oceanic Bank Plc and Cadbury Nigeria Plc), regulatory agencies (such as the Corporate Affairs Commission, Securities and Exchange Commission, the Central Bank of Nigeria and the Nigerian Stock Exchange), and conceptual issues (such as the political theorisation of shareholder activism). These facilitated a richer set of findings and increased the overall objectivity, validity and reliability of the data. It further facilitated the “development of converging lines of inquiry, give that any finding or conclusion in a case study is likely to be much more convincing and accurate if it has been based on several different sources of information, following a corroboratory mode" (Yin 1984: 91). Two of the major sources of information were documents and archival records. Documents included memoranda, corporate agendas, media reports, and regulatory administrative documents which relate to the governance of listed corporations in Nigeria. Archival records included past companies’ annual reports and accounts, annual general meeting minutes, chairmen’s statements, past regulatory records, amongst others. This further facilitated the triangulation of evidence across different sources in order to identify the principal determinants of good corporate governance in Nigeria.

3.5 MEASURES TAKEN TO MINIMISE BIAS

In conducting a qualitative survey of the determinants of good corporate governance in Nigeria, the issue of potential bias based on respondents’ position needed to be addressed. As advised in a somewhat similar study (Aluko 2009) on the South African venture capital industry, this type of potential bias was identified and addressed accordingly.“The position bias” relates to when informants’ under or over report past organisation events and strategies, or present themselves and their organisations in a socially desirable image (Miller et al. 1997; Aluko 2009). The principal measure taken to control for the likelihood of the position bias is that advised by Hughes and Preski (1997) which is to select organisational informants who satisfy the purposive sampling requirement of competence (Aluko 2009). As a result, top managerial staffs were the ones predominantly surveyed because they are able to describe the organisational environment more than other organisational members do (Payne and Mansfield 1973).

3.6 MEASURES TAKEN TO MINIMISE NEGATIVE OBTRUSIVENESS IN DATA COLLECTION

It is important to note that the interviews and focus group discussions were the principal data collection techniques employed in this qualitative study. These techniques require active and somewhat intrusive participation by the researcher. While researcher's obtrusiveness is usually considered a methodological flaw in qualitative research, Harrington (2002) argues that obtrusiveness can constitute an important asset, which enhances both data-gathering and eventual credibility. In this regard, the author ensured adequate methodological self-consciousness throughout the data collection process to avoid potential bias in data collection and interpretation. The author specifically ensured that his functions as a researcher and the administrator of the data collection process did not interfere nor affect the data collected.

Furthermore, given the previous and very useful relationships the author maintained with potential respondents, problems associated with respondents' lack of trust in the researcher were minimised. Adequate time was also allowed in order to familiarise myself and the research with respondents, prior to interviews and focus group discussions. As a result, respondents' were comfortable enough to give sincere and in-depth comments. An ethical commitment was also made to treat responses with required confidentiality. Furthermore, in relation to the direct observations, the author observed ongoing activities and made records in field notes with regards to what could be seen, or what could be heard, and other experiences in a considerable passive and non-intrusive manner (Lee, Mitchell and Sablynski 1999).

3.7 RESEARCHER FLEXIBILITY AND DATA SATURATION

Given that the data collected was the foundation of subsequent discussions, including theory testing and building, the author maintained conceptual flexibility, especially when interviewing respondents (Glaser and Strauss, 1967). This was necessary because themes which initially seemed to demonstrate great significance could disappear as more participants were interviewed; conversely, a concept that was originally absent from interviews may ultimately become highly significant (Patten 2006). Therefore, as earlier stated, the interview structure was constantly modified during the research process to ensure sufficient scope and breadth. This also ensured that all relevant data were collected.

Furthermore, data saturation in terms of breadth and depth was reached in this survey. Data saturation refers to the stage at which the data already collected seems to cope adequately with new data without requiring continual extensions and modifications (Dey 1999). The saturation, with regards to the breadth of the data, refers to the point when the respondents are providing no new observations about the research topic, while depth saturation of data refers to when all of the individual and conceptual issues raised by the respondents have been examined thoroughly (Patten 2006). The achievement of these meant that the data was saturated (Glaser and Strauss 1967) and marked the end of the two month data collection period.

3.8 SAMPLE, FINDINGS AND ANALYSIS

The aforementioned data collection methods were employed concurrently and as required during the data collection process of this research. Indeed this research relied on both primary and secondary data. As expected, the mixed-method research approach enabled the collection of data from notable stakeholders in the Nigerian corporate governance system. This ensured a significant mix of views. Data were acquired from corporate governance experts in the academia, in practice and in the polity, including board directors; managers; current and former CEOs and chairmen across different industries; senior officials of regulatory institutions; shareholders' associations; as well as professional accounting and audit associations. Data were sourced in order to conceptualise and analyse the determinants of good corporate governance in Nigeria in relation to the country’s institutional settings, external influences and regulatory infrastructure. The thesis presents facts and figures concerning the nature and status of the situation, as it exists at the time of study but also adopts a futuristic perspective to conceptualise the factors that would drive good corporate governance, especially in developing countries.

This survey has enjoyed a good response rate. Experts responded well to the request to participate in interviews and focus group sessions due to the factors mentioned earlier, and the vast amount of work and time invested to prepare for the data collection field work in Nigeria. The total number of respondents for the interviews and focus group discussions was 42. In terms of the professional/disciplinary backgrounds of the experts, a reasonable spread was reached. Figure 3.8.1 shows the break down. In terms of respondents' capacity, there were more regulators and academic respondents, than practitioners. As Figure 3.8.2 further suggests, there was not a sufficient clear cut demarcation as there were respondents who fell into more than one group (s). An example is a former CEO and Chairman of a listed corporation who is now a full time academic. In terms of respondents' institutional expertise, the breakdown is shown in Figure 3.8.2.

Background/research field	***Number of experts***
Economics	*4*
Business, Management	*4*
Finance and Accounting	*15*
Law	*11*
Sociology	*3*
Others (Manufacturing, HRM, Sciences etc)	*5*

Figure 3.8.1: Professional/Disciplinary Background Spread of Experts

Institutional expertise	***Regulatory***	***Academia***	***Practice***
Regulatory	*17*		
Academia		*4*	*5*
Practice			*16*

Figure 3.8.2: Institutional Expertise/Capacity Spread of Experts

Since the overall methodology employed ensured that relevant stakeholders of modern day corporations in Nigeria were taken into account, the concerns from all parties became evident. This facilitated subsequent filtering and collation of results. It also allowed the identification of specific issues confronting the Nigerian corporate governance system, as well as the means to address them. No doubt, the principal data analysis technique which was employed used qualitative information based on comparisons and inferences from both secondary and primary data. The good quality of information gathered helped to identify key themes to explore, and provided the basis for fruitful analysis which gave useful conclusions aimed at advancing tentative propositions, rather than drawing generalised inferences (Child 2002).

The data generated through this mix of qualitative methods were analyzed with the Nvivo 8 software. This enabled the handling of the survey data in ways which facilitated the removal of many of the manual tasks associated with analysis, such as classifying, sorting and arranging information. This, subsequently, allowed more time to build and test theories and ultimately arrive at useful conclusions. The mixed-methods strategy also compensated for weaknesses inherent in individual methods and enriched the research data.

3.9 CONCLUSION

The methodology and strategy of this research are in considerable alignment with the evolving literature on corporate governance in developing countries (Wallace 1987, 1989; Yahaya 1998;; Yakasai 2001; Ahunwan 2002; Mensah, Aboagye, Addo and Buatsi 2003; Ajogwu 2007; Okike 2007; Amao and Amaeshi 2008; Adegbite and Nakajima 2009). Given that the corporate governance subject is still burgeoning in developing countries, qualitative methods are well suited to capture and conceptualise the diverse configurations shaping the subject. This research's methodology is also consistent with similar studies on "the determinants of good corporate governance" in other countries. For example, Filatotchev et al. (2006) employed a mix-method research strategy to identify the drivers of good corporate governance, and the appropriateness of governmental policies, in the UK.

This research methodology has been further designed to ensure an adequate conceptual grounding whilst adhering to methodologically sound and accurate strategies, in order to make significant methodological (Bartunek, Bobko and Venkatraman 1993) and theoretical contributions. The mixed-methods strategy and the adequate mix of respondents have further contributed to the theoretical grounding and methodological soundness of this study. Several useful discussions with notable international experts on corporate governance, whom the author met at various top international conferences, further provided a constructive scrutiny of the views put forward in this thesis and contributed to the richness of data process. Very importantly also, advice with regards to the data collection procedure and subsequent meaningful analysis were garnered through regular discussions with the author's supervisors, which further helped to ensure an inductive qualitative data analysis involving both empirical evidence and theory building. It is anticipated that this thesis on the determinants of good corporate governance in Nigeria represents a much needed stride in the literature. In chapter 1, the key themes explored in this research were introduced. Chapter 2 examines the major theoretical background of this study. The research design and methodology have also been discussed here. Chapters (4 to 8), which follow, present the findings of this research.

CHAPTER 4 – THE STATE OF CORPORATE GOVERNANCE IN NIGERIA

4.0 INTRODUCTION

The ongoing global economic crisis is reiterating the importance of good corporate governance for the health of the world economy and humanity as a whole. From the foregoing, however, it is evident that most studies on corporate governance in the last two decades have focussed on developed countries particularly the United States, the United Kingdom, Germany and Japan. Whilst there has been a massive growth in corporate governance research, the literature remains enormously deficient with regards to developing countries. This chapter attempts to fill this vacuum through an encompassing overview of the nature and practices of corporate governance in Africa's most populous nation. Indeed, corporate governance in developing countries is becoming increasingly important globally. Given current global financial conditions, institutional investors across the world are beginning to develop substantial interests in emerging markets. However, less is known about the processes by which corporate entities, particularly public liability companies in the developing world, are directed and controlled.

The debate on corporate governance in sub-Saharan Africa, particularly Nigeria, is at a developmental stage. One of the key reasons for this is because the viable institutional machineries for effective corporate governance are still evolving in developing Africa. For example, whilst the stock exchange plays a crucial role in the mobilisation of new capital in countries where it is well established, the Nigerian Stock Exchange (NSE) has traditionally been a non-stock exchange based financial system (Demirag 1998; Okike 2007). The implication is that Nigerian corporations have conventionally not seen the stock exchange as a means of raising new capital. Habitually, this impeded the ability of the stock market to act as a market for corporate control. The economic reform agenda embarked upon, in 2004, by the Nigerian government, however, led to the revival of the NSE. Subsequently, the total market value of securities listed on the exchange has risen from ₦2.9 trillion (£13.2 billion) at year end 2005 to ₦9.56 trillion (£43.5 billion) at year end 2008 (NSE 2006; 2009). Commensurate with the need to protect burgeoning investors' wealth, corporate governance in Nigeria has become a matter of brooding disquietude for academics, practitioners, regulators, as well the government. The response has been corporate governance reforms which have highlighted and attempted to tackle specific issues relating to the governance of listed corporations in Nigeria.

As a result, publicly quoted companies in Nigeria, particularly banks and other financial institutions, are increasingly posturing to demonstrate their commitment to good corporate governance. This is achieving some international recognition. For example, the "Nigeria Capital Markets Day" which was held in London on June 8th 2007 aimed to signal to potential foreign investors (individual and institutional) that it is safe to invest in Nigeria. The event, which was organised by the London Stock Exchange (LSE) in conjunction with the NSE and Africa Practice, further provided an overview of investment opportunities in Nigeria, particularly in the country's banking sector (LSE 2007). A further attestation that Nigeria is increasingly being perceived to be a safe investment location is the recent listings of some of the country's banks on the LSE. For example, Guaranty Trust Bank, one of Nigeria's major banks, has become the first Nigerian company and first African bank to be listed on the LSE. In the same vein, Diamond Bank, another major Nigerian bank, has also been listed on the LSE. In addition, Oando, a giant Nigerian oil company, has recently been listed on the South Africa's Johannesburg Stock exchange (JSE). Furthermore, Nigeria has been recently rated average in the World Bank investor protection index, which covers issues relating to transparency of transactions, liability for self-dealing and shareholders activism (Amao and Amaeshi 2008).

Notwithstanding these achievements, the current corporate governance dilemma in the country's banking sector does little to suggest that Nigeria has much practical positive results to show for the increased stakeholder advocacy for good corporate governance and executive accountability. Indeed this has been highlighted by the recently concluded investigations into the years of corrupt practices perpetrated by the top executives of major Nigerian banks and their business collaborators, by the Central Bank of Nigeria (CBN) and relevant regulatory bodies. For example, the Central Bank of Nigeria (CBN) under its new leadership has recently (on the 14^{th} of August 2009) dismissed the Chief

Executive Officers and executive directors of five major Nigerian Banks, including Intercontinental Bank Plc, Union Bank Plc, Afribank Plc, Oceanic Bank Plc and FinBank Plc, for bad corporate governance and fraud. Following a preceding CBN audit of banks, they were found to have serious liquidity problems due to several billions of naira of unpaid and unserviced loans by debtors including top business moguls and politicians. Weeks after, the CBN completed its audit process and with the further sack of the chief executives of three other banks; namely Bank PHB Plc, Equitorial Trust Bank Plc and Spring Bank Plc, for issues bothering on liquidity, capital adequacy, corporate governance and corruption.

As a result, given the yet again renewed emphasis on the need to promote and sustain good practices in corporate Nigeria, this study provides a detailed overview of the corporate governance system in the Nigerian business sector. Discussions highlight the barriers to effective corporate governance and accountability in Nigeria. This chapter is thus structured as follows. First, following on from Chapter 2, a theoretical discussion of corporate governance in Nigeria is presented, followed by details of relevant historical underpinnings and their impact on the country's traditional corporate governance structure. Furthermore, a discourse on the predominant ownership structure of Nigerian corporations with regards to its characteristic implications for governance is discussed. Subsequently, the state of corporate governance in Nigeria is presented. Here, the dimensions of specific corporate governance relationships and problems with regards to their peculiarities in Nigeria are examined. These include a discourse on the following; agency problems; lack of an effective market for corporate control; the forms and shapes of the evolving stakeholder activism mechanism; and the eccentricity of corporate social responsibility. Extracts from the survey data were utilised to create an in-depth understanding of these corporate governance issues in the context of Nigeria. Lastly some important conclusions are presented.

4.1 A DISTORTION IN THE THEORETICAL CONSTRUCTION OF CORPORATE GOVERNANCE IN NIGERIA

Whilst issues relating to corporate governance and investor protection are imperative to Nigeria's economic development and prosperity (Yakasai 2001), the relevance of a corporate governance theory has traditionally been in doubt due to the unstructured and informal nature of the Nigerian economy (Yahaya 1998). Nigeria obtained its independence from Britain in 1960. However, prior to independence, the British colonial government put in place an Anglo-Saxon based system of corporate law and regulation. As a result, Nigeria inherited an Anglo-Saxon defined framework of corporate governance. However, as previously noted, whilst the conceptual configuration of corporate governance and accountability in Nigeria has been influenced by several other theories associated with the subject, Nigeria's cultural setting and dominant ideology appear to be stakeholder oriented (see Yakasai 2001). Consequently, there evolved a mixed theoretical frame for corporate governance in the country, where agency and stakeholder theories were majorly prominent in shaping the Nigerian corporate governance structure. Nonetheless, one must however note that the configuration of corporate governance and accountability in the country has been a mix of several other theories on the subject. In the summary below, Yakasai identified five major theories in this regard and specifically examined their Nigerian applications (2001; 239-240):

(a) Stewardship hypothesis with the requirement that directors show a fiduciary duty towards the owners of the company. Implied in this theory is the fact that the power of directors over the enterprise is derived from their democratic appointment by shareholders at the Annual General Meetings (AGMs). In most less developed countries (LDC's) today, this largely remains a theory that has not and might not ever be practised especially in those nations with dictatorial regimes. In Nigeria, until recently, the AGMs of many of the large corporations were fait accompli just to rubber stamp government appointments and directives.

(b) Organisational theory which traditionally recognises the peak of organisational structure as the chief executive officer (CEO) and that the board of directors (BOD) is a mere imposition on such a structure. And for as long as functional reporting obeys such a structure, the BOD will remain a mere rubber stamp of the CEO's decisions. This theory draws its predominant application in LDC's due to the ownership and control structure of enterprises most of which are family businesses and too small in size to warrant the type of corporate democracy witnessed in multinational companies such as HSBC, BT, House of Fraser, General Electric, etc.

(c) Stakeholder hypothesis which gathered momentum in the 1970s reflecting a societal fear that the large multinational corporations (MNCs) had become too imperialistic and powerful to be held accountable solely through the classical stewardship hypothesis. Environmentalists and consumerists particularly find a perfect ally in the stakeholder theory. The role of environmentalists in the oilproducing areas of the world such as the Niger Delta region in Nigeria is a classic example. Furthermore, the genesis of government's domineering investment in the oil sector in Nigeria derived from this theory that oil was so strategic to the country that the whole nation became the all-important stakeholder. The same arguments were proposed as the premises for promulgating the moribund Nigeria Enterprises Promotion Acts of 1972, 1977 and 1989.

(d) Agency theory postulates a different perspective of the nature of man seeking self-interest rather than an altruistic goal and as such cannot always be trusted. This is a real problem in any untransparent developing nation whereby corporate executives milk their companies and become “fat cats” while the investors become anaemic, a situation very prevalent during the Structural Adjustment Programme (SAP) years in Nigeria.

(e) The classical theory of the firm which recognises four factors of production, the most important being the entrepreneur, who organises and manages other inputs and he is responsible for the decisions, control and direction of the company. For the third world countries, things are not as straight-jacketed because of many factors/problems such as the consequences of colonisation, the interventionist role of domestic governments, the poverty level and the impairment of private initiatives, amongst others.

As a result of the impact of these theories, opinions typically differ with regards to the content, boundary and relevance of corporate governance in developing countries, and Nigeria in particular (Tricker 1996). This theoretical distortion further suggests that countries matter for corporate governance. They matter because they determine what firms benefit or loose, when they adhere to notions of good corporate governance principles (Doidge, Karolyi and Stulz 2004). Whilst there is no corruption-free society, in a developing country such as Nigeria, corporate governance issues are often discussed amidst the larger problem of endemic corruption. Particularly, firms have traditionally been less encouraged to adopt good corporate governance principles. This has conventionally left investors (especially minority shareholders) without efficient protection.

To what degree has globalisation as well as the need to access foreign capital driven firms in developing countries to adopt good standards of corporate governance? Doidge et al. (2004) argue that firms with access to foreign capital are less dependent on their countries' development. They argue that they should therefore learn from the investor protection structures of countries where protection is higher. To what extent is this incentive valid in the Nigerian case? First let us take an historical look.

4.2 RELEVANT HISTORICAL PERSPECTIVES AND CONSEQUENCES FOR CORPORATE GOVERNANCE

The history of corporate governance in Nigeria can stretch to the colonial days. The greater part of the colonial era witnessed the dominance of British companies, subject to British laws, but in the Nigerian business environment. As a result, issues relating to the conduct and governance of Nigerian corporations, which are contained within the provisions of the company legislation, have their roots in the country's colonial past (Okike 2007). Nigeria thus inherited the British corporate governance system. Furthermore, whilst Nigeria's attainment of independence led to the replacement of the Companies Ordinance of 1922 by the 1968 Companies Act, the UK corporate law remained a huge influence; for example, the 1968 Companies Act extensively mirrored the UK Companies Act of 1948 (Okike 2007). Although there have been several company law reforms over the years, the legal system of corporate governance in Nigeria has remained fashioned along the Anglo-Saxon model.

Nigeria's inheritance of the British corporate governance system suggests that good corporate governance should be promoted, at the basic. However, there are significant doubts that UK corporate laws are complementary, reflective and applicable to the Nigerian business climate. Thus while the legal underpinnings are a reflection of the UK framework, it would be unwise to assume that Nigeria mirrors the UK in terms of application (Okike 2007) and particularly in terms of entrenched principle. Nigeria's legal operating framework for corporations has not been developed on the basis on the country's peculiar business environment. Nigeria has therefore traditionally failed to deal with company law and governance problems that are specific to her socio-cultural and political environments (Okike 2007).

During the colonial era, the Nigerian private sector was dominated by British companies, after British interests. Following political independence from the British government in 1960, one of the key economic liberation/ development strategies immediately pursued by the then Nigerian government was to foster domestic ownership and control of the Nigerian private sector. Traditionally, this had significant implications for corporate governance. By restricting significant foreign ownership that potentially could have acted as external checks and balances, the resulting indigenous owners and major shareholders were able to perpetuate several corrupt deals at the expense of minority investors. However, it must be noted that the restriction in foreign ownership under the Nigerian Enterprise Promotion Act of 1972 and 1977 still allowed foreign participation for up to 60 percent or 40 percent depending on the industry. Indeed many foreign corporations were still able to devise strategies (such as buying stakes through local investors or indigenous firms) to circumvent the regulations in order to hold percentages in Nigerian corporations higher than those provided for in the law (Achebe 1989). It is thus important to balance the view that less restrictive foreign ownership could have impacted positively on Nigeria's corporate governance system, particularly with increasing examples of corporate scandals in multinational companies and joint ventures operating in Nigeria. Some ongoing corporate scandals such as the Cadbury Nigeria accounting scandal of 2007, the Halliburton scandal in Nigeria of 2008, and the Siemens bribery scandal of 2009 do little to suggest that foreign majority ownership leads to better corporate governance and accountability.[8]

Nevertheless, the aftermath of Nigeria's independence in 1960 saw a surge in economic nationalism. This resulted in an indigenisation programme which gave way to State participation and majority ownership in core areas of the economy (Nmehielle and Nwauche 2004). However, this strategy, which operated in the environment of weak

[8] Given the relevance of these scandals to the discussions presented in this thesis, more detail is provided on them in subsequent discussions.

market institutions (Ahunwan 2002) and corruption, resulted in a faulty and uncompetitive corporate governance system. As a result, there was limited challenge to management's running of corporate enterprises which led to the lack of independent and off-sight supervision, and of intervention in matters of accountability (Yakassai 2001) and governance. The Nigerian corporate governance scenery has thus been littered with consistent practices of non-transparent disclosure of information and corrupt dealings between managers, directors and officials of the equally corrupt government shareholder.

The pursuits of several economic reform agenda, especially starting from the 1980s, led to the privatisation of government-owned enterprises and the subsequent rise of the private sector as a principal vehicle of economic growth. These have fuelled the corporate governance debate in Nigeria. More recently, the financial performance of companies listed on the NSE, especially banks, particularly between the years 2004 and 2007 has further catalysed the corporate governance debate, with shareholders, employees, regulatory bodies and the general public demonstrating their zeal to acquire information about companies, especially in the area of corporate governance. On the international corporate scene, recent occurrences such as the Enron, Worldcom and Parmalat scandals specifically highlighted the potential disasters of bad corporate governance to Nigeria. Ongoing local corporate scandals are also helping to refocus Nigeria’s attention on the need to ensure an effective and credible domestic corporate governance system. Current global economic crisis is further adding momentum to the growing debate. Corporate governance in Nigeria and indeed in Africa has thus become a matter of significant importance for academics, practitioners and policy makers.

4.3 WHO OWNS NIGERIA’S CORPORATIONS? IMPLICATIONS FOR GOVERNANCE

4.3.1 Introduction

When firms are not controlled by their owners, there must be a mechanism in place which ensures that managers act in the interest of shareholders. This is the core of the agency theory literature. Agency theory unequivocally assumes that managers will always want to pursue their own interests at the expense of shareholders. This in turn, will make them keep vital information with regards to the company's position (information asymmetry) from outside owners, which makes the latter's monitoring of the company rather impossible or very costly. A free-rider problem thus emanates. This is a problem created when individual (small) and dispersed shareholders, who practically stand to gain little from a very expensive monitoring cost, become complacent and somewhat undisturbed by managerial behaviour. The free-rider problem further empowers managers to use companies' assets to maximize their own interests. However, large block of shareholders such as pension funds, institutional investors and major individual shareholders should have a greater incentive to monitor managers. Given that they can make use of their voting powers to influence management's behaviour, they are able to minimize the free rider problem. The aforementioned issues clearly highlight the importance of ownership structures in the eventual governance of corporations. Therefore, an exposition on these issues, which specifically relate to the extent of the separation of firms' ownership from their control, in the context of Nigeria, is provided. Essentially, the implications of the ownership characteristics of Nigerian firms for corporate governance, is examined.

4.3.2 Discussions

As previously indicated, Nigeria adopted a post-independent economic development strategy to foster domestic ownership and control in principal areas of the country's economy. These include the "oil and gas" and the "science and technology" sectors. As a result, the Foreign Exchange Control Act (FX Act) of 1962 and the Nigerian Enterprises Promotion Decree (NEPD) of 1972 were enacted. However, Achebe (1989) argues that government's intentions were not been fully accomplished. As earlier mentioned, the author noted that there have been several cases of Nigerians fronting for foreigners in order to satisfy the ownership requirements of the 1962 FX Act and the NEPD 1972. However the government's economic liberation strategy shaped the corporate ownership structure of present day Nigerian corporations. Ahunwan grouped the ownership structure of Nigerian corporations under the following four categories (2002; 271-272):

Category "A" can be conceived as composed of corporations wholly-owned by government. Both the federal government and state governments operate wholly-owned corporations, including four major petroleum refineries (owned by the Federal

Government), petrochemical plants, insurance companies, banks, hotels and a range of other enterprises.

Category "B" comprises joint venture arrangements between the federal government and foreign crude oil producing corporations. Although the government operates joint venture arrangements in other sectors, it makes sense to include this sector as a separate category due to its immense importance to the national economy. A key indicator of the importance of this sector is the fact that the government of Nigeria derives about 97 percent of its total revenue from joint ventures in oil and gas.

Group "C" consists of publicly listed corporations. Here foreign investors operate with local investors in the industrial and commercial sector. The foreign investors are mostly subsidiaries of multinational enterprises, and foreign investors hold a majority or controlling interest in many of the corporations.

Finally, Group "D" consists of privately owned corporations that are not listed on the stock market. Most of the corporations are familyowned. A majority of them are small companies, owned and operated by families and friends and lacking business sophistication. Some of these enterprises, however, are quite large, with a capital base comparable to many listed corporations. Banks, insurance and various industrial corporations come under this category. Both foreign and local entrepreneurs operate in this category.

A number of deductions can be made from the above classifications. To start with, corporate governance in the Anglo-Saxon context has generally been discussed in terms of aligning management's (agents) interests with that of shareholders (principals). The above classifications indicate that the principal-agent problem has traditionally been silent in Nigeria. Often times we refer to the same set of individuals, given that many companies have their principal shareholders or their appointees (in the persons of relatives, friends or associates), involved in the daily running of the company. As a non-executive director of a large Nigerian corporation puts it;

"In Nigeria, there has always been a tendency to tailor business as a one-man or family business thing"

Traditionally the need to protect the "passive outsider owner" has thus been irrelevant in Nigeria. Given that significant block ownership concentrates too much power on few individuals, more recent developments in the country have led to the reduction in block stock ownership. These include several corporate governance law reforms. The need to access capital in order to remain competitive has also led to partial dilution of traditional block/family stocks. For example, family run businesses seeking to list on the Nigerian Stock Exchange would have to loose some of their "family grip." However findings from this survey suggest that a considerable number of new listed firms are still able to retain their family members and close associates on the boards and managements of these companies. The implications of this for corporate administration and governance are severe. In the words of a senior official of a regulatory agency;

"By having their family members on the board, several issues relating to the company are discussed in a family like manner, outside board meetings. This also creates an avenue for several corrupt practices to go unchecked".

As in most countries, the foundation of most businesses in Nigeria is the family. However the over-bearing influence of the family-owner is self-sustaining in Nigeria. This is achieved through continuous appointments of relations and close friends unto the boards and managements of companies, even after they become listed. A good example is Oceanic Bank Plc, one of the largest banks in Nigeria, where a board member and another member of the management team belong to the same family with the CEO, prior to the recent board dissolution by the CBN, as previously mentioned. Whilst most examples are not as apparent as this, family administered businesses remain vibrant in Nigeria. A former executive director of a listed corporation points out an implication of this. In his words;

"Funny things happen in the Nigerian corporate governance environment. Take a situation where a bank needs a head office and gives loan to a director (family member of the CEO) to build the head office who subsequently leases to the bank at an exorbitant price. Worst still, this senior management/board corruption goes in a top - down manner to negatively impact the behaviour of non-senior staff and their behaviour when they become senior"

Another respondent who is the vice-chairman of a large Nigerian corporation further points out another caveat of family ownership/strong presence of family members. She notes that;

"Family disputes are often brought into board matters to disrupt normality"

Furthermore, family owners in Nigeria are generally reluctant to loose their controlling stake, and hence are normally hesitant to dilute/sell their shares. Consequently, unlike the traditional principal-agent problem highlighted in the Anglo-Saxon literature, the major agency conflict in developing countries has largely been between majority and minority shareholders (Ahunwan 2002). Findings from this survey show that majority shareholders have one-stop access to relevant information with regards to the financial state of companies, and are thus able to drive firms in ways which promote their personal interests at the expense of information-deficient minority shareholders. From Ahunwan's ownership classification, it can be deducted that an outstanding characteristic of the ownership structure of Nigerian corporations is "majority" (or substantial minority) ownership. One can also deduce that apart from the 100 percent government-owned corporations in Category A, the government generally exercises majority ownership in Category B. Furthermore, majority ownership may be vested in government, foreign investors (especially transnational corporations) or local entrepreneurs in category C. In Category D, family ownership and control is the norm. Table 4.1 shows the shareholding structure of categories B and C. This suggests that minority investors have traditionally been disadvantaged with no access to vital company information. Conventionally, the annual company reports and accounts have always been manipulated, thus lacking relevant information to guide a minority shareholder's investment decision.

However the last five years have witnessed some changes in the Nigerian corporate ownership structure, due to increasing reforms. Furthermore, these reforms have largely concentrated on the Nigerian banking sector. On the 6th of July, 2004, the Central Bank of Nigeria announced a banking reform programme which required all banks to raise their capital base to a minimum of ₦25 billion (£100 million). Whilst this led to the injection of new capital by shareholders of some banks, it required many banks to seek external funds on the stock market. This led to the reduction of majority stake ownership in the Nigerian banking sector. More importantly, the banking reform resulted in several mergers and acquisitions. These developments have further challenged the predominant family ownership structure of Nigerian corporations. Companies seeking investments and merger partners have also had to demonstrate their commitments to good corporate governance. These developments may mark the beginning of a major change in the ownership structure of Nigeria's corporations with increasing diversification of ownership as against concentrated ownership which Ahunwan described. Furthermore the increasingly robust rules of regulatory authorities have also contributed to the reduction of majority ownership.

Table 4.1: Some Group B and C companies and their shareholding structure

CATEGORY	**Name of Company**	**Shareholding Structure (%)**	
		Foreign	**Government**
B	Shell Petroleum Nig Ltd	45	55
	Chevron Nigeria Ltd	40	60
	Mobil Producing Nig Ltd	40	60
	Nigeria Agip Oil Ltd	40	60
	Elf Nig Ltd	40	60
C		**Foreign**	**Others**
	Nigeria Breweries	41.67	58.33
	Guinness Nigeria Plc	42.21	57.77
	Nestle Foods Nigeria Plc	56.90	43
	Mobil Oil Nigeria Plc	60	40
	Total Nigeria Plc	60	40

Source: Adapted from Ahunwan (2002: 272-273)

4.3.3 Conclusion

Whilst the Nigerian Stock Exchange remains one of the biggest equities market in Africa, it nevertheless houses only about 260 companies (NSE 2008). Oyejide and Soyibo (2001) argue that most businesses in the Nigerian formal business sector are not publicly listed. They further noted that about 38 percent of the companies operating in the formal sector do so outside the provisions of the company law. They also pointed out that 87 percent of formal sector businesses operate outside the legislation governing the Nigerian stock exchange. This suggests that the Nigerian corporate ownership structure is still largely non-diversified. Thus, the problems associated with majority ownership remain vibrant. Some of these are discussed in the following sections.

4.4 CORPORATE GOVERNANCE ISSUES IN NIGERIA

4.4.1 Introduction

Nigeria is Africa's most populous country, and has an estimated population of 145 million. It is also the largest African market for goods and services. The Nigerian oil and gas sector contributes 99 percent of the country's export revenues and 85 percent of government revenues; with her large reserves of human and natural resources, Nigeria has the potential to build a prosperous economy (World Bank 2009). However, corruption thrived and became a "way of life", during the military regimes which followed the country's independence from Britain. Corruption has traditionally been at the centre of corporate governance issues in Nigeria. Nigeria has a history of a considerable number of high-profile and often inconceivable frauds which have been perpetrated by managers and directors of listed corporations. 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. Furthermore, this undermined customers' trust and highlighted the importance of good corporate governance for corporate vitality and economic stability.

Following the return to democratic leadership in 1999, the government has been keen to restore the lost confidence of investors, as well as to attract significant foreign investments into the country. With FDI into Nigeria reaching US$2 billion in 2005 (World Bank 2007), there is increasing awareness that Nigeria needs to commit to good and globally accepted principles of corporate governance in order to compete for international investments. In the following sub-sections, the different corporate governance issues in Nigeria are examined in order to provide a current and comprehensive account of the nature of corporate governance in Nigeria. Discussions further highlight details of recent developments and their implications for corporate governance. First, the agency problem is discussed in more detail. Then, the role of market forces in corporate governance is examined followed by some evidence of stakeholder activism. The author further discusses the nature of corporate social responsibility in Nigeria. Useful case studies of corporate scandals in Nigeria are incorporated into the discussions, in order to ensure a more profound basis for analysis.

4.4.2 Agency Issues

Corporate governance is concerned with the ways in which all parties interested in the well-being of the modern firm attempt to ensure that managers and other insiders take measures or adopt mechanisms that protect their interests (Sanda, Mikailu and Garba 2005). This becomes necessary given that the ownership of the modern firm is separated from its control. Anglo-Saxon corporate governance scholarship, especially the economics and finance literature (Jensen and Meckling 1976; Fama 1980; Shleifer and Vishny 1997) have thus traditionally focussed significantly on resolving this problem. Scholars have thus concentrated on the use of incentives to align the interests of firms' equity owners with their management. Whilst previous discussions on the Nigerian corporate ownership structure highlights the fact that the major agency conflict in developing countries has traditionally been between majority and minority shareholders, this does not mean that the classical principal-agent problem does not arise (Ahunwan 2002), particularly in the past 6 years, which has witnessed a sharp increase in the number of financial stakeholders of many Nigerian companies. Ahunwan (2002) also argued that this agency problem is heightened by the endemic culture of corruption and bribery, ethnic tensions and rivalries, poorly functioning markets and lack of adequate infrastructure. As summarised below, Ahunwan (2002: 274) further highlighted a case of Unilever, Nigeria Ltd, a listed firm in Nigeria, in order to show-case the principal-agent problem as it arises in the Nigerian context;

"The agency problem as it arises in the Nigerian context is exemplified by the case of Unilever, Nigeria Ltd. Unilever, Nigeria Ltd, is a public listed company in Nigeria. The Unilever Group U.K. has a 52 percent stake in the company. Between 1996 and 1998,

there were reports of abuse by senior management, including insider dealings, shares racketeering and the awarding of supply contracts to companies in which senior management had interests (Ogbu 1998). Sources also disclosed that one of the key officers of the company had up to 18 official cars, while almost all of the company's major contracts were handled by a company registered in his wife's name. The reports further revealed that employment and other management decisions were based more on ethnic solidarity than efficiency considerations (Ogbu 1998). Corporate abuse in Unilever, culminated in serious financial irregularities."

On the basis of this case, Ahunwan (2002) registered the inability of majority shareholders to monitor managers positively in the Nigerian context. He further argued that whilst the Unilever Group in the United Kingdom exercised majority ownership, this did not ensure efficient monitoring of local management. He thus concluded that this makes Schleifer and Vishny's (1997) argument that the effectiveness of large shareholders' in controlling management, through the use of voting rights to oust management, of minimal relevance in the Nigerian context. Findings from this survey show that foreign majority owners generally lack in-depth local knowledge of the Nigerian peculiar corporate governance environment. The Nigerian corporate governance system has traditionally been riddled with severe and endemic corruption. Whilst some of these problems are not in any way restricted to developing countries, the conventional inefficient regulatory system has allowed corporate corruption to flourish and go unchecked. According to a senior official of the Securities and Exchange Commission (SEC), a corporate governance regulatory agency in Nigeria;

"Managers and board directors of listed corporations have already become used to abusing the powers bestowed on them by shareholders to reap private benefits"

Directors' misconduct and corruption have thus traditionally been at the centre of corporate governance problems in Nigeria, especially in the country's banking sector. According to a director in a listed Nigerian bank;

"Notably, bank directors have become used to using their positions to defraud their organisations. This has, in many cases, led to the collapse of such banks"

Umoh (2007) highlighted some common directors' excesses. These include the lack of disclosure of interests in loans, offices or properties rented/leased/sold to the bank as well as services provided by own companies to the bank. There have also been cases of directors who have taken loans which exceeded shareholders' fund, and subsequently left them unsecured and non-performing. Umoh (2007) further noted that some of these directors even got interest waivers on their loans whilst remaining on the board. No doubt, there are increasingly robust regulatory measures being put in place to address many of these conventional practices. Part of these is the 2006 Central Bank of Nigeria's Code of Corporate Governance, which was designed to address some of the aforementioned challenges in the country's banking industry. The Nigerian corporate governance regulatory structure is discussed in more detail in chapter 6.

In progressing discussions on the agency issues peculiar to the Nigerian environment, it is important to scrutinise the role of government. As evident from earlier discussions on the ownership structure of Nigerian corporations, the government remains a majority shareholder in many corporations. Whilst there have been commendable efforts towards privatisation, the government retains major shareholdings, especially in key sectors of the economy. The Nigerian government, as a majority shareholder, exemplifies another possible dimension of the agency relationship. This relates to government's "undue" influence on the corporation, especially in the traditionally government owned banks. Conventionally, governments have been able to secure loans from these companies on the basis that they are owners. This has resulted in several irresponsible and damaging practices, especially during decades of the military era. In commenting on this matter, these were the words of a chairman of a listed bank in Nigeria:

"*Directors' excesses were widespread in banks that were traditionally government owned or family owned. Governments, especially at the state level, simply secure loans for governmental projects, from these banks. These are always done without any consideration for other stakeholders. They eventually killed many of these state owned banks*"

The traditional political structure and culture of Nigeria, as discussions in chapter 5 would further indicate, enables governments to engage in these negative practices without being challenged. As a result, corporate governance practices and partisan political considerations intermingle resulting in board and senior-managerial appointments based on political affinities, ethnic loyalties, and/or religious faith as opposed to considerations of efficiencies and capabilities (Yerokun 1992; Akanki 1994). However, more recent evidence and developments suggest that Nigerian regulatory agencies are demonstrating increasing commitment to address many of these issues. Measures are thus being put in place to combat the endemic managerial excesses and corruption, as this survey further indicates.

4.4.3 The Market as a Form of Corporate Control

4.4.3.1 Introduction

The contractual theory of the corporation holds that managers and owners have incentives to design corporate governance contracts in ways which maximises shareholder value, and in turn, the corporation's value (Butler 1989). A private way of enforcing good corporate behaviour, in addition to legal/statutory requirements, is thus entrenched in market forces. Market forces represent institutions which should potentially reduce the principal-agent costs. Whilst they are often considered to be imperfect, they are expected to work independently in ways which limit managerial self-serving tendencies. However, whilst market forces play key roles in the corporate governance systems of developed countries, the extent of their influence is reduced in developing countries such as Nigeria. No doubt, there have been recent noteworthy activities in the Nigerian capital market. Nonetheless, the degree to which market forces are legitimate in the Nigerian environment is unknown. Often times, they play very ambiguous roles. In this section, three types of market forces which are commonly discussed in the literature are presented. The presence of these market forces, and their capacity to promote good corporate governance in Nigeria, are examined. These are the product markets, manager's markets and capital markets. As expected, a major emphasis is made on the role of capital markets in governing corporate behaviour.

4.4.3.2 Discussions

Product market competition

The product market competition can constitute an incentive scheme which ensures good corporate governance (Hart 1983). It specifically assumes that managers would do everything necessary to keep their jobs, even if this means good governance. This, in turn, is expected to create more shareholder value and firm vitality. Two types of product market competition are commonly highlighted in the extant corporate governance literature. The first relates to the direct/immediate competition in the firm's product markets. Here, managers are expected to restrain from pursuing their self-interests, given that this would increase costs and render the firm's products uncompetitive which ideally should lead to the removal of management (Butler 1989; Ahunwan 2002). However this does not happen in the real world as the firms' competitors are also subject to the same agency costs (Jensen and Meckling 1976) which consequently neutralises the product markets' effects (Ahunwan 2002). Furthermore many product markets are oligopolistic themselves and do not effectively subject senior management to pressure (Ahunwan 2002).

In Nigeria, the ability of product market competition to discipline management has traditionally been in doubt given that the Nigerian market may be described as one which does not necessarily reward managements according to their products' efficiency or innovative abilities (Ahunwan 2002). Ahunwan based this argument on the strong consumer preference for foreign products at the expense of local ones, by Nigerians. Whilst this might have been the traditional consumer characteristics of affluent Nigerians, his argument does not account for industry specific factors which make certain local goods and services not just more preferable, but the only option. Furthermore, his arguments did not consider the rapid economic development and expansion that Nigeria has experienced in very recent times. These developments have been largely concentrated in the non-oil sectors, especially the banking and telecommunication industries. Local firms in these industries are thus increasingly engaged in intense rivalry and the prospects for product market competition to act as an incentive for good corporate governance is arising. Findings from this survey suggest that there is increasing evidence of product market competition in large companies. It is thus expected that this will gradually influence managerial conduct. As a result, the role of product markets as a force to govern corporate behaviour in Nigeria should not be totally nullified. The second type of product market competition relates to the product competition in the market of the firm's owners, especially in the case of mutual funds and institutional investors. Findings from this survey show no substantial evidence of this.

Managers' market competition

Managers' market competition refers to the market for management services or managerial labour. Fama (1980) argues that the forces of managerial markets work in ways which compensate good managers with prospects of promotion, and at the same time deters managerial misdemeanour through the fear of job loss. To what extent are managerial interests thus aligned with that of their owners in Nigeria? Ahunwan (2002) registered that the effects of managerial market competition are ambiguous, especially in wholly-owned state corporations and joint ventures. He argued that in these organisations, loyalty to political mentors and administrative patrons, rather than the measure of executive performance ensure senior- management's job security and dictates their potential compensation packages. Findings from this survey are in agreement with this. According to the former CEO and Chairman of a major Nigerian corporation;

"CEOs and directors in Nigeria would rather spend their time establishing cordial relationships with politicians and senior government figures, than spend their time in the company. Frankly, these relationships are crucial to their business"

Furthermore, a chairman of major Nigerian bank typically noted as follows;

"I would rather spend my time more in Abuja (Nigeria's capital), mingling with key politicians, as they matter most to the success of your business in this country"

Capital market competition

Manne (1965) argues that the market for corporate control gives shareholders power and protection which are commensurate with their shareholdings in the company. He further maintained that this is based on the high positive correlation between corporate managerial efficiency and the company's share value on the stock market. The capital markets are at the centre of corporate control in most developed economies. Capital market competition links the value of company stocks to managerial performance and behaviour, and in turn, good corporate governance. It allows investors to know the value of a particular company and enable shareholders and prospective investors to assess management's performance through share price movements. Consequently, it makes management susceptible to hostile take-overs in situations of poor performance. However Fama (1980) posits that there is empirical evidence (Fama 1976) to suggest that the capital market generally makes rational assessments of the value of a firm based upon imprecise and uncertain information.

Particularly, developing countries such as Nigeria are characterised by less developed capital markets and lesser liquidity. The market control function of Nigeria's capital market has thus been historically inefficient. Findings from this survey also show that the Nigerian capital market operators have traditionally lacked sufficient competence and expertise. Consequently, the performance and behavioural conduct of managers have seldom reflected in their firm's stock prices. The recent scandal at Cadbury Schweppes's subsidiary in Nigeria - Cadbury Nigeria Plc - summarised below, further highlights the limitations of the Nigerian capital market, as an active force for corporate control (Amao and Amaeshi 2008: 127-128):

"International interests have been attracted to Nigeria recently due to the discovery of Enron like Scandal in the subsidiary of Cadbury Schweppes in Nigeria: Cadbury Nigeria Plc. Concerns have been raised particularly because of the company's high profile in the private sector and domestic economy and as a major player on the NSE. The fact that it took Cadbury Schweppes, the parent company's intervention to discover the irregularities have called into question the capacity of the Nigerian corporate governance environment and framework. It must be observed that the financial accounts in question were scrutinised and approved by the NSE.....In this connection, investors, including pension fund managers, have since the revelation lost a lot of money. Since the exposure of the company's misrepresentation of their financial statements, the shares of the company declined from its high of ₦70 on the 18 of August, 2006 to ₦32.46—a reduction of 46 percent—on December, 2006 translating into a loss estimated to be in the region of ₦41.3 billion in shareholders equity".

The above case clearly indicates the extent to which the role of the Nigerian capital market as a driver of corporate control and managerial discipline has been very ruinous. The Unilever case, discussed earlier, does not only demonstrate an agency conflict in Nigeria but also highlights the functional deficiency of the Nigerian Stock Exchange. In commenting on this, a senior official of a corporate governance regulatory agency stated that:

"Corruption in the private sector is largely covered up. Taking the Cadbury scandal for example, if not for some external interests that were in the matter, shareholders' fund would have been eroded without anyone noticing. The Nigerian stock exchange does limited scrutiny of submitted reports by companies. In Nigeria, I am not convinced that stock prices reflect managerial performance"

Furthermore, the historically small size and less liquidity of the Nigerian capital market, coupled with the corporate ownership structure, are indications that the threat of a takeover has played virtually no role in disciplining management and protecting minority shareholders' interests (Ahunwan 2002). As an interview respondent, who is a non-executive director of a listed company puts it;

"Take-overs occur in Nigeria, but they have never been as a result of poor firm performance. Hostile take-overs seldom happen in Nigeria even during the bank reform process"

Findings from this survey further suggest that the minimal evidence of market for mergers and acquisitions, as a control mechanism for good corporate governance, function differently in Nigeria. Traditionally, Nigerian corporations rarely seek to acquire underperforming or inefficiently run companies on the basis that they are able to run them better in order to achieve better performances and better firm value. According to the chairman of a large Nigerian bank;

"Nigerian companies merge or acquire other companies simply because they want to grow larger or the company being acquired is actually performing well. Some mergers are, however, largely strategic and based on the recognition that the merger product firm will be more competitive than the two separate firms combined"

Lastly, findings from this survey show that institutional shareholders are better positioned to instigate mergers and acquisitions. They can achieve this by persuading the poorly coordinated individual shareholders of underperforming companies to sell their shares. However, the few active institutional shareholders present in Nigeria have not made significant impact in this area.

4.4.3.3 Conclusion

The dimensions of the market for corporate control in Nigeria further bring to bear the need to understand corporate governance mechanisms as being shaped by specific institutional configurations, such as the ownership structure, political environment and culture, economic climate as well as social networks. These are discussed in detail in chapter 5.

4.4.4 Stakeholder Activism

Nigeria is rich! It is rich in mineral wealth and ranks tenth in the world in terms of oil reserves. Nigeria has a proven reserve of 1.3 trillion barrels out of which it has a total oil production of 84,597,000 barrels per day and exports 13,707, 000 to the US (EIA 2007). Nigeria is the largest oil producer in Africa and ranks twelfth in the world. The oil sector is the life of the Nigerian economy with the country’s economic strength almost solely based on its oil and gas resources.

Nigeria is poor! Paradoxically Nigeria, albeit blessed with enormous mineral resources, has its citizens majorly living in abject poverty with shortage of potable water and electricity. Indeed, the people of the Niger Delta region which houses the oil wealth live in overwhelming poverty. Their environment suffers from constant degradation including oil spillage and gas flaring. Consequently, these have prevented the inhabitants of the Niger Delta, South-Eastern Nigeria to conduct their daily business of subsistence agriculture (farming and fishing).The extent of the damages caused as a result of oil pollution occasioned by multinational companies (MNC’s) in the Niger Delta is alarming. Gas flaring, which has ceased to occur in most developed countries, is still the order of the day in the Niger Delta. Nigeria flares more natural gas than any other country in the world. The consequences of these developments are severe.

However, particularly for our discussion, the author will focus on the implications of these for corporate governance, administration and responsibility. Here, it must be noted that widespread environmental devastation including enormous threats to life has been fuelling the rigorous campaigns (both violent and non-violent ones) by the inhabitants of the Niger Delta. This activism by the Niger Deltans has survived decades with notable violent protests including the kidnap of several foreign oil workers and relations of top political elites. These have further generated global media concerns especially with regards to the safety of expatriates and their families in Nigeria.

More importantly, these issues are adding momentum to the stakeholder activism debate in Nigeria. Whilst recent measures have been adopted to salvage the Niger Delta crisis, particularly the amnesty deal for militants by the Federal Government, stakeholder activism, in the form of militant activities in the Niger Delta, has severely impacted Nigeria's oil production potential by reducing her total oil production by 20 percent (EIA 2007). More recently the Niger-Delta women added a new dimension to the activism against the illegal and damaging behaviour of multinational oil companies. Their protests specifically led to the shutting down of ChevronTexaco oil flow operations. Let us consider this particular case as it highlights the culture specificity of the evolving stakeholder activism phenomenon in Nigeria (Daniel 2002):

"The protests began when women from the Itsekiri tribe in Delta State, Nigeria, wrote to Chevron insisting on better living conditions ..... Infuriated by the lack of response, 150 women ……marched silently and unarmed took over Chevron's Escravos export facility. Their action was calculated. More than 700 Nigerian and expatriate employees of the company were trapped in the facility. Planes and helicopters were unable to land, and boats were unable to dock and unload fresh supplies to the terminal………The women took advantage of the patriarchal attitudes of their society and of the organisation they were battling. Chevron has used armed forces to quell similar protests and takeovers, but its armed security men had never received any training on how to contain an invading army of women singing solidarity songs. The women demonstrated political sophistication by adopting a tactic which rendered government's military option non-effective as the government was also aware of the political consequences of attacking

unarmed women with the whole world watching. The women also effectively invoked a local taboo - they threatened to take off their clothes if the security officers attacked them"

This case and subsequent developments resulted in the signing of a Memorandum of Understanding (MOU) between the Niger-Delta community and Chevron. The MOU mandated Chevron to make substantial commitments in areas of infrastructure, education and employment. Furthermore, technological forces, especially the internet is promoting effective stakeholder activism in Nigeria. For example, Ahunwan (2002) noted that the emergence of several Nigerian social websites provides an important forum for the discussions of different social, economic and political issues, which relate to corporate governance. He also noted that these websites freely provide relevant information with regards to the communal responsibilities of corporations in Nigeria. Findings from this survey also suggest the emergence of notable non-governmental organisations which are also creating a platform upon which stakeholders and corporations can constructively interact. These include the Convention of Business Integrity (CBI), Transparency Nigeria and the earlier mentioned Society for Corporate Governance in Nigeria.

4.4.5 Corporate Social Responsibility

No doubt, discussions here will follow on from preceding analysis. Substantially, the underlying factor of the emergence of stakeholder activism in Nigeria is the neglect of social responsibilities by corporations especially the oil giants. In this section, the subject of corporate social responsibility (CSR) is discussed as constituting a strategic part of corporate governance. This is with a general understanding that the concept serves as a bridge between governance issues and notions of equity and fairness in society (Deakin and Whittaker 2007). It thus differs from the traditional conception of the subject in terms of corporate philanthropy and basic compliance with standards relating to corporate behaviour (Deakin and Whittaker 2007). Consequently, CSR is discussed as a set of practices or mechanisms, which have managerial, regulatory, financial (Deakin and Whittaker 2007), institutional and governmental dimensions. CSR in this context includes actions that further social good beyond the immediate interests of the firm and that which is required by law (McWilliams and Siegel 2001). A firm's extent of CSR activities will thus depend on its size, level of diversification, consumer income, labour market conditions, stage in the industry life cycle (McWilliams and Siegel 2001), country of origin as well as its country of operation.

Whilst there have been trans-national efforts to design and implement universal CSR standards (Waddock, Bodwell and Graves 2002), it is important to note that CSR is country-specific and that CSR issues often differ from country to country. CSR issues can occur in two forms: global and local issues. Global CSR issues are those that transcend national boundaries and about which considerable consensus is emerging such as human rights and environmental protection (Husted and Allen 2006). William and Aguilera (2007) argue that local CSR issues peculiar to doing business in Africa entails the concerns of particular communities, such as HIV-AIDS. They noted that whilst this has not become a global CSR agenda, every company doing business in Africa needs to address it. Furthermore, most CSR discussions in Nigeria have concentrated on the Niger Delta region. Indeed a major issue that multinational oil companies operating in Nigeria must consider, as evident from preceding discussions, is the provision of social good to the inhabitants of the Niger Delta area. However the adoption of CSR policies and corporate–community relation strategies by these oil companies has failed to reduce violence within the region. Idemudia and Ite (2006) argue that this is due to their failure to seek, understand and integrate community perceptions into their CSR policies and practices, as well as the Nigerian government's failure to provide an enabling environment. No doubt, effective CSR can make significant positive contributions to the lives of disadvantaged Niger Deltans in particular and Nigeria as a whole. Notably, the average Nigerian has lost confidence in the government, with regards to the provision of the basic necessities of life. As a result, Nigerians, albeit more emotionally correct than theoretically sound, look up to MNCs as beacons of hope. MNCs can therefore improve the lives of Nigerians, through effective CSR initiatives which focus on sustainable development (Ite 2004). Ite (2004) further noted that this must be done in co-operation with civil societies in order to avoid mistakes which, rather than help, damage the communities politically, socially and economically.

4.5 CONCLUSIONS

In this chapter, the state of corporate governance in Nigeria has been analysed. Discussions have examined the complex dimensions of the subject in developing countries. This chapter has specifically analysed the conceptual, theoretical and practical constructions of corporate governance in Nigeria. It has employed useful case studies and interview extracts to further facilitate useful discussions. The specific challenges which confront corporate governance in Nigeria have also been discussed. More importantly, the underlying rationales behind these problems have been investigated. The discussions on specific corporate governance issues and the peculiar forms and shapes they take in the Nigerian business environment have further allowed a robust treatise of the subject, especially with regards to established postulates of corporate governance. Some of the limitations of Anglo-Saxon scholarly orientations, in explaining and addressing specific corporate governance challenges in the Nigerian business environment, have also been discussed.

This chapter adds to the literature on corporate governance in sub-Saharan Africa. It further provides evidence which suggests that whilst countries may share similar corporate governance challenges, the translation of these challenges and the means of addressing them, differ depending on certain contingencies. These include the following; the ownership structure of firms; the influence of the state in their governance; the ethical climate of business conduct; the presence and role of a viable market for corporate control; the extent to which stakeholder activism is institutionally encouraged; as well as orientations towards corporate social responsibility. It can be deduced from these discussions that corporate governance is country specific and that the peculiarities of some countries, especially developing economies, do not promote good corporate governance.

Traditionally Nigeria's corporate governance system and practices have been riddled with corruption, an endemic problem which has penetrated all areas of the country's economy. Indeed the problems of corporate governance in Nigeria are part of a larger problem of the Nigerian society which is characterised by political instability, bad leadership, ethnic and religious tensions, firmly embedded in massive corruption. In today's environment of global competition for FDI, good and competitive corporate governance is imperative. Globalisation as well as pressures from current and potential foreign investors has catalysed the recent corporate governance reforms in the country. As subsequent discussions will indicate, some of the reforms have not been originally "Nigerian" but that with significant external influences and inputs. As a result, there are concerns (Okike 2007) with regards to the extent to which the reforms represent what Nigeria actually needs or a Western influenced response to global economic activities. No doubt, irrespective of any influence, Nigeria must put in place a vibrant corporate governance structure to encourage both local and foreign investments. However, Nigeria must note that elements borrowed from the corporate governance structures of other countries must be reassembled in a coherent manner to meet with the challenges of her peculiar historical, social, economic, political and cultural environments. The present state of corporate governance in Nigeria is also largely due to significant regulatory failures. In chapter 6, the corporate governance regulatory infrastructure, including the role of government, is discussed in more detail.

While this analytical overview undoubtedly sheds more light into the structure and practices of corporate governance in Nigeria, it has also provided a background upon which subsequent research findings can be presented. Part of these is the influence of external governance mechanisms on Nigeria, which are discussed in chapter 7. But first, how did we get here? How has the state of corporate governance in Nigeria come about? Why are regulatory initiatives aimed at promoting good governance less successful? In the following chapter, an institutional explanation for the state of corporate governance in Nigeria is presented.

CHAPTER 5 – INSTITUTIONAL DETERMINANTS OF GOOD CORPORATE GOVERNANCE IN NIGERIA

5.0 INTRODUCTION

This chapter illustrates that national corporate governance systems are endogenous responses to certain national and firm-specific institutional environments. In today's world of corporate, economic and political globalisation, how (and to what extent) is corporate governance shaped by firm and national level institutional environments? What are the different institutionalised expressions of corporate governance in varieties of capitalism? Which institutional parameters and arrangements constrain good corporate governance in emerging markets? Whilst the previous chapter has undoubtedly highlighted the unique application and benefits of agency theory in the Nigerian corporate governance fabric, the very influential agency theory does not explain these relationships. Therefore, this chapter conceptualises corporate governance structures and practices as institutionally determined and guided. This is imperative to an inimitable understanding of corporate governance, particularly in developing countries. Specifically, it is argued that corporate governance models, especially in developing countries, would be highly inapplicable if they are not institutionally based and explained. The evidence from a developing country is presented in order to show that institutions are very powerful forces which shape corporate governance. In particular, the extent to which certain underlying national conditions, such as the political, economic, legal and social environments as well as firm/industry values, culture, ethics and history, play a determining role in corporate governance in Nigeria is examined.

No doubt, modern corporate governance discussions originated from the agency problem (Jensen and Meckling 1976) which arises when the ownership of firms is separated from their control, a common feature of today's corporations. However, since investors in corporations require assurance that their contributions will generate a return, the study of corporate governance has come to embody the institutions that make this possible, from boards of directors, to legal structures and financial markets, to wider cultural understandings about the role of the corporation in a modern society (Davies 2005).

Indeed, while the evolution of corporate governance is shareholder-centric, defining the term in this manner reflects decades of intense scholarly as well as practical research and associated scrutiny. Part of this scrutiny has resulted in the recognition of institutional effects on corporate governance. Therefore, in setting the tone of this chapter, the need to augment the financial economics' favoured spectacles of the Anglo-Saxon agency theory is presented in order to highlight the relevance of key institutions in the workings of corporate governance systems, particularly in developing countries. Indeed the literature is dominated by Anglo-Saxon constructs. Scholars have significantly studied corporate governance within the framework of agency theory, viewing the "corporation" as a nexus of contracts between principals (shareholders) and agents (managers), where mechanisms must be in place to align the interests of both parties (Aguilera and Jackson 2003) so as to assure shareholders of getting a return on their investments (Shleifer and Vishny 1997). A variant of agency theory will thus constitute a cornerstone of corporate governance theory (Jensen 1998; Lubatkin, Lane, Collin and Very 2005, 2007). The main thesis here is that corporate governance is multi-dimensionally influenced by institutional environments.

Whilst there have been recent efforts towards the embeddedness framing of governance and opportunism in order to ensure a cross-nationally accommodating theory of agency (Lubatkin et al. 2005, 2007), in this chapter, steps are taken beyond the assumptions of the conventional agency theory (Fama and Jensen 1983; Jensen and Meckling 1976), by arguing that institutions matter in corporate governance. As stated earlier, whilst the focus is on Nigeria, discussions have significant theoretical implications. There is an increasing body of evidence (Aoki 2000, 2001; Lubatkin et al 2007; Aguilera and Jackson 2003) in the budding literature on the institutional theory of corporate governance that institutions matter in corporate governance. Palepu, Khanna and Kogan (2002) argued that whilst nations may formally adopt corporate governance systems which resemble those elsewhere, the acceptance of the enshrined principles may significantly lag in their institutions. This has significant implications for the convergence debate and can explain the diversity of corporate governance structures and practices around the world despite pressures from globalisation. The discussions in chapters 2 and 4 have clearly shown that corporate governance varies from country to country. However, despite the rich descriptions of these different systems that can be found in the literature, there remains a challenging task of conceptualizing this cross-national diversity and of identifying the major factors that would explain these differences (Aguilera and Jackson 2003).

Institutional theory (Meyer and Rowan 1977; Zucker 1987) offers an explanation. It focuses on the deeper and more resilient aspects of social structure, considering the processes by which structures (schemes, rules, norms, and routines) become established as authoritative guidelines for social behaviour (Scott 2004). It is thus important that corporate governance discussions reflect a broader perspective of institutional domains (Aoki 2001). In this chapter, the evolution of corporate governance in Nigeria from an institutional theory perspective is explained. An analysis of how institutions have shaped and are shaping the corporate governance structure and practices of Nigeria is undertaken. As a result, important insights based on evidence from a developing country are provided. The lack of convincing evidence for the convergence of national systems of corporate governance and the reality that corporate governance systems and practices cannot be transplanted across countries without significant misfits (even in countries considered similar such as the UK and US) are indications that the agency framework does not fully encapsulate the multi-dimensional complexity and character of the corporate governance phenomenon. Indeed, in the context of developing countries, and Nigeria in particular, where good corporate as well as public governance is imperative to economic survival and growth, it is of the essence to understand the underlying rationale and machinery upon which business conduct and governance structures and practices are developed, nurtured and sustained over time.

The rest of this chapter is organised as follows. First, the author outlines the need to complement the agency theory, and advocate the institutional embeddedness of corporate governance. Following on, the author examines corporate governance in Nigeria in view of relevant data-generated internal and external institutional environments. The author also investigates the case of “deinstitutionalisation and institutional change” and their effects on corporate governance in Nigeria. I, thereafter, noted a case of institutional maintenance, where regulatory reforms at the industry level are unable to change the self-reinforcing institutional landscape. In the conclusion, the author makes a case for an institutionally based model to be employed to augment the dominant Principal/Agent based theoretical model of corporate governance theory.

5.1 AGENCY THEORY NEEDS A COMPLEMENT

Agency theory (Fama and Jensen 1983; Jensen and Meckling 1976) is important, but controversial (Eisenhardt 1989b). It has, however, become an oft-used tool researchers employ to examine the effects and conditions of corporate governance relations (Frankforter, Davis, Vollrath and Hill 2007). No doubt, agency theory embodies a different world-view and continues to remain a starting point for building any governance framework (Lubatkin et al. 2007). Whilst its assumptions may be considered restrictive in cross-national application, they nevertheless remain absolutely valid and worthy precursors for conventional orientations towards corporate governance. As a result, this chapter is not an attempt to undermine the highly novel agency theoretical construction. An agency relationship is a contract under which the principal(s) engage another person (the agent) to perform some service on the former's behalf, involving the delegation of some decision making authority to the latter (Jensen and Meckling 1976). The core assumption is thus based on the identification of a case of "separation of ownership and control". This is a situation where decision agents do not bear the main share of the wealth effects of their decisions (Fama and Jensen 1983). The separation of decision and risk bearing functions is thus able to survive in organisations as a result of an effective common approach to controlling the resulting agency problems (Fama and Jensen 1983).

Agency theory (Fama and Jensen 1983; Jensen and Meckling 1976), developed in the economics literature, models the relationship between principals and agents in such a way that the separation of security ownership and control can be structured to constitute an efficient form of economic organisation (Fama 1980). Agency theory thus concerns itself with the problems that can arise in a cooperative exchange between the principals/owners and the agents/managers (Fama and Jensen 1983). It assumes that both parties to the relationship are utility maximizers, and one can expect that the agent will not always act in the best interest of the principal which constitutes agency costs (Jensen and Meckling 1976). While economists like Shleifer and Vishny (1997) have considered the model to be a supra-national lens for evaluating all corporate governance issues, this Principal/Agent model is based on a number of assumptions which may undermine the complexity (Lubatkin et al. 2007) and multi-faceted character of the governance phenomenon. For example, Lubatkin et al 2007 further noted that whilst this may enhance the precision/accuracy and scholarly appeal of the agency theory, it engenders an under-socialised view of principals and agents. Furthermore, agency theory somewhat presupposes the operation of an efficient and competitive environment, where information asymmetries are minimized, and competitive pressures are maximized (Udayasankar, Das and Krishnamurti 2005). This is not always the case, particularly in developing countries and specifically as we have seen in the Nigerian case.

However strong advocates of the agency theory still maintains its broad applicability. For example, Gomez-Mejia and Wiseman (2007) describe the view held by Lubatkin et al (2007) as sympathetic. They argued that the Principal/Agent relations are clearly embedded in a social context which defines the self-interests pursued by agents and principals. They further noted that this subsequently determines the degree of potential incongruence between the objectives of both parties, as well as designs the efficient mechanisms for aligning their interests. They rightly pointed out that the most popular target for critics of agency theory is the Principal/Agent model by Jensen and Meckling (1976). They argue that this only represents a special case of agency theory (that is most applicable to the market economy); they finally summit that it does seem a bit harsh to criticise an entire theory based on one application.

In the author's view, a debate between the agency and institutional theories is undoubtedly misguided, as they clearly have their strengths and limitations, which are contingent on their differing focus. Therefore, in this thesis, the author makes no attempt to condemn the agency theory based on its cross-national applicability limitations, but advocate the need to augment the seminal theorising of Eugene Fama, Michael Jensen, and William Meckling with an institutionalist perspective to ensure an in-depth understanding of corporate governance systems, particularly in developing countries. Whilst the institutional theory does not in any way replace agency theory, nor serve as a better theoretical foundation for governance and opportunism in the modern corporation, it brings enriching insights to the Nigerian case and highlights the benefits of a multi-theoretical approach to research and scholarly discourse.

Indeed despite the afore mentioned scholarly achievements with regards to the embeddedness framing of governance and opportunism in order to ensure a cross-nationally accommodating theory of agency (Lubatkin et al. 2005, 2007), there is increasing scholarly recognition (Boehmer 1999; Aoki 2001; Aguilera and Jackson 2003; Aguilera 2005; Leaptrott 2005; Liu 2005; Lubatkin et al 2005, 2007; Judge, Douglas and Kutan 2008) with regards to the institutional "embeddedness" of countries' corporate governance systems and key players. The institutionalist approach is particularly needed in explaining corporate governance in developing countries, which are characterised by lesser economic development, weak legal infrastructures, as well as public and private corruption. As institutional theory encapsulates these fundamentals, the author proceeds to highlight the key assumptions of institutional theory and their relevance in corporate governance research.

5.2 INSTITUTIONAL PREDICTORS OF CORPORATE GOVERNANCE

"Many formal organisational structures arise as reflections of rationalised institutional rules. The elaboration of such rules in modern states and societies accounts in part for the expansion and increased complexity of formal organisational structures. Institutional rules function as myths which organisations incorporate, gaining legitimacy, resources, stability, and enhanced survival prospects" (Meyer and Rowan 1977; 340).

The relevance of institutional theory has been authoritatively documented in the economics literature (Williamson 1985; North 1990); in political science (March and Olsen 1989); in organisational studies (Powell and DiMaggio 1991); and in strategic management (Peng, Li Sun, Pinkham and Chen 2009). Reynolds (1981) presents a theory of regulation from an institutionalised perspective. Tolbert and Zucker (1983) present evidence which suggests that organisational polices and programmes are institutionally determined. Furthermore, Eisenhardt's (1988) evidence from the retail sales sector also confirms the importance of institutional theory in explaining firms' compensation policies. More recent studies have also documented institutional effects on different areas of corporate governance and organisational studies. These include the institutional effects on family business (Leaptrott 2005); on corporate governance and director accountability (Aguilera 2005); and on corporate social responsibility (Campbell 2007). On the country level, Liu (2005) 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 as a case study. As Scott (1987) rightly estimated, institutional theory in organisations, following a period of rapid growth and energetic debates, has culminated into more deliberate development and self-scrutiny. In this chapter, the author advocates the institutional embeddedness of the Nigerian corporate governance system. Undoubtedly, institutional theory explains corporate governance structures and practices with regards to their diversity across sectors, nations and regions.

The roots of institutional theory run firmly through the formative years of the social sciences, incorporating the seminal insights of Marx and Weber; Cooley and Mead; and Veblen and Commons (Scott 2004). As expected the concepts of institution and institutionalisation have been defined in diverse ways, with substantial variation among approaches (Scott 1987). Indeed, institutional theory is difficult to explicate, as it concentrates on the "taken-for-granted" assumptions at the core of social action (Zucker 1987). It emphasizes that organisations should be seen as more than the means by which goods are produced and services are provided, but as social and cultural systems (Judge, Douglas and Kutan 2006). It offers a richer view of organisations: it argues that organisations are influenced by normative pressures, which could be external or internal (Zucker 1987). It further inquires as to how social structures are developed, diffused, adopted, adapted, fall into decline, and are disused over space and time (Scott 2004).

Two defining elements are shared by institutional theorists in organisational studies; "(a) a rule-like, social fact quality of an organised pattern of action (exterior), and (b) an embedding in formal structures, such as formal aspects of organisations that are not tied to particular actors or situations (non-personal/objective)" (Zucker 1987: 444). Institutional theory refers to the enduring systems of social beliefs and socially organised practices which are associated with diverse functional areas of societal systems such as religion, work, politics, laws, and regulations, therefore, one of the keys to understanding organisations and corporate governance systems is by studying the institutional environments which guide or constrain their legitimacy (Judge et al. 2006; 2008).

The institutional process can thus be described as a neutral construction which infuses value beyond the formal requirements of an organisation and tests the expendability at which organisational practices are abandoned in response to new circumstances or demands (Selznick 1996). Furthermore, Selznick argues that an institutional theory of the firm will thus represent a voice of resistance to the culture and limitations of short-sightedness which has been the consequence of allowing shareholder primacy in the firm to have a pernicious effect on scholars' perception of corporate rationality. Institutional theory, therefore, provides a framework for descriptive models that explains certain organisational phenomena by tracing the emergence of distinctive forms, processes, strategies, outlooks and competences, from patterns of organisational interaction and adaptation to their internal and external environments (Leaptrott 2005; Selznick 1996). It thus provides guidance to our thinking in relation to corporate responsibility and speaks to issues of social concern without accepting conventional models of organisations as well as the unreflective principles of organisational management (Selznick 1996). This is particularly important for research in developing economies. Conceptualising corporate governance structures and practices as institutionally determined and guided enables a clearer understanding of the Nigerian corporate governance system.

5.3 INSTITUTIONAL FRAMING OF CORPORATE GOVERNANCE IN NIGERIA

5.3.1 Overview

Meyer and Rowan (1977) argue that formal organisations have traditionally been understood as systems of coordinated and controlled activities in which work is embedded in complex networks of technical relations and boundary-spanning exchanges.

They further argue that it has become clear that the 21st century formal organisational structures have risen in highly institutionalised contexts. The author proceeds to examine the Nigerian external and internal institutional environments and their influences on corporate governance. The aim is to explore the complementary relationships of these institutional environments and related practices with good corporate governance. Discussions, here, are presented under two headings. Macro level environments are those external institutional configurations which profile a firm's corporate governance at the country level, consisting of Nigeria's political, economic, social and legal environments. The micro level analysis focuses on those institutions which are internal to the firm or its industry, consisting of the firm's/industry's values, culture, history and ethics. Industry level discussions are deliberately not presented as meso-level analyses given the lack of sufficient demarcation between the firm-level and industry-level institutional environments of corporate governance, as suggested by the data. Furthermore, it is important to note that much of the emphasis in the institutional theory literature has been on institutional construction and convergent change processes, while "deinstitutionalisation", which is the process by which institutions weaken and fade away, has been less explored (Oliver 1997; Scott 2001; Dacin, Goodstein and Scott 2002). The author subsequently investigates the prospects of deinstitutionalisation and institutional change in Nigeria and how corporate governance in the country is responding to these.

5.3.2 Macro (external) Institutions

5.3.2.1 The political context of corporate governance in Nigeria

It is becoming increasingly acknowledged that politics shape corporate governance (Roe 1994; Fligstein 1990; Roy 1997), particularly taking more complex dimensions in developing countries. Notably, Nigeria brings enriching insights to add value to the budding political theory of corporate governance. Roe (2003) empirically demonstrated that politics interferes with firms' ownership structures and boardrooms' behaviour; it induces reactions since owners will try to mitigate against negative political developments. While Roe's evidence were not gathered from developing countries, they nonetheless remain relevant. Indeed, the political environments of developing countries offer a more in-depth perspective, where managers and directors of large organisations constantly strive to reap maximum benefits from political office holders.

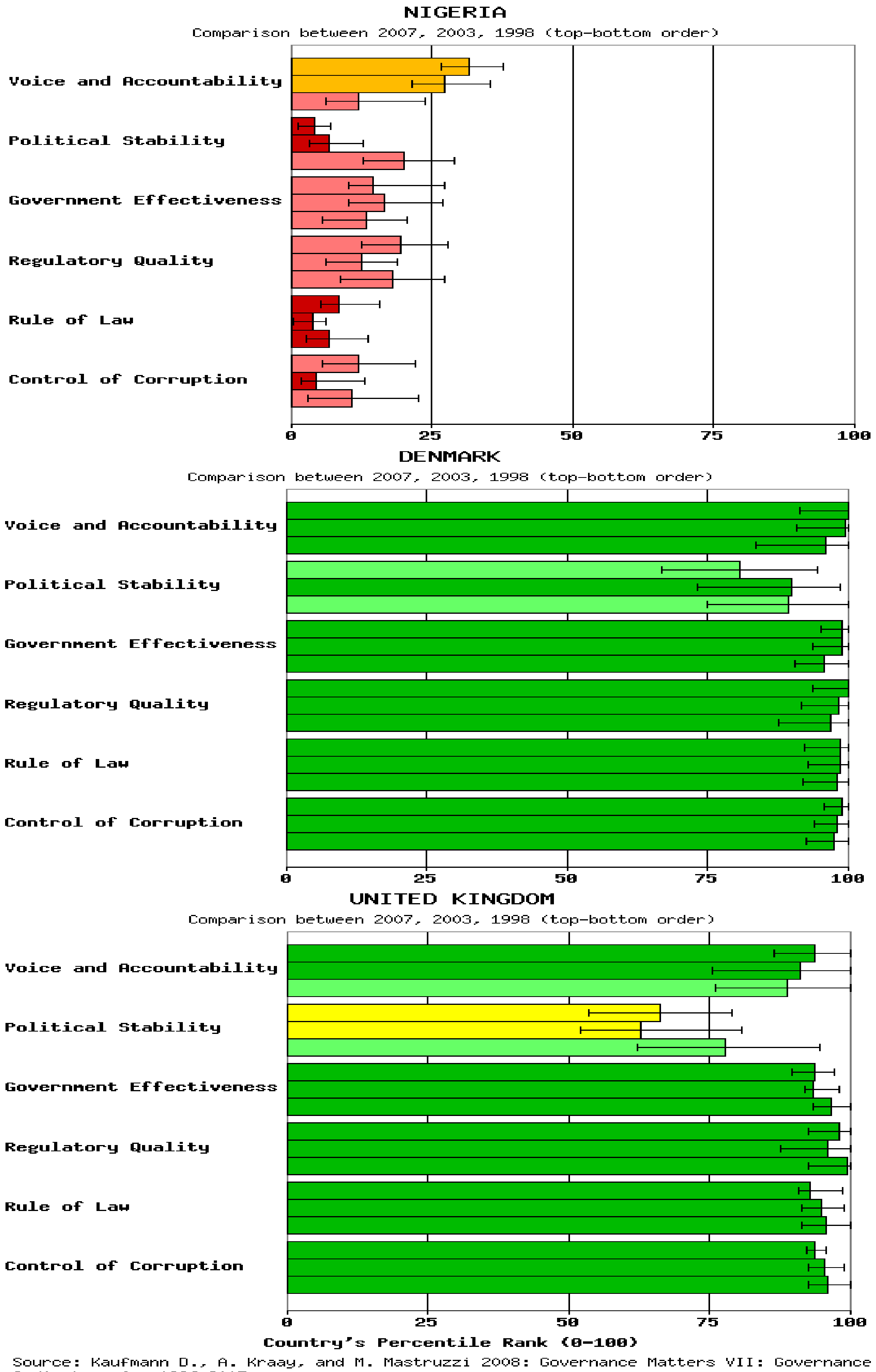
Following independence from Britain in 1960, Nigerians, until about a decade ago, have lived predominantly within a political environment characterized by military/tyrannical dictatorship, incessant political turbulence and violence, political assassinations and elections marked by massive vote rigging. Post independence, the following period of nascent indigenously administered democracy was short-lived. On January 15 1966, there was a military coup, which injected dictatorship into the Nigerian polity and governance. As such independent politics in Nigeria began with the promise of democracy and economic progress, which became entrenched in the language of politics and of public life generally, even though the hard reality did little to suggest that Nigeria would ever become a democratically governed state (Nolutshungu 1990).

Indeed the Nigerian political environment witnessed several symbolic events which undermined the possibility of a successful democratic governance system. These include several military coups and intrusions into the democratic process, a 3-year civil war, continuing ethnic rivalries, religious tensions and human rights violations. Nigerian was under military dictatorship for about 30 years, cumulatively, until May 1999 when the country returned to democratic rule. In May 2007, President Yar'Adua became the first civilian leader to take over from another, following a very controversial election. Apart from the massive irregularities which plague political elections in Nigeria, the post independent political structure and culture reflects the country's legendary corruption. Since Nigeria has traditionally lacked the institutional capacity to address corruption, the venom has become endemic. Political corruption has been inadvertently encouraged as there are limited pieces of evidence of successful prosecution of corrupt political office holders.

The pervasiveness of corruption in Nigeria is corroborated by independent corruption-indexes. For example, Transparency International, an anti-corruption NGO, ranks Nigeria 121st out of 180 countries in its 2008 corruption perception index. The 180th on the list, being the most perceived corrupt country. Both Denmark and Sweden were top on the list. The United Kingdom and the United States of America were ranked 16th and 18th, respectively. The country ranking of the Transparency International Index is further appreciated through the World Bank anti-corruption and governance index. The World Bank index is based on 6 broad measures of good governance: (1) Voice and Accountability, (2) Political Stability, (3) Government Effectiveness, (4) Regulatory Quality, (5) Rule of Law, and (6) Control of Corruption (Kaufmann, Kraay and Mastruzzi 2008). The graphs in Figure 5.1 represent a comparative view of Nigeria, Denmark and the United Kingdom on the World Bank index. In addition, whilst recent Nigerian government regulatory measures to address corruption have attracted considerable admiration, it has also attracted significant skepticisms and criticisms with regards to their sincerity. Specifically governmental campaigns aimed at addressing corruption have been perceived to be witch-hunt exercises to settle personal grudges. It is based on this background that the author explores the implications of the corrupt and greed driven Nigeria polity for business conduct, corporate governance and shareholder activism.

It is not surprising that the past decades of unrests in the Nigerian polity have had serious implications for business conduct and corporate governance. As evident from discussions in the preceding chapter, the political instability in the Niger-Delta region of Nigeria continues to impact negatively on business operations in the region. Examples include the distortion of business operations and the kidnapping of foreign oil workers, by protesters. No doubt business requires a conducive political atmosphere to thrive. Indeed, organisations that are impeded by political turmoil and thus unable to function properly are less valuable to investors; therefore dampening political turmoil or insulating an organisation from its effects constitutes a strong force in shaping an organisation’s ownership and its eventual governance (Roe 2003). This further brings to the fore the need to understand the correlations between a country’s polity and corporate governance.

Figure 5.1: A comparative view of Nigeria, Denmark and the United Kingdom on the World Bank Index



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2008: Governance Matters VII: Governance Indicators for 1996-2007

Politics affects a firm in many ways, given that it determines who owns it and the external finance it is able to obtain. It further determines its growth and profitability potentials and ultimately how authority is distributed within the firm (Roe 2003). Furthermore, politics and political affiliations play vital roles in the Nigerian business sector. According to the chairman of a large Nigerian corporation;

"In Nigeria, firms (especially foreign owned ones) that would survive in this sort of politically challenging and risky environment will have on their boards and top management teams individuals with local knowledge of the political terrain. More importantly, these individuals must have the necessary political connections and support, especially from policy makers, such as the president and his aides"

Indeed, in Nigeria, it is generally uncontested that top politicians (directly or indirectly) hold majority stakes in many organisations, which allows them to nominate board members and management. As a result, they are able to stifle the organisation to suit their political interests and in other situations use their political powers to benefit the organisation. It is also not uncommon for multinationals to compromise their ethical standards in order to do business. A good example is the recent conviction of Siemens for bribing a number of top government officials in Nigeria in order to win telecommunication contracts. However, politically motivated corporate corruption takes different shapes and forms. Unlike Siemens which seemingly bribed government officials directly, survey evidence suggests that MNCs often pay bribes via "consultants" who negotiate the deal and win the business/contract. Consultants therefore act as the medium through which the bribes are paid to the corrupt government officials. While commenting on the issue, an interview respondent who is a senior regulatory officer stated that:

"The case of Siemens is an exception; they were not just smart enough, they wanted to do the bribery for themselves, so they got caught"

Traditionally the country's corporate governance system and practices have been riddled with endemic corruption. Indeed, the private sector and corporate governance evolved and continue to evolve in an environment of systemic political corruption. The very recent Cadbury Nigeria Plc (a subsidiary of Cadbury Schweppes) scandal, which led to the sacking of some of the companies' senior officials including the CEO, represents another dimension of the political determinants of corporate governance in Nigeria. As an academic/corporate governance consultant observes:

"Corruption in the private sector is largely covered up. Taking the Cadbury scandal for example, if not for some external political interests that were in the matter, shareholders' funds would have been eroded without anyone noticing".

Companies firmly grounded in the corrupt Nigerian polity benefit in various ways. These benefits can include the following: tax evasion, getting away with non-compliance with regulatory standards, and more serious corporate crimes such as selling expired goods. Survey respondents unanimously agree that the private sector is gradually becoming the epitome of corruption in Nigeria. This has been facilitated by the public-private corrupt relationship which further renders regulatory powers irrelevant. An academic respondent gave an example of such; in his words,

"You can expect weird situations in Nigeria. The Director General of the Nigerian Stock Exchange, who should be at the fore front of promoting good corporate behaviour, actually came about with what was coined "Corporate Nigeria". This was a political instrument which was employed during the April 2007 elections. She used this "corporate Nigerian" slogan to harass corporations to donate funds to the ruling political party (People's Democratic Party (PDP). Clearly this is against the provisions of the Companies and Allied Matters Act of 1990, which stipulates that a company is not allowed to use its resources to fund political agendas and activities. More importantly this went unchecked and "Corporate Nigeria" enabled companies to donate billions of naira to the People's Democratic Party (PDP)"

Given that the government traditionally held significant shareholdings in major areas of the economy despite the considerable efforts to divest them, typical of all Nigerian government owned ventures, "people saw/see them as nobody's business". Therefore, politicians/office holders have traditionally used these government owned companies to fuel political agendas directly or indirectly. A senior official of a corporate governance regulatory agency gave an example of this;

"Unity bank, when formed was solely owned by the 19 northern states in Nigeria. Following the 2005 reform of the banking sector, Unity bank was unable to source the

₦25 billion (£100 million) new capital base requirement for banks, and therefore had to divest their shareholdings, as well as open the account books of the bank for external scrutiny. It was at this juncture that it became apparent that board members, managers, and senior government officials, as well as their political and business associates, have taken a considerable amount of un-secured, un-serviced and unpaid loans from the bank".

Furthermore, given the nature of partisan politics in Nigeria, politicians continuously seek financial support from corporations which further facilitates public-private corrupt dealings before and after elections. According to a former CEO and Chairman of a large Nigerian corporation,

"Following victory at the polls, politicians upon assuming offices, see themselves as dispensers of favours to individuals, groups or companies who have supported their parties. These supporters get more "favours", ranging from government contracts, fast-tracking of trade licenses, whilst denying other qualified individuals or companies, especially if they are perceived as oppositions"

Partisan politics is very influential with regards to how companies secure their businesses and remain competitive in developing countries. Especially, businesses generally require strong political will. However the business-polity relationship is bilateral. The benefits which a business/company can reap from a close relationship with the political party in power have already been mentioned. However, if the party looses power, following defeat at an election, the party's corporate supporters/allies become less able to secure high yield businesses/government contracts, and as a result, may become less competitive. The Nigerian polity strives amidst corruption and illegality thus inhibiting good corporate governance. Large organisations including multinationals can only triumph and remain competitive with significant political will and support. It has also become common for corrupt politicians and ex-office holders to become elected as board members, thus hindering good corporate governance, more so as they often bring their entrenched public corruption behaviour into the private sector. This further allows protégées of the country's political tyrants to govern some of its major corporations. The result is an unethical and discouraging investment climate. To specifically understand the influence of politics on corporate governance instruments, the author will proceed with a case study on the political reconstruction of shareholder activism in Nigeria. Findings from this survey particularly show a strong relationship between the political climate and the evolving shareholder activism mechanism in Nigeria. This provides further insights into the extent to which corporate governance mechanisms are embedded in the broader political culture of a nation state. As a result, the author investigates the extent to which shareholder activism in Nigeria mirrors the country's brand of politics.

The Business Firm as a Political Actor: Exploring the political reconstruction of shareholder activism in Nigeria

No doubt, the last two decades have witnessed the evolution of shareholder activism, as an important characteristic of financial markets with activist shareholders pressurising the managements of poorly performing firms in their portfolios for improved performance and enhanced shareholder value (Gillan and Starks 2000). These debates in the corporate governance literature have mainly taken a micro-level perspective of agency theory, albeit with an emergent interest in the institutional theory of corporate governance (for example, Aguilera and Jackson 2003; Jackson 2005). The literature has in the main posited shareholder activism as a positive force – on the premise that shareholders, as activist owners, can check managerial opportunistic tendencies and, thus, promote effective corporate governance (Gillan and Starks 1998; 2000; Black 1992). As such, shareholder activism is often perceived as an enabler of conscious, sustained and organised challenge to corporate authority, especially over a perceived or actual grievance (Marens 2002; Tarrow 1994). However, shareholder activism can be very controversial (Becht, Franks, Mayer and Rossi 2006). Becht et al. (2006) argue that whilst it can resolve the monitoring and incentive problems associated with widely-held firms, in order to improve their performance (Black 1992), it can also constitute a disruptive, opportunistic, and ineffective mechanism employed by fund managers and other investors for personal benefits.

Notwithstanding the progress made so far in incorporating the institutionalist approach to corporate governance literature (as evident from the foregoing), the interface between a country's political culture and corporate governance is still very much under-explored in the extant literature. Undoubtedly, understanding shareholder activism requires a good understanding of the political environment in which corporate governance mechanisms are enacted (Roe 2003; Fligstein 1990). This is even more important to the understanding of corporate governance practices in developing economies, given their often weak political structures and corrupt-ridden political cultures. In this vein, while the rising unlimited potential for expanding the shareholder activism literature in developing countries (Sarkar and Sarkar 2000; Amao and Amaeshi 2008) can be positively perceived, it has become necessary to examine the surrounding institutionalised political environment of these countries. This section therefore examines these fundamental concerns and focuses on the political institutionalisations of shareholder activism as a mechanism for corporate governance and accountability in Nigeria. It is worth noting that the previously mentioned 2007 Code of Conduct for Shareholder Associations in Nigeria has enabled an upsurge in shareholder activism in the country. Shareholders are thus becoming increasingly aware of their rights and responsibilities. Particularly, Nigeria is witnessing a rise in the number of shareholder associations. Nigeria further presents a good platform to address these concerns, given that the renewed advent of shareholder activism in the country has resulted in an array of relationships, networks and practices, which threaten effective activism. Also, Nigeria's political history and current democratic dispensation provides a profound basis to understand and conceptualise the relationship between shareholder activism and the state of democracy. The political interaction and configuration of shareholder activism in Nigeria is summarised in the following sub-sections.

- **The notoriety of shareholder activism in Nigeria**
  Activists as irritations

Nigeria can be regarded as having the second (to South Africa) most advanced shareholder activism structure and practice in Africa (Vaughn and Ryan 2006), on the basis of investor interests and activity in corporate matters, as reported by academic and non academic commentators. South African shareholders, within an environment of a more developed corporate governance regulatory structure, have questioned and challenged boards severally. This indicates that they are generally aware of their rights and responsibilities. Their efforts have resulted in some instances of significant board and managerial re-think and decision reversal, especially in matters of board appointments. In Nigeria, Section 10 (a) of the Code of Corporate Governance states that:

'The company or the board should not discourage shareholder activism whether by institutional shareholders or by organised shareholders' groups. Shareholders with larger holdings (institutional and non-institutional) should act and influence the standard of corporate governance positively and thereby optimize stakeholder value.'

This is part of the efforts by the Corporate Affairs Commission (CAC) and the Securities and Exchange Commission (SEC) to promote shareholder activism and the rights of minority shareholders in the Nigerian corporate governance system. As such, the trend in developed economies, which enabled the rise of block voting through shareholder associations as a response to domination by majority shareholders, is gradually evolving in the Nigerian context facilitated by private initiatives and government's encouragement (Amao and Amaeshi 2008). The Independent Shareholders' Association of Nigeria (ISAN), the Nigerian Shareholders' Solidarity Association (NSSA), Association for the Advancement of the Rights of Shareholders of Nigeria are among other shareholders' associations made up of individuals that share common interests and are presumably united to give minority shareholders, in particular, a voice. Okike (2007) argued that shareholders' associations have become considerably militant in assessing the performance of companies and in challenging managerial actions that were not taken in their interests.

While shareholder activism in Nigeria is still in its early developmental stage, the findings of this study suggest an already rapidly evolving institutional misconception and misuse of the corporate governance mechanism. It is thus posited that shareholders need to be encouraged not only to exercise control but to exercise control responsibly. It has been noted that shareholder associations sometimes “flex their muscles” to frustrate legitimate transactions and smooth running of the company (Okara 2003). Essentially activist shareholders have been conceived as irritations or terror to normality in corporate organisation and management. Findings from this survey show that the rationale behind this is bilateral. Particularly, the manners through which shareholders’ associations carry out their activisms suggest a degree of terrorism[9]. On one hand, the manners through which shareholders’ associations carry out their activisms reflect similar degree of bullying and corruption inherent in the Nigerian political culture. For example, there have been several cases of massive and unwarranted disruptions to AGMs proceedings, perpetrated by executive members of these associations. Commenting on this, an interview respondent, who is an executive member of a notable shareholder association in Nigeria, said;

“Some of our members conduct their activities in ways which dent our image and impede our achievements. They go around threatening corporate management with massive AGM disruptions, which normally attracts negative publicity”

As another respondent, an active shareholder activist puts it:

“Aggressive bullying is our weapon”

There is no doubt that the setting up of shareholder associations was encouraged due to the need to coordinate several small, passive and dispersed shareholders; however the intended activism has been hijacked by individuals whose aims are to reap personal benefits, which is truly characteristic of the broader political culture of the country. In the quest of achieving this, several senior executives of shareholders associations bully corporate management through threats of AGM disruptions and negative media propaganda and have thus constituted themselves “terrorist gangs” who are now feared by corporate executives. At the other end, bullying would not have triumphed, if managers and board members were committed to effective corporate governance. Given that shareholders’ associations have become constitutionally empowered to challenge managerial and board excesses, they constitute a great threat to the status quo of traditionally unchecked corporate corruption and governance malfunction, if their powers are applied positively. However, this was not found to be the case. The shareholder associations were rather perceived to be ineffective. According to a non-executive director of a major Nigerian financial institution,

“*Shareholders associations are not very effective because all their executives want is money. Once you give them some money, they shut up and things continue as usual”*

Corrupt collaboration: Activism/terrorism silenced

Findings from this survey also suggest that a corrupt collaboration of engagement between activist/terrorist shareholders and board/managers has subsequently evolved

[9] Terrorism here is used figuratively to suggest the intensity and often illegitimate disruptions caused by these shareholder activists.

dynamically to further silence prospects of genuine activism. This constitutes an abuse of what should have been a powerful institutional check on managerial and board behaviour. As such, while Okike (2007) as well as Amao and Amaeshi (2008) have documented a huge increase in shareholder activism in Nigeria, more recent evidence suggests that shareholder activism has taken a negative turn in the country. For example, executive members of shareholders' associations now maintain close and personal relationships with the executives of the firms they are meant to check. This impedes their activism and further enables them to participate in several executive corrupt behaviours, at the detriment of the shareholders they ought to represent. Indeed, several shareholders' associations have sprung out in recent times and have become powerful lobbying groups that needed to be appeased by management of companies. This appeasement can occur in several forms – including through shares and allotments in public offerings as well as several personal favours, such as funding their organisations and sponsoring their events. As such, Annual General Meetings (AGMs) are largely stage-managed. According to a senior official of the Nigerian Securities and Exchange Commission;

"We have been attending AGMs where directors are elected or re-elected, such proceedings are just formalities. Even the so called shareholder associations that attend such meetings are easily compromised by the board and management of these companies"

It must be noted that regulatory agencies have legal provisions to attend AGMs as observers only, with no right(s) to interfere in the deliberations. As another respondent puts it:

"*Some AGMs are so predetermined that you notice from the onset that this is a doctored proceeding, but in some other AGMs things are done well*".

These were also the words of a former CEO and Chairman of a listed corporation;

"*I acknowledge that management and boards do hijack the independence and activism of shareholder associations, by giving them financial incentives/bribes. It got to a point that a president of one of the shareholder associations became a director on a company which was really bad*".

Following these comments and observations, it is possible to conclude that shareholder activism in Nigeria is bogus. Currently, shareholder associations seem to go over their activities by becoming post-event/ex-post commentators, displaying pseudo activism when the damage has already been done, such as when companies' poor performance results are made public. The author defines pseudo activism as a corruption motivated stage-managed conduct of shareholder activists, with no meaningful intention to promote effective stewardship and accountability of board directors and managers for corporate assets. Pseudo activism will almost certainly require a corrupt collaboration between supposed activists and corporate executive management. It has also become difficult to monitor directors of Nigerian corporations, essentially with regards to how their decision making is influenced by the anti-company/personal interests they often pursue. This problem is heightened by the poor infrastructural development of the country especially with regards to information access/freedom of information, coupled with the traditionally corrupt practices of the supposed regulatory watch-dogs.

Light at the end of the tunnel: The evolving institutionalised varieties of shareholders

Despite the corrupt political capture of shareholder activism in Nigeria, this research study suggests that the country is witnessing the rise of two varieties of shareholders, who are contributing immensely to shareholder activism. The results of this study suggest that both classes have demonstrated a considerable amount of genuine activism. It is, therefore, anticipated that these emergent shareholder classes could be instrumentally helpful in rescuing shareholder activism from spin, if sustained.

First it must be noted that while Nigeria is not immune from the current global economic crisis, the last three years have witnessed a high level of investor activity on the Nigerian stock market. Particularly, several investors have made huge profits out of stocks and shares. As such there has been an increased interest in capital market investments among a wide array of Nigerians across different age brackets and financial status. The first classification of evolving shareholders are the emergent middle class (mainly employees and other professionals), who attend these AGMs as minority shareholders. This classification of minority shareholders does not have to necessarily belong to any shareholder association. They make efforts to attend AGMs regularly and in the process have developed a degree of sophisticated expertise over time, with regards to checking and analysing companies' financial statements and accounts. They are also able to ask informed and quality questions on issues bordering on several aspects of disclosures – including financials, ethical investments, corporate social responsibility and employee relations. The author refers to this classification as "**the sophisticated shareholders**". The recent boom in the Nigerian stock market has attracted a vast amount of investors, a considerable amount of which are not particularly savvy or financially literate. Furthermore, given the high level of illiteracy in the country, a lot of investors do not have the capacity to make reasonable deductions from companies' financial statements and accounts to inform their investment decision. Considering their small equity ownership, it is also unjustifiable to seek seasoned financial advice. As such the sophisticated shareholders constitute a very helpful and powerful expression of activism.

Similarly, the second classification consists of shareholders who are not necessarily large shareholders but are able to induce shareholder activism in corporations they are interested in. They are high-calibre individuals with a history of excellent behaviour and distinguished accomplishments. Specifically, the individuals have developed a reputable status over time on the basis of their track records of superlative performance and integrity in various high profile corporate or/and public positions. 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 of shareholders as "**the reputable shareholders**." Given the intense corruption which has engulfed the Nigerian state, it can be deduced that persons of high standards of integrity continue to constitute a powerful and positive force for informed and veteran shareholder activism.

The emergence of “the sophisticated shareholders” and “the reputable shareholders” has the potential of counteracting the negative trends introduced by the corrupt collaboration between activist/bully shareholders and board/managers. Indeed these negative trends constitute a great threat to the emergence of a meaningful and effective shareholder activism in Nigeria. Given the peculiarities of the Nigerian situation, it is posited that such internal changes to shareholder activism as opposed to external influences is crucial to the development of meaningful shareholder activism. Subsequent discussions in Chapter 6 further advocate the benefits of local institutional initiatives in promoting effective corporate governance and accountability in developing countries.

- **Deductions**

The political system, as a vibrant institutional force, has been pivotal to the study of the institutional effects on corporate governance. In an attempt to move the debate on the institutional determinants of corporate governance forward, The author has focused on the particular influence of a key institution – political system and culture- on a key corporate governance mechanism- shareholder activism. Findings from this survey show that national political culture impact on shareholder activism in corporations. More specifically, the findings have shown the extent to which shareholder activism does mirror the broader political climate of a nation state. This case study specifically adds, insights from the perspective of a developing country, to the increasing scholarly attentions (Roe 1994, 2003; Fligstein 1990; Bainbridge 1995; Romano 2004; Gourevitch and Shinn 2005; Wärneryd 2005; Coglianese 2007; Belloc and Pagano 2009; Adegbite and Nakajima 2009; Adegbite, Amaeshi and Amao 2009) being paid to the political determinants of corporate governance. Again, while this study forges a necessary discourse of the particular influence of a country’s political culture on shareholder activism, it encourages further scholarly works in the line of building a political theory of shareholder activism. Therefore in enriching scholarly discourse in the area of governance and opportunism in the modern corporation, the author brings insights from a Nigerian case to add to the increasing scholarly recognition (Boehmer 1999; Aoki 2001; Aguilera and Jackson 2003; Aguilera 2005; Leaptrott 2005; Liu 2005; Lubatkin et al. 2007, 2007; Judge, Douglas and Kutan 2008) with regards to the institutional “embeddedness” of countries’ corporate governance systems and key players.

There is no doubt that effective shareholder activism in the broadest sense, involving both large and small individual and institutional shareholders will promote effective corporate governance in Nigeria. Amao and Amaeshi (2008) have recently called for effective shareholder activism as a prerequisite for more effective corporate governance and accountability in Nigeria. While the evolving shareholder activists are a positive development, the corrupt collaboration of shareholders’ associations and corporate executives must be vigorously and urgently addressed by innovative and effective regulatory initiatives[10].

[10] Recent regulatory initiatives aimed at addressing some of these concerns, particularly the 2007 SEC Code for Shareholders, are discussed in Chapter 6.

5.3.2.2 The economic context of corporate governance in Nigeria

Despite her oil riches and promising economic fortunes, Nigeria is bedevilled by myriad economic problems which are entrenched in the political and economic structure of the country as well as in the psychology of the people (Ekanola 2006). Indeed, Nigeria advances but uncertainties abound. While Nigeria's dilemma in harnessing its resource rich economy into an epitome of globalisation is shared by many of the world's developing nations, the efficiency of markets and consumer participation in the economy is enormously limited by the lack of durable networks, stable electricity supply, potable water, efficient telecommunication facilities, as well as safe and efficient roads, railroads, and ports (Country Focus 2006). Small and medium enterprises capable of making immense contributions to the economy have thus been limited by the poor economic infrastructure of the country. Given that corporate governance in a particular country is an endogenous response to firms' economic environment (Mulherin 2004), developing countries, such as Nigeria, with pervasive but inefficient government controls on economic activities and imperfect capital markets, automatically inherit a weak corporate governance system (Singh 2003).

The degree of economic activity as well as the efficiency and independence of market operations are crucial to the shaping of corporate governance in a particular country. As indicated in the previous chapter, foreigners, especially British, owned most of the large businesses operating in Nigeria, prior to independence. Following the prohibition of 100 percent foreign ownership in sensitive economic areas (such as infrastructure and oil), they had to divest their shareholdings to satisfy the new legislation. However, as there were insufficient domestic investible funds available, the Nigerian government and a small number of very wealthy Nigerian politicians ended up buying a majority of the divested shares (Yerokun 1992; Akinsanya 1983; Ahunwan 2002). Consequently, most large corporations that sprung up were State-owned and State-controlled and the corporate governance practices that developed were replica of the corrupt practices of the military and civilian governments that ruled Nigeria thereafter. According to the Chairman of a large Nigerian corporation, *"One would have expected that the foreigners, government and the wealthy individual Nigerians, that held significant shareholdings in these corporations, would have pioneered good corporate governance. But that was not the case. There was no vision for good corporate governance as a means to create long-term value for the firm and its stakeholders as well as to position the country on the path of economic sustainability"*

Essentially these corporations served as means for top government officials and their wealthy Nigerian friends to loot shareholders' fund amongst other corrupt practices, which eventually led to the collapse of a considerable amount of the traditional Pan African corporations. Therefore, for any corporate governance reform in developing economies, particularly Nigeria, to make reasonable impact, it must, at the very least, understand and reflect the economic situations within which corporate governance structures and practices have evolved.

5.3.2.3 The social context of corporate governance in Nigeria

While there appeared to be a great deal of optimism in the 1960s about the developmental prospects of the newly independent Nigeria (Ahunwan 2002), nearly five decades later, the country is still optimistically regarded as developing. Candidly stated, Nigeria is undeveloped, lacking adequate social infrastructure and basic amenities of life. Poverty, high rate of unemployment, armed-robbery, bad roads, power shortages, amongst other vices, plague the Nigerian state. The result is a poor quality of life for majority of the populace, and the consequence of this is a general perception that everyone will have to (and must) "fend" for himself or herself as the government would not. This is the underlying cause of the endemic public and private enterprise corruption in the country. According to a senior regulatory officer;

"In Nigeria, there is a general notion that you need to "take care of yourself". It doesn't matter if this amounts to corruption".

Furthermore the lack of adequate social amenities as well as the corresponding government's lackadaisical approach is stimulating the debate on corporate social responsibility in Nigeria. As the Vice Chairman of a large Nigerian corporation puts it:

"Looking at social infrastructure, the government has failed its people and as such they look unto corporate bodies to fill in that gap. Indeed multinational corporate bodies can become role models for how things can be done".

The implication of this is that the burden of citizens' welfare is being gradually bestowed on private corporations which have serious consequences for the burgeoning debate on corporate social responsibility (CSR). In this regard, CSR is evolving as a compulsory corporate philanthropy, especially in the deprived region of the oil rich Niger Delta, as previous discussions have highlighted. More broadly and almost inevitably the governance of corporations becomes affected by these infrastructural and social determinants. While the agency theoretical construction concerns the possibility of self-serving behaviours of corporate managers which may not be in alliance with that of shareholders, this problem is seriously aggravated and socio-institutionally accommodated in Nigeria. According to a former governor of the Central Bank of Nigeria:

"The social structure of Nigeria can be described as "a fertile ground for bribery, corruption, idleness and the contrivance of get-rich quick attitude which are antithetical to hard work and discipline" (Ahunwan 2002; 271).

This has serious implications for corporate governance. For example, Nigeria has lost a significant number of banks since the banking industry came into being in the country in 1914 due to bad corporate governance largely facilitated by the corrupt and opportunistic behaviours entrenched in the country's social environment. Again, while business connections can reduce agency conflicts by promoting efficient and informal information transfers, it can also constitute channels for favouritism (Kuhnen 2005). For example, business connections in Nigeria, especially through personal and family affiliations, interfere with the efficient management and governance of corporations, resulting in serious cases of insider dealing, appointments to corporate directorships based on personal affinities, use of companies' properties by directors, managers and their associates for personal purposes, as well as leasing/selling personal and associates' properties to the company at exorbitant prices. Indeed, as with most developing countries, a corrupt social mindset has engulfed both public and private enterprises allowing activities such as drug counterfeiting, environmental degradation, bribery, and corruption to become norms, such that doing things right has become an anomaly (Olebune 2006). Furthermore, massive corruption has traditionally been encouraged by laxity in regulatory enforcement fuelled by the corruption of regulators themselves.

5.3.2.4 The legal context of corporate governance in Nigeria

Formal rules are the laws and regulations (North 1990) which govern behaviour. As evident from Chapter 4 and as the author would further present in the following chapter, the legal context within which corporate governance has developed in Nigeria was dictated by English law and the latter still constitutes a substantial part of Nigerian law. Indeed, having described the political, economic and social operating environments of corporate governance in Nigeria, it is worth noting that Nigeria's mimicking of UK laws, following independence, meant it failed to address company law problems that were specific to Nigeria's socio-political environments and also did not tackle the economic and commercial challenges of the country (Okike 2007). According to an academic respondent:

"What we have in Nigeria is a legal system that could best be described as non-Nigerian"

Nigeria has inherited the British corporate governance system and even after several company law reforms over the years, the legal infrastructure of corporate governance in Nigeria remains fashioned along the Anglo-Saxon model. It is unsurprising however that this misfit created by the UK mimic has allowed several governance malfunctions to traditionally flourish. Right from the colonial period through independence and even up till the 1990s, there was limited challenge to management's prerogative to run corporations, no efforts directed to off-sight supervision with regards to ensuring transparent disclosure of information, and no substantial intervention in matters of accountability and corporate power administration and relationship (Yakasai 2001). Nigeria therefore needs a legal system which reflects and tackles the peculiar challenges posed by the institutional environments described above. This system must nonetheless remain competitive in attracting both domestic and foreign investments by not stifling the independent dynamism that underlies modern capitalism.

The British construction of the Nigerian legal system, even though directed to serve Britain's interests, nonetheless set some good precedence. The generality of the company law in Nigeria has traditionally laid down the "rules of the game" for the internal operation of the corporation (encompassing certain issues such as shareholder rights and the organisational structure) as well as its external relationships (such as the wide range of contracts that corporations make with various external actors including service users/customers, suppliers, distributors, and joint venture partners) which are underpinnings of corporate governance. Nevertheless, what Nigeria lacks is the devotion and culture capable of enforcing these formal rights (Ahunwan 2002). In Nigeria, there has been a traditional disregard for the rule of law (Ahunwan 1998), although recent governmental commitment, especially through the setting up of anti-corruption bodies, are creating a general awareness that the law is there to govern and must therefore be allowed to. While the current focus of governmental campaigns appears to concentrate on public office holders, it is however expected that the trend will proceed to confront some of the deep rooted and highly complex corruption perpetrated by managers and directors alike, as a result of laxity in law enforcement. As a senior official of a regulatory agency puts it:

"*The problem in Nigeria is that of enforcement which is silent except when there is a public outcry*".

Corporate governance laws and regulations should bring an element of morality and conscience into business and limit majority rule in a consistent manner. Corporate governance should further limit the strict application of the common law approach. This can only be achieved by addressing the various institutional impediments to good corporate governance in the laws and the "codes of conduct" governing corporations and corporate conduct which are the Companies and Allied Matters Act of 1990, the 2003 Code of Corporate Governance in Nigeria, the 2006 Central Bank of Nigeria's Code of Corporate Governance for Nigeria Banks, and the very recent 2007 Code of Conduct for

Shareholders' Associations in Nigeria. Specifically, subsequent discussions in chapters 6 and 7 examine the effectiveness of the Nigerian corporate governance regulatory infrastructure, as well as the extent of external influences in its development. Nevertheless, the rule of law must prevail in order to ensure good corporate governance in Nigeria. Findings from this survey also suggest that the Nigerian corporate governance legal machinery requires adequate expertise as well as a highly competent human capacity.

5.3.3 Micro (Internal) Institutions

5.3.3.1 Corporate/industry values as determinants of good corporate governance in Nigeria

Corporate values constitute an internal institutional force which guides corporate behaviour. Lencioni (2002) organised corporate values into four categories: (1) core/inherent values which are the cornerstone principles that guide all of a company's actions; (2) aspirational values which are those needed to succeed in the future; (3) permission-to-play values which reflect the minimum permissible behavioural and social standards; (4) accidental values are those that arise spontaneously without being cultivated by leadership. The overall quality of the values of a corporation is a strong determinant of its corporate leadership and governance beyond the rigours of regulation. The practical implementation of corporate governance codes of conduct cannot be realised solely by a regulatory compliance program as the latter's relevance and effectiveness in daily business conduct is determined by the moral values of the company (Wieland 2005). Good corporate governance demands that companies' management and directors should utilise their stewardship of companies' resources to promote the latter's interests and that of shareholders and relevant stakeholders. Nevertheless, the manner and extent to which this is operationalised is contingent on the values which the company uphold.

Thus, good corporate governance is itself a value comprising of numerous other values including accountability, transparency, honesty, integrity, responsibility, fairness amongst others, as discussions in Chapter 2 have revealed. The subsequent translation into daily practice of corporate governance codes and standards in a particular company or industry is dependent on the presence or absence of these values. A firm's corporate governance practices are indicative of the overall values such a firm upholds, which in turn is generally a reflection of firm's history, ownership structure, as well as society. Simply put, the corporate governance problem is a moral challenge. If all corporate participants including managers, directors, auditors and regulators behave at all times as they are expected to, most of the corporate collapses in recent history and their devastating effects could have been prevented. The argument here is not that future regulatory initiatives should shift focus to concentrate predominantly on imbibing these attributes in corporate players. However, while this is difficult to achieve, corporate governance discussions should encapsulate the underlying challenge posed by certain key values, whose degree of presence or absence can account for the variability of corporate governance practices across different firms and industries, even when they are governed by the same statutory laws and/or voluntary codes of conducts.

A senior internal auditor of a large Nigerian corporation thus observes:

"In Nigeria, as in other developing countries, values such as accountability and honest stewardship are hugely unsynonymous with most corporations. Whilst, some of these values might have been passed on by the British colonial masters, they have not been nurtured by past managements and directors of Nigerian companies"

It is also important to note the traditional lack of adequate encouragement/promotion of professional values among key corporate governance watch-dogs. Apart from the major regulators, these include professional bodies such as the Nigeria Accounting Standards Board, Institute of Chartered Accountants of Nigeria and the Association of National Accountants of Nigeria.

Corporate Nigeria thus needs to incubate certain essential values and nurture good governance practices and curb corrupt behaviour. While robust regulatory initiatives will undoubtedly help the state of corporate governance in Nigeria, any successful fight against corporate corruption over the long term must, at the very least, inculcate and promote these important values to a point where they become self sustainable and therefore can themselves generally infer good governance internally. *Accidental values* need to be developed in Nigerian companies to ensure good corporate governance practices in the short term but these values must become entrenched as *core values* to foster long term and sustainable good corporate governance practices.

5.3.3.2 Corporate culture and corporate governance in Nigeria

Culture is an exceptionally elusive construct (Jahoda 1984) and can be defined as "the learned, socially acquired traditions and life styles of the members of a society, including their patterned, repetitious way of thinking, feeling and acting" (Harris 1987: 6). Depending on the subject of inquiry, the society in question may be a nation, an ethnic group or an organisation (Salacuse 2003). Corporate culture thus becomes central to corporate governance and the ability of a nation to competitively attract investments. Corporate governance is itself a culture which is especially influenced by the overall corporate culture which dictates the behaviour and interaction of key players in a firm-level corporate governance structure.

Nigeria is a country with a rich cultural heritage and diverse customs and languages (Okike 1994). Findings from this survey show that the general corporate culture in Nigeria reflects the country's national culture which varies across three major tribes (Northern Hausa, Western Yoruba and Eastern Igbo) but, nonetheless, share major prescriptions with regards to basic business conduct and relationships. Tackling corporate governance problems in Nigeria would thus mean digging deep to effect a significant change/improvement in the cultures of Nigerian corporations which have been sufficiently permeated by societal corruption (see Okike 1994; 2004). Okike (2007) noted that the two anti-graft bodies, set up by the former Nigerian President (Olusegun Obasanjo), which are the Independent Corrupt Practices and Other Related Offences Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC) have already yielded some results in the public sector with several arrests of corrupt top government officials. However their impact is yet to be felt in the private sector (Okike 2007). No doubt, economic reform and development is high on the agenda of the current

Nigerian president. Consequently, his government has demonstrated a laudable commitment to inculcating a culture of honesty and transparency in public office holders. Nevertheless, robust measures are required to instil such culture in Nigerian corporations, if Nigeria will ever be able to sufficiently utilise and maximize its huge potentials as a good investment location.

No doubt this necessitates a zero-tolerance regulatory policy on corporate corruption but regulation alone cannot stop corporate misconducts especially in developing countries. A strong corporate culture that is in alignment with good principles of corporate governance needs to be developed to constitute internal checks and balances. Spirited corporate culture, one with very clear guidelines on expected behaviour (Deal and Kennedy 1982) could solve some of the corporate governance issues that plague developing countries (see Okike 1994; 2004). For example, Haniffa and Cooke (2002) found empirical evidence which suggests that corporate culture is linked to the range and scope of voluntary disclosure practices. Manipulation of accounts, auditors' compromise, non-transparent disclosure and other fraudulent behaviours will thrive in a company that lacks the cultural strength to internally address them before they result in major scandals. Furthermore, survey respondents generally suggested that good culture must also permeate the regulatory authorities and the professional bodies who perform the oversight monitoring function of corporate governance.

5.3.3.3 Path dependency: how corporate history shapes corporate governance in Nigeria

Here the author investigates the path dependency (David 1985; Arthur 1989, 1990) of historical institutionalism on the governance of Nigerian corporations. David and Arthur maintained in their publications that inefficiencies can become institutionalised as industry standards and may persist for extended periods of time even when they have significant defects; economists (Leibowitz and Margolis 1990; 1995) have however criticized this proposition, arguing that market forces will not tolerate significant inefficiencies (Stack and Gartland 2003). Applying the theory of historical institutionalism to corporate governance research nevertheless brings another dimension to our understanding of the subject, especially as a continuum. This continuum can be understood as the institutionalisation of a set of persuasive ideas that have been successful in describing reality solving problems over long periods of time (Peters, Pierre and King 2005). These ideas may be good or bad.

In the context of corporations, traditional practices sustained over a long period, may become difficult to change, but continue to be the norm even when better alternatives become available. A major thesis of the historical institutional theory literature is that organisational initiatives as well as policy making systems tend to be conservative and find ways of defending existing norms and patterns, which later become self-reinforcing institutionalised processes and configurations that are difficult to change once established (Pierson 2000; Peters et al. 2005), although they may be subtly modified to adapt to changing conditions. The path-dependency theory can therefore explain why certain corporate governance problems persist over time in some firms, industries and countries especially after rigorous regulatory measures have been specifically deployed to address them. Indeed, the convergence debate and path dependency premises remain competing hypotheses in our explanation of similarities and diversities of national corporate governance structures and practices.

No doubt firms all over the world should compete for reputation status in institutional fields as corporate audiences rely on the reputations and histories of firms in making investment decisions, career decisions, and product choices (Dowling 1986; Fombrun and Shanley 1990). However, as the author has indicated earlier, corporations in Nigeria generally have a long history of corrupt behaviour which have been sustained over time and have become somewhat immune to regulatory reforms. Rather bad corporate governance in Nigeria constantly adapt to increasingly vigorous regulatory measures by changing in style and in the form in which it is perpetrated thus increasing in complexity and becoming more impervious. According to one academic respondent:

"Managers and directors of typical Nigerian companies, as well as their auditors, have historically benefited hugely from several corporate fraud and seem not to be ready to

change but continue to transform and derive more complex means of perpetrating their crime to circumvent the claws of the law".

While the path dependency theory may lack sufficient evidence in its applicability to the Nigerian banking sector, which is the most regulated sector and characteristically can be described as the sector with the best corporate governance practices in the country, it does hold sufficient ground in less regulated sectors, such as manufacturing, insurance and telecommunications.

5.3.3.4 Ethical climate and corporate governance in Nigeria

76 percent of investors would move their investments from a company with which they are invested if they learned that the company is engaged in an unethical albeit legal behavior irrespective of the potential high returns (Corporate Board 2007). Indeed, there is further evidence that corporate stakeholders use ethics as a very important criterion to judge companies (Lewis 2003). As a response, many companies have implemented ethical programs (Schlegelmilch and Pollach 2005) aimed at establishing a good reputation in order to prevent customer churn and labour turnover on the one hand, and to attract new customers and high-calibre employees on the other, which altogether enable them to charge a premium based on their distinguished reputations (Fombrun 1996). The thesis here is that ethical companies can derive financial benefits, directly or indirectly. Simply put, ethics in the corporate world involves "ordinary decency" which encompasses integrity, honesty and fairness in the conduct of business (Sternberg 2000). Here the author's focus is on the extent to which Nigerian corporations have institutionally imbibed the attributes of ethical business and the resulting implications for corporate governance.

The science of ethics encompasses a reflective study of what we ought to do, or how we ought to live (Ekennia 1998), therefore corporate ethics relates to choices and judgments made with regards to business conduct (Erondu, Sharland and Okpara 2004). Decades of predominant military rule meant modern corporate Nigeria developed in an unethical climate, and corruption-riddled business practices were the norm. In the words of a corporate governance consultant:

"Perhaps the first thing that comes to mind for many foreign investors wanting to do business in Nigeria is corruption. They are correct to think that way. Corruption has engulfed Nigeria".

Okike (2004) has drawn attention to the problems of corruption in Nigeria and how it affects the accounting profession. No doubt, corruption in Nigeria is closely linked with the attitudes of individual Nigerians including the value placed on morals, coupled with the socio-political and economic environments of the country which have resulted in a bad leadership structure. However, such epidemic would not have flourished if external parties, especially foreigners doing business in the country, had not been beneficiaries of corruption proceeds. This further suggests that the subject of business ethics in Nigeria may remain in idealism for a long while. The absence of an ethical climate for business conduct, like the institutional problems discussed earlier, aids the negative conduct of corporate governance. Nevertheless, following the establishment of democracy in the country, Nigeria has achieved giant strides in reducing (or rather managing) corruption and promoting good business practice and has since moved from being the world's second most corrupt nation with a corruption perception index (CPI) score of 1.6 in 2005 to 2.2 in 2007 (Transparency International 2008). It has also moved from an Ibrahim Index[11] of African Governance score of 45.5 (position 41) in 2002 to 48.3 (position 37) in 2005 (Mo Ibrahim Foundation 2007). These indices both suggest that corruption in Nigeria is reducing.

5.3.4 Summary

In summarizing the findings from this study, the author shows (in Figure 5.2) two classes of institutional effects on corporate governance: those external to the firm (macro) and those internal (micro). The external institutional environments which profile a firm's corporate governance consist of the country's social, economic, political and legal environments, while those internal to the firm consist of the firm's/industry's values, culture, history and ethics. While this framework is neither an extension nor modification of the Principal-Agent model of Jensen and Meckling, it represents an encompassing

[11] The Ibrahim Index, like the Transparency International Index, is a seminal African index that measures the degree to which essential political goods are provided within the forty-eight African countries that are south of the Sahara.

framework which provides illumination on certain institutional effects and relationships, thereby encapsulating the complex dynamics and realities of governance in modern day corporations. It thus constitutes a useful context in which we can analyze corporate governance structures, across diverse countries, cultures, belief systems, traditions, industries, scholarly orientations and disciplines. It specifically adds to the literature on the institutional determinants of corporate governance (Boehmer 1999; Aoki 2001; Aguilera and Jackson 2003; Aguilera 2005; Leaptrott 2005; Liu 2005; Lubatkin et al 2005, 2007; Judge, Douglas and Kutan 2008), with rich insights from a developing market African economy.

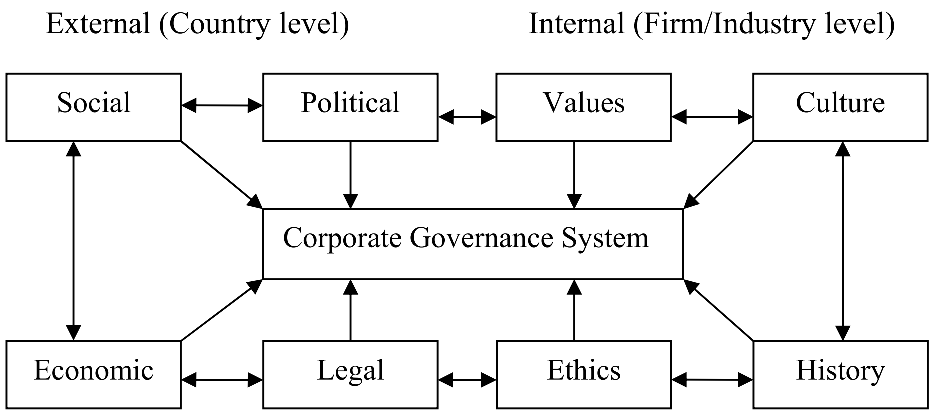


Figure 5.2: Institutional determinants of corporate governance

The author argues that corporate governance practices do not develop out of vacuity. They are governed by institutions. The format and expression of governance in modern corporations across different countries are a reflection of their institutional environments. Two classes of these have been described and their interactions with corporate conduct and governance in the case of Nigeria have been analyzed. More importantly, it must be noted that these institutions are interdependent and influence one another, as the discussions in this chapter (as well as Figure 5.2) have revealed. Furthermore, these institutional factors interact with one another. For example, the effectiveness of the legal environment is dependent on the political culture of the country, which is strongly as a result of the country's social structure. Also, corporate/industry culture and corporate/industry values constantly interact, and influence firm/industry level practices.

The findings thus indicate that bad corporate governance practices in developing countries, such as Nigeria, can be institutionally explained, albeit within a complementary agency theoretical background. Therefore, in conceptualizing corporate governance in developing countries, particularly Nigeria, it is important to note that the overall nature of the country's national and firm-level institutional environments are not complementary with good corporate governance principles, both at the national and corporate/industry levels. These have inhibited the developments of necessary corporate governance infrastructures such as rigorous regulatory enforcement, properly-functioning markets, honest and highly-regulated auditing and accounting firms as well as vibrant professional bodies. Nigeria requires the institutional capacity to promote, administer and maintain good principles of corporate governance.

Institutions matter in corporate governance. There is no doubt that corporate governance practices have travelled the world and despite the existence of national corporate governance isomorphism, the reality remains a translation of practices to fit the national institutional settings of a particular country (Aguilera 2005). As such, despite globalisation pressures, corporations continue to be influenced by the institutional environments of their respective countries. In an attempt to summarise, it is important to recall the major characteristics of the Nigerian external and internal institutional environments. They include the following; political instability and tensions; bribery and corruption; easy circumvention of laws; ineffective legal structure; lesser degree of economic activity; reduced dynamism and independence of market operations; lack of adequate infrastructure and basic amenities of life; poverty; high rate of unemployment; lack of honest values; and a less attractive investment climate.

The interactions between the internal and external institutional environments within which firms operate in Nigeria shape corporate governance. However they shape bad corporate governance by creating obstacles for the successful implementation, enforcement and eventual success of corporate laws and regulations, as well as voluntary codes of conducts. Furthermore, these institutional environments have traditionally prevented the decisive prosecution of corporate offenders, thereby leaving them to go free and continue to benefit from the proceeds of their crime at the expense of shareholders. Corporate governance does not develop in isolation but reflects the underlying institutions which affect the structures, rights and responsibilities of managers and directors and the ways these are organised in different countries. But in an attempt to move the debate on the institutional embeddedness of corporate governance further, the author proceeds to examine the relevance of these institutions in today's and tomorrow's corporate Nigeria. Do institutional forces weaken over time?

5.4 CORPORATE GOVERNANCE IN NIGERIA: DEINSTITUTIONALISATION, INSTITUTIONAL CHANGE OR INSTITUTIONAL MAINTENANCE?

The author has given insights, from the standpoint of institutional theory, into the development of corporate governance structures, practices and legitimate expectations in developing countries. Critics (Oliver 1992) have however warned that the sole emphasis on legitimizing processes and organisational conformity by institutional researchers has undermined research into the factors that cause organisations to challenge and discard institutional norms. While Scott (2004) maintains that institutional change has always been present in the theoretical and empirical agenda of institutional theorists, the prevailing institutional arguments have been predominantly used to explain increased conformity to a given institutional environment such that isomorphism was taken to be the primary indicator that institutional processes were at work (Scott 2001; 2004). On the other hand deinstitutionalisation is the process by which the legitimacy of certain institutionalised practices, such as those described in this chapter, fade away or discontinue, meaning that there has occurred a delegitimisation of an established organisational practice or procedure due to organisational challenges as well as the inability of organisations to continue to follow previously established norms or behaviour (Oliver 1992).

To what extent are these happening in the institutionalised Nigerian corporate governance environment? Is there any challenge to the institutionally conceived corporate governance status quo in Nigeria? Will the institutionally contingent corporate governance practices in Nigeria endure for long? Certainly the potential for deinstitutionalisation challenges the stability and longevity of institutional practices, and suggests that they may become challenged, re-examined or abolished (Oliver 1992).

Earlier discussed historical perspectives on the development of corporate governance and subsequent discussions on the state of corporate governance in Nigeria, suggest that Nigeria is renowned for poor governance. Thus, pressures stemming from globalisation have placed the adoption of global corporate governance best practices at the forefront of academic as well as policy/regulatory debates in Nigeria. Given that the author's intention, in this thesis, is not to anthropomorphize Nigeria, the author further gather, from the research data, that Nigeria is beginning to recognize that the weaknesses of her corporate governance system are institutionally embedded. As a result, there is increasing awareness that all corporate stakeholders need to discharge their duties responsibly and honestly for the long term success of firms. Increasingly, robust regulatory measures, facilitated by commendable governmental commitment, have also contributed to traces of deinstitutionalisation. Another major factor is the "changing" political culture of corruption. Office holders in public and private enterprises as well as regulators are constantly being reminded to give maximum respect to the rule of law. Nigeria's President Yar'Adua seems to have embarked upon a zero tolerance on corruption. There is also an increasing demand for good corporate governance by shareholders (institutional and individuals) and other stakeholders which is gradually erasing some of the very crude and unwholesome fraud, traditionally perpetrated by managers and directors. Furthermore, stability in governmental policies with regards to corporate affairs is also contributing to positive deinstitutionalisation. According to a top government official and politician;

"The political instability in Nigeria is reducing unlike the military era where governmental policies change drastically. The business atmosphere has become more sanitized since the advent of the democratic dispensation. The situation is very calm now and matters such as corporate governance are very high on our agenda".

However, this is a very slow process and the evidence for deinstitutionalisation are still minimal with few indications in the banking industry. At the micro firm/industry level, the implementation of “good corporate governance” in the Nigerian banking industry (for example, through the 2006 Central Bank of Nigeria’s Code of Corporate Governance for Nigeria Banks, Post Consolidation) represents an attempt to re-shape the institutional landscape. The banking industry can thus be conceived as a potential fertile ground for “institutional entrepreneurship” (Di Maggio 1988; Fligstein 2001). This industry-level institutional rearrangement may have positive effects on the general Nigerian negative institutionalisms. For example, as earlier noted, the Central Bank of Nigeria (CBN) under its new leadership has recently (on the 14th of August 2009) dismissed the Chief Executive Officers and executive directors of five major Nigerian Banks, for bad corporate governance and fraud. Following a preceding CBN audit of banks, they were found to have serious liquidity problems due to several billions of naira of unpaid and unserviced loans by debtors including top business moguls and politicians. Weeks after, the CBN completed its audit process and with the further sack of the chief executives of three other banks, for issues bothering on liquidity, capital adequacy, corporate governance and corruption. As noted earlier noted, whilst practices such as this have littered the Nigerian banking industry and led to its near collapse in the 1990s, as subsequent discussions on the Nigerian banking industry will indicate, one can suggest that the banking industry could be set to place corporate Nigeria on the path of deinstitutionalisation from the negative “apron strings” of the institutional environments which have plagued corporate conduct in the country.

However, despite recent regulatory initiatives and stakeholder advocacy at implementing good corporate governance in Nigeria, as a means to re-shape the negative institutional configurations, only peripheral changes are being achieved. Notably these industry level potential re-configurations seem to conflict with the previously discussed macro-institutional settings, particularly the polity and the socio-cultural environment, and the entrenched corrupt practices at the firm level. Therefore, regulatory attempts at promoting good corporate governance become corrupt and deep rooted structural and systemic configurations remain predominantly unchanged. This is why regulations fail to achieve their desired objectives. Only “window dressing” of laws on paper without actual correction of institutionalised corrupt behaviour seems to cut across the Nigerian corporate governance scenery. The author conceives this as a case of ***institutional maintenance***, where regulatory reforms at the industry level are unable to change the self-reinforcing institutional landscape. Here, the prospects of true and lasting institutional change are highly limited, as it requires deep rooted systemic changes across different elements of the previously described institutional environment. Institutional maintenance thus becomes a corollary of efforts (particularly at the regulatory level) geared towards achieving institutional change.

5.5 CONCLUSIONS AND CONTRIBUTIONS

To what extent do firm and national level institutions matter in corporate governance? This study has shown how much they do in today's world of corporate, economic and political globalisation. The author has specifically shown how certain underlying national conditions, which are external to the firm and in particular, the political, economic, legal and social environments, shape corporate governance. The author also shows how firm-level environmental traditions, which are reflected in firm/industry values, culture, ethics and history, play a determining role in corporate governance. The author posits that corporate governance and the behaviours of firms as well as their stakeholders are deeply entrenched in these institutions. Whilst the study did not expressly consider all the institutional determinants of good corporate governance in Nigeria, such as national cultural effects, the effects of culture have been discussed alongside other national and firm-level institutional environments. Findings from this survey show that the belief systems and cultural norms of the country influence the direction, practice and quality of her corporate governance. Therefore, irrespective of the legal/statutory framework and/or the international best practice approach, the history, culture and norms of Nigerian society have collectively, but negatively, programmed the conduct of key players in the corporate governance framework, especially board directors, managers and regulators, (Yakasai 2001) to produce a weak corporate governance system.

At the firm level, agency theory concerns itself with the inevitable variance of self interests between the principals and agents, the welfare losses they create, and the means to foster the alignment of these interests to reduce those losses (Scott 1998). However, macro and micro level institutional analysis of the firm, aimed at conceptualizing national systems of corporate governance, focus on the influence and effects of institutional frameworks upon managerial discretion (Pochet 2002) and the administration of corporate governance. In this chapter, the author has provided a Nigerian perspective on the institutional determinants of corporate governance. The study therefore advocates the use of institutional theory (as a complement to the agency theory) to conceptualize and explain the construction of corporate governance, particularly in developing countries. In this regard, the data-generated model can be used in viewing corporate governance and its internal and external environmental interactions. These interactions significantly dictate the legitimate expectations of stakeholders with regards to corporate governance, the administration of corporate governance and the practices developed or adopted, the corporate governance problems experienced, and the success of the regulatory measures designed to solve them. A profound scholarly appreciation of institutional theory retains a strong potential with regards to solving the mystery of national corporate governance diversity. Organisational structure is adaptively shaped internally by the characteristics and commitments of participants and externally by the influences and constraints from outside environments (Selznick 1957).

Institutions shape corporate governance in Nigeria. However, this is not to undermine the relevance of the agency theory in the understanding of corporate governance in the country. It must be noted that discussions (Chapters 2 and 4 inclusive) have progressed from this basis. Clearly, both agency and institutional theoretical standpoints are important to the future of corporate governance research. Nevertheless, it is imperative to understand and conceptualize how corporate governance structures and practices evolve, the shapes and forms they take, and the strengths and weaknesses that become inherent in them. This chapter has been a response to these needs. The discussions in this chapter are thus a pointer to the fact that institutional perspectives can explain the peculiar translations, expressions and dimensions of agency costs and relationships in corporate governance, especially in developing countries. As previously noted, the data-generated framework presented in this chapter does not replace, modify or nullify agency theory, which embodies a practical view of the firms' internal governance dynamics, but provides a much needed illumination on the institutional effects on corporate governance, encapsulating its complex dynamics and realities and thus constitutes a useful outlook through which we can understand the multidimensional nature of corporate governance, especially in the context of developing countries.

Thus, beyond fascinating intellectual constructions, corporate governance models, especially in developing countries, would have limited applicability if they were not institutionally based and explained. This chapter's main thesis is such that institutions are very powerful forces that shape corporate governance. The specific additions to the literature are the evidence and in-depth analysis gathered from a developing country. The author therefore argues that the application of "an institutionally-based theory" of corporate governance is more appropriate for developing countries, such as Nigeria. Foreign systems of corporate governance reflect their history, assumptions and value systems (Charkham 1994) which should not be transplanted, but rather, countries should identify the various ways in which the universal principles of good corporate governance can be applied in such a way that it pinpoints and corrects the weaknesses in each country's particular system and practices (Okike 2007).

The author also presents a case of the institutional maintenance of norms, practices and behavioural structures as against the institutional change that developing countries deeply needs. This adds to the literature on institutional theory. As Lockett, Wright and Leca (2009) noted, the issue of how agents maintain institutions remains an understudied phenomenon even though institutional maintenance is distinct from simple stability or an absence of change, but involving considerable efforts as a response to organisational or environmental change (Scott, 2001; Lawrence and Suddaby, 2006). For Nigeria to become a well desired investment location, it must minimize the effects of her negative institutional environments and allow corporate governance to truly decouple from such forces, as well as those resulting corollary forces of institutional maintenance.

While the institutional environments, analyzed above, do not sufficiently complement good corporate governance practices, they are deeply entrenched and, therefore, perhaps unchangeable in the short-term. Nonetheless, to minimize their effects, it is imperative, as the discussions on deinstitutionalisation indicate that stakeholders in corporate Nigeria begin to emphatically reconstruct certain areas of these institutionalisms. Given the astounding lacuna of literature on corporate governance in Africa, this chapter adds to our understanding of corporate governance and, in particular, the application of institutional theory, in the context of a developing economy. As the discussions in chapters 2 and 4 also suggest, any attempt to lay out the principles of corporate governance in Nigeria must address the challenges of agreeing on a general concept of corporate governance. This is related to the institutional defects that the development of the subject has prevalently suffered. Indeed regulatory measures aimed at addressing some of Nigeria's corporate governance issues must, at first, be institutionally based whilst reflecting global, regional and local principles of good corporate governance. This will facilitate a more effective and easily implementable administrative and regulatory governance structure. In line with the foregoing, corporate governance regulation and the role of government are discussed in the following chapter.

CHAPTER 6 – REGULATORY AND GOVERNMENTAL DETERMINANTS OF GOOD CORPORATE GOVERNANCE IN NIGERIA

6.0 INTRODUCTION

This chapter conducts an in-depth examination of corporate governance regulation in Nigeria. Regulating corporate governance has no doubt benefited from considerable attention, in the wake of the corporate scandals of the early 2000s.This has ensured an active debate with discussants ranging from scholars across different disciplines; self-regulatory organisations and stock exchange authorities; policy makers; and professional accounting and auditing associations. At one end of the debate, the central argument is the need to increase regulation and punish corporate offenders more heavily. Closely linked to this is the expected role of government in corporate governance. Given present global economic conditions, more governmental intervention is increasingly being favoured as key to restoring public confidence in corporations. The crucial question remains how governments across the world intend to repair the damaged corporate integrity without undermining the principles upon which the success of the modern capitalist economy is based. To this extent, the role of government in corporate governance is very important as well as highly delicate.

Proimos (2005) argues that in order to ensure the effectiveness of good corporate governance principles, they must become requirements that are prudently monitored by law. He further argues that there must be stringent penalties associated with these requirements when breached. He concluded that mere guidelines for publicly listed corporations are ineffective, and as a result, only a statutory corporate governance regulatory framework will prevent future corporate scandals and collapses. The United States is a common example of a country with a rule-based corporate governance system. At the other end of the debate is the preference and need to encourage more soft-law alternatives. This form of regulation is dominantly principle-based and allows firms to voluntarily adhere to corporate governance codes of conduct and practice. This has traditionally been the UK's preference for fostering sustainable good corporate behaviour.

In many countries, both postulates of corporate governance regulation do not function mutually exclusively of each other. Usually, there is a synergy between the legal requirements of corporations contained in the Companies law and the self-regulatory instruments. Indeed self-regulation is only able to function on an existing legal platform for corporate regulation. Wymeersch (2005) argues that the enforcement techniques and efficiency of self-regulation are directly dependent on the legal nature of the codes. He also noted that whilst a sufficient synergy must be achieved between self-regulation and the legal system, this is often a complex matter which differs considerably from country to country. He further attributed the difference to the variance in the legal status of the codes and the differences in the environing legal system. However, ranking different countries on a continuum, which has self-regulation at one end and strict legal requirements at the other, would suggest that corporate governance regulation is country dependent. The potential rank of the United Kingdom, with her principle-based form of regulation which functions on a "comply or explain" principle, and the United States, with her hastily passed Sarbanes Oxley Act, has been earlier suggested.

One can deduce from chapters 2, 4 and 5 that in formulating corporate governance regulatory strategies, countries must account for their specific circumstances. These include relevant historical perspectives; corporate ownership structures and characteristics; cultural norms and values; socio-political and economic climates; and the ethical environment of business conduct. Countries should, therefore, position their regulatory systems to tackle the particular challenges they face. More importantly, it must be noted that corporate governance regulation in developing countries will differ in ideology, necessity, concerns, complexity and robustness in specific areas. Given that developments on corporate governance regulation in developing countries are sparsely documented, this chapter facilitates an understanding of the regulatory framework of corporate governance in developing countries. In our Nigerian case, Okike (2007) recently made efforts to articulate the roles of some key players in the country's corporate governance regulatory system. Ajogwu (2007) also attempted to analyse the legal, ethical and practical perspectives of corporate governance regulation with specific focus on related implementation and enforcement issues.

This chapter adds to this burgeoning literature by accounting for the regulatory determinants of good corporate governance in Nigeria. This chapter particularly highlights the challenges of corporate governance regulation in Nigeria. More importantly, it examines the extent to which the most appropriate and suitable corporate governance regulatory postulate and structure can be developed in Nigeria as well as in other developing countries. The state of corporate governance and the various impediments to good corporate behaviour have been analysed in chapter 4. The author further provided institutional explanations for these in chapter 5. Here, the author looks at the extent to which Nigeria has accounted for these in the configuration of her corporate governance regulatory system. Thus this chapter looks specifically at the appropriateness and effectiveness of various regulatory initiatives in promoting and ensuring good corporate governance in Nigeria.

This chapter proceeds as follows. The next section looks into the subject of corporate governance regulation in more detail, which serves as a background for subsequent discussions. Following on, discussions are divided into three parts. In the first part, the author scrutinises the regulatory infrastructure of corporate governance in Nigeria, including the roles of key players in the system. Part 2 further augments this multi-stakeholder scrutiny through an in-depth analysis of corporate governance regulation in the Nigerian banking industry. Part 3 scrutinises the role of government in corporate governance. Whilst this research field has generally not attracted substantial scholarly focus/attention, the author makes an attempt to create an understanding of government's role in corporate governance in different institutional contexts. Lastly, in an attempt to conclude, the author converses out the need to foster a long lasting good corporate governance culture beyond the system of regulation.

6.1 REGULATING CORPORATE GOVERNANCE

Corporate governance is strongly dependent on the larger environments within which firms operate; these consist of the legislative environment such as shareholder protection laws (LaPorta et al 1998; La Porta, Lopez-de-Silanes and Shleifer 1999); the efficiency and enforcement capabilities of the judiciary; as well as the general environmental support for business (Klapper and Love 2002). Udayasankar and Das (2007) argue that these can cumulatively be regarded as corporate governance regulation. In common law jurisdictions, a corporation is usually subject to the statute under which it was incorporated as well as the case law of that jurisdiction (Gillen 2006). A corporation will be further subject to the securities law requirements in the jurisdictions in which it distributes securities to the public; the corporation will also be subject to the requirements of the stock exchange if it is listed (Gillen 2006). At the basic, this tri-faceted infrastructure has traditionally regulated corporate governance.

There is a general consensus that regulators, including stock exchange authorities, corporate affairs commissions, as well as securities and exchange commissions, all have important roles to play in promoting good corporate governance through regulation. However, the corporate scandals in the last decade have placed significant doubts on the abilities of these authorities to sufficiently regulate corporate behaviour. As indicated earlier, the rules-based and the principles-based corporate governance regulatory structures remain competing hypotheses in the corporate governance regulation literature. Nevertheless, the adoption of the Sarbanes-Oxley Act in the US has attracted significant criticisms from many discussants. For example, Fisch (2004) argues that the US government has intruded into the traditional province of state law. He further argued that the US government's form of imposing excessive regulatory burden, upon the traditional structure and organisation of business relationships, negatively affects the essence of a traditional private contract. Thus, to what extent should corporate governance be regulated? What are the maximum and minimum levels of regulation required in corporate matters? No doubt, corporations have become very powerful not just in economic terms but in almost all areas of human existence. Also, it has become ever more essential that they are properly monitored. Oversight and control measures, which are adequate, efficient and sustainable, must be in place to ensure corporate integrity.

A considerable amount of research on corporate governance has focused on regulation essentially since the publication of the 1992 Cadbury Code in the UK. The Cadbury Code also resulted in an increased interest on the corporate governance subject. It has further constituted a popular reference point for many other countries, in the development of their own codes of conduct. No doubt, the Cadbury Code enriched the debate on regulation, particularly in the UK and indeed globally. Following years of corporate misconducts, incessant regulatory inquiries and increased shareholder activism, various codes of conduct and regulations are now in place in many countries such as the Preda Code in Italy; the Vienot Report in France; the German corporate governance code amongst others (Schmidt and Brauer 2006). Corporate governance codes have conventionally sought to promote good corporate governance through financial control requirements and reporting standards. Given that the stock exchange authorities in many countries require listed firms to adhere to the corporate governance codes in their jurisdictions, self-regulation becomes self-enforcing. However, what is the situation in developing countries? To what extent are the regulatory systems effective? To what extent can we achieve a global coherence with regards to national corporate governance regulatory requirements?

6.2 - PART 1 - REGULATING CORPORATE GOVERNANCE IN NIGERIA

6.2.1 Overview

In Africa, as preceding discussions have indicated, corporate governance matters are often discussed in relation to corruption which has been a hindrance to social, economic and political developments. Good corporate governance and accountability is gradually been seen by African corporate and capital markets regulators as one of the most effective tools to minimise corporate corruption (Mensah et al. 2003). In the wake of the financial crises of the late 1990s, the World Bank and the International Monetary Fund (IMF) emphasized the major role that the observance of international standards and codes of best practices can play in strengthening national and international financial systems. They therefore called for the preparation of Reports on the Observance of Standards and Codes (ROSC), which constitutes an assessment of the degree to which an economy observes internationally recognized standards and codes. The ROSC (2004) country report for Nigeria highlighted the following challenges; differential financial reporting requirements for large and small companies; institutional weaknesses in regulation, compliance, and enforcement; lack of adequate compliance with International

Accounting Standards (IAS) and International Standards on Auditing (ISA); absence of robust local standards, amongst others. The report went further to make several policy recommendations. For example, it highlighted the need for an independent body (such as the Financial Reporting Council, in the UK) to oversee, adopt, monitor and enforce international standards (ISA and IAS).

Corporate governance regulatory practices borrowed by Nigeria from other jurisdictions, or those covertly forced on her by organisations such as the World Bank and IMF, may fail to tackle the specific regulatory challenges in the country. These issues, which relate to the extent of Anglo-Saxon corporate governance prescription (and/or imposition) on developing countries, are further discussed in the following chapter. However, in putting in place efficient regulatory mechanisms to promote good corporate governance in Nigeria, the central aim must be to ensure that the fundamental values (such as transparency, rule of law, fairness, responsibility and property rights) of a market economy in a democratic society (Mensah et al. 2003) are promoted. Thus, what is the state of corporate governance regulation in Nigeria? What are the regulatory mechanisms necessary to ensure good corporate governance? By providing an up-to-date and comprehensive assessment of the roles of key players in the Nigerian corporate governance regulatory framework, the author is able to identify the strengths and weaknesses of present regulations. The implications of these for corporate governance discourse and practice facilitate very useful conclusions.

The discussions here are in the following order. First the author examines the surrounding legal environment of corporate governance in Nigeria. This relates to the laws/legislations governing corporations and corporate conduct in the country. Discussions concentrated on those aspects, which are most relevant to corporate governance. Specifically, the corporate governance provisions of the Companies and Allied Matters Act of 1990 (hereinafter referred to as CAMA) are analysed. Following on, the author conducts a sequential assessment of the roles and responsibilities of key players in the Nigerian corporate governance regulatory framework. These include the Corporate Affairs Commission (hereinafter referred to as CAC), the Securities and

Exchange Commission (hereinafter referred to as SEC), and the Nigerian Stock Exchange (hereinafter referred to as the NSE). Discussions focus essentially on the disciplining mechanisms which these organisations have put in place to tackle corporate corruption and promote good governance. In this vein, the author further evaluates the provisions of the 2003 Code of Corporate Governance in Nigeria (hereinafter referred to as the SEC Code). Here the author examines the rationale behind the code; its strengths and caveats; as well as its ability to promote good corporate governance. The recent Code of Conduct for Shareholders' Associations in Nigeria (hereinafter referred to as the SEC Code for Shareholders) is also examined, particularly in relation to afore-mentioned political capture of shareholder activism. The roles and efficiencies of some corporate governance professional monitors/watch dogs are also examined. These include the National Accounting Standard Boards (NASB), the Institute of Chattered Accountants of Nigeria (ICAN), the Association of National Accountants of Nigeria (ANAN), amongst others. Evolving local initiatives at corporate governance development and monitoring are also examined.

6.2.2 The Legal Climate of Corporate Governance in Nigeria

The legal system is an important determinant of corporate structure and behaviour (Morrison 2004). Whilst some aspects of the company law and legal system have been discussed in the preceding chapter, it must be reinstated that the Nigerian law is based on a British defined common law, precedents and local statute. The laws in England further operate as a persuasive authority to complement the Nigerian law where there is a lacuna in the latter (Insol 2008). The main legal framework for corporate governance in Nigeria is the CAMA. CAMA became law on the 2nd of January 1990. The following extracts are CAMA provisions which specifically relate to corporate governance. They include the laws which pertain to the following; directors' duties, disclosure requirements, insider dealings, minority investor protection and executive compensation. This helps to understand the legal underpinning of corporate governance in Nigeria. Useful extracts from the Companies and Allied Matters Act (CAMA) 1990 are provided in appendix 2.

The provisions highlighted in appendix 2 show that the Nigerian company law has historically been strongly influenced by the United Kingdom. Shareholders have, albeit in principle, enjoyed many of the same legal rights as shareholders in the dominant Anglo-Saxon economies (Ahunwan 2002). What is lacking in Nigeria, however, is an effective judicial system to enforce these rights, which has traditionally increased the costs of contracting as well as making business activities much more risky ventures (La Porta 1998; Ahunwan 2002). It is even more important to note that CAMA has not undergone any extensive review since 1990, almost two decades after. There are increasing concerns with regards to the ability of the Act to tackle specific corporate governance issues that have risen since it became law. One of the caveats of CAMA is its deterrent capacity. The penalties for offenders/law breakers do not serve as a deterrent. These generally range from ₦25 (10 British pence) to about ₦500 (£2). Apparently these are no penalties; CAMA is long due for review. However, specific regulatory initiatives have been deployed in recent times to confront some of the statutory impediments to good corporate governance in Nigeria. How effective have they been? Following this basic analysis of the legal framework of corporate governance, the author proceeds to assess the roles of the key players that regulate the governance of Nigerian corporations.

6.2.3 Assessing the Corporate Affairs Commission (CAC)

The CAC is a government monitoring body which regulates the formation, management and winding up of companies in Nigeria. The CAC is the body which administers CAMA. The CAC's vision is to be a world class companies' registry. It was established as an autonomous body to replace the erstwhile Company Registry, when the latter was found to be inefficient. The formation of the CAC, nevertheless, retained significant British influence. According to director of the CAC,

"The establishment of the CAC as an autonomous body to administer CAMA is an improvement on the Department for Business Enterprise and Regulatory Reform (DBEER- formerly Department of Trade and Industry DTI), in the UK"

According to Section 7 of the CAMA, the purpose of the Commission is as follows:

(a) *To administer the Act, including the regulation and supervision of the formation, incorporation, management and winding up of companies;*
(b) *To establish and maintain companies registry and offices in all the states of the Federation suitably and adequately equipped to discharge its functions under the Act or any law in respect of which it is charged with responsibility;*
(c) *Arrange and conduct an investigation into the affairs of any company where the interests of the shareholders and the public so demand;*
(d) *To undertake such other activities as are necessary or expedient for giving full effect to the provisions of the Act.*

To what extent has the CAC being effective in its statutory obligations? According to the ROSC (2004), the CAC has neither an effective mechanism nor capacity to monitor and enforce requirements for accounting and financial reporting. The report further highlights the following shortcomings:

(1) *There is no rigorous enforcement of timely filing of the audited financial statements and directors' report with the CAC.*
(2) *Financial statements of non-listed public and private companies are not readily available.*
(3) *Most companies do not comply with the filing requirements, and sanctions are not applied.*
(4) *There are significant weaknesses in the enforcement mechanism, worsened by endemic corruption and poor record-keeping by the CAC.*
(5) *Whilst CAMA requires that the audit committee review audited financial statements and report to the shareholders, however, authorities and others have not assessed the effectiveness of audit committees, making their capacity to monitor unknown.*

ROSC (2004: 8)

The ROSC country report concludes that there is no capacity at the CAC to effectively fulfil its functions. However findings from this survey were inconclusive. The comments of respondents at the CAC differ with regards to the extent to which the commission has been effective in its role. For example, a senior official of the CAC stated that;

"The commission has been effective in satisfying its mandate and can comparatively compete with the company's registry of other jurisdictions. I will rate the performance of the commission 70 percent in the last ten years"

Other respondents at the CAC, however, stressed that the CAC's capacity is constrained by myriad internal and environmental problems. Internal problems include corruption and the lack of human expertise. One of the environmental problems which confront the CAC is the lack of independence from the polity and politicians, which results in the commission pursuing interest which could conflict with the essence of its formation. Okike (2007) argues that if the CAC is to fulfil its role of adequately promoting good corporate governance, its monitoring capacity will have to be strengthened with more realistic sanctions being applied to erring companies. She further noted that this will undoubtedly necessitate a review of existing legislation. In furthering the effectiveness of the regulatory powers of the CAC, the commission will also have to strengthen its human capital in terms of the knowledge, expertise and multi-disciplinary resourcefulness of its work force. Findings from this survey suggest that the majority of the CAC professional work force have legal backgrounds. Employees also need to be constantly educated and enlightened with regards to the importance of their roles and responsibilities, as well as the need to discharge their duties without favouritism, corruption, fear nor prejudice. Manpower development is imperative to the realisation of the commission's objectives.

6.2.4 Assessing the Securities and Exchange Commission (SEC)

The SEC is the apex regulator of the Nigerian capital market. It has the objective of developing and regulating a dynamic, fair, transparent and efficient capital market, in order to contribute to the nation's economic development. The evolution of the SEC dates back to many decades ago. It has evolved from the 1962 Capital Issues Committee, through to the 1973 Capital Issues Commission, to the SEC. SEC was formed following a comprehensive review of the financial system which led to the SEC Decree of 1979. The SEC decree has further undergone several reviews. The most recent of the reviews, as at the time of writing this thesis, is the 1999 review which led to the Investments and Securities Act (hereinafter referred to as ISA) of 1999. The ISA gave the SEC more powers and required it to:

1) Regulate the capital market with a view to protecting the interest of all investors in the market.
2) Develop the capital market in order to enhance its efficiency.

The SEC aims to be Africa's leading capital market regulator. The ISA also empowered the SEC with a board of eight members including the chairman, the director general, three executive commissioners and representatives from the Federal Ministry of Finance and Central Bank of Nigeria. The SEC regulates the issuance of securities. It further regulates capital market institutions, as well as the activities of capital market operators. These objectives are achieved through pre-registration requirements, rule making, inspection, surveillance, investigation and enforcement. As a result, the SEC acts as the guardian of the ordinary shareholder. The ROSC, (2004) report highlighted the following challenges which the SEC faces;

(1) SEC is not yet effective in monitoring compliance with financial reporting requirements and enforcing actions against violators.
(2) Its capacity to effectively monitor compliance with accounting standards is inadequate, but it is currently under re-organisation.
(3) Its enforcement is weak, and administrative sanctions and civil penalties are not adequate to deter non-compliance.

However, respondents highlighted the achievements of SEC, despite the institutional weaknesses outlined above. The following are the comments of Abigael Obheiolo, the Head of Department, Financial Services and Corporate Governance, at the SEC,

"The commission has demonstrated sufficient capabilities to ensure good corporate governance. Taking the current case of Cadbury Nigeria Plc for example, anyone would agree that the SEC has shown commitment to promoting good corporate conduct. The Cadbury scandal represents a case of significant managerial abuse which massively eroded shareholders' fortunes. I investigated the matter, as the principal prosecuting officer, and the individuals found guilty were severely punished."

Furthermore the SEC, as a key member of the International Organisation of Securities Commission (IOSCO) is able to align with certain global best practices, where applicable. It is also worth noting that SEC's managing director has been recently re-elected as the chairman for the East African division of the IOSCO. In order to further facilitate good corporate governance and reduce corporate corruption, SEC is considering certain pre-emptive measures. For example, SEC may soon require the executives of companies, who apply to raise funds on the capital market, to attend an interview with the regulatory body. During the interviews, the SEC would scrutinise companies with regards to their business goals as well as proposed use of raised funds. More importantly, companies will have to show that they have efficient corporate governance structures.

Survey respondents at the SEC also noted that good corporate governance can only be achieved through the collective efforts of all relevant stakeholders especially regulators and professional bodies. As a result, several workshops and conferences are constantly held to ensure adequate collaboration. The SEC aims not to work in isolation and constantly commits resources to orientate other regulatory parties to covet their collaboration. In commenting on the need for collaboration, Abigael Obheiolo further noted that:

"Until recently, other corporate watch dogs such as the accounting and auditing professional associations have operated disjointedly. However, the SEC as the apex regulator of the capital market continues to strive to aggregate these bodies to form sufficient synergy in order to achieve the common objective of ensuring good corporate governance"

SEC proactively aims to achieve a credible and well regulated capital market. As a result it constantly deploys resources to educate all stakeholders with regards to their rights and responsibilities. In line with the foregoing the 2003 Code of Corporate Governance in Nigeria was developed with adequate input from relevant stakeholders. These include members of professional organisations, organised private sector and relevant regulatory agencies. The following section analyses certain provisions of the code and their impact on firm level corporate governance practices in Nigeria.

6.2.4.1 The Code of Best Practices on Corporate Governance in Nigeria (SEC Code)

"The Code of Best Practices on Corporate Governance in Nigeria is a code to make provisions for the best practices to be followed by public quoted companies and for all other companies with multiple stakeholders registered in Nigeria in the exercise at power over the direction of the enterprise, the supervision of executive actions, the transparency and accountability in governance of these companies within the regulatory framework and market; and for other purposes connected therewith"

"Realizing the need to align with the International Best Practices, the SEC in collaboration with the CAC inaugurated a seventeen (17) member Committee on June 15, 2000 in Nigeria. The Committee ……. was mandated to identify weaknesses in the

current corporate governance practice in Nigeria and fashion out necessary changes that will improve our corporate governance practices"

(SEC Code, Pp i)

The SEC Code came to being in October 2003. It is the first code of corporate governance in Nigeria. Findings from this survey suggest that the development of the SEC Code is connected to global inclinations towards corporate governance regulation. According to Fabian Ajogwu, a lead consultant to the committee which drafted the code;

"It has become accepted that only with good corporate governance practices can any company attract investments especially FDI. Prior to developing the code, we conducted a survey which revealed several problems with the status quo. These include lack of awareness of best practices in corporate governance; the norm of Chairman/CEO role duality; directors' habit of not attending board meetings; and infrequent board meetings. There was no guidance, no template/no signpost to work with. Again in the midst of this was the Unilever scandal which all together made industry watch dogs and regulators to realise that the time has come to write the rules"

Apart from the global inclination with regards to the need to codify corporate governance principles and requirements, the need to prevent corporate scandals further facilitated the development of the SEC Code. The SEC code[12] further confirms this as follows:

"The importance of effective corporate governance to corporate and economic performance cannot be over-emphasised in today's global market place. Companies perceived as adopting international best corporate governance practices are more likely to attract international investors than those whose practices are perceived to be below international standards"

(SEC code, Pp 2)

Since the SEC Code came into being in 2003, it has not been reviewed. Given that emerging markets are characteristic of very rapid and dynamic economic development, their corporate governance codes must frequently be reviewed to reflect new economic conditions. Respondents generally agree that the SEC code is due for review. Fabian Ajogwu, whilst commenting on this noted that;

[12] Relevant extracts from the SEC code are provided in appendix 3.

"When we were drafting the code, I recommended that a review must take place every two years. This has not been possible due to lack of institutional commitment. However, the process of initiating a review is underway."

But what must a review strive to achieve? Okike (2007) argues that whilst the SEC Code represents a commendable development, its effectiveness is still in doubt. She further argues that the Code does not specifically reflect the country's peculiar socio-political and economic environments. Indeed the Code has only been fairly effective in terms of compliance. However, it is important to note that the SEC Code was intentionally designed to be less rigid, as there was the need to encourage companies to comply with the Code in the first instance, given that it is the first of its kind. It is also important to note that the SEC Code was drafted with numerous inputs from the codes of conduct of other jurisdictions. Whilst it is perfectly in order to learn from other countries, adopting corporate governance guidelines which are best suited to more advanced and less "corrupt" economies will constitute significant misfits (Okike 2007). Thus, Nigeria needs to revisit the SEC Code and identify corruption as an issue that must be sufficiently tackled (Okike 2007) both in principle and forcefully through enforceable regulatory initiatives.

6.2.5 The Code of Conduct for Shareholders' Associations in Nigeria (SEC Code for Shareholders)[13]

While the rise of shareholders' association has promoted shareholder activism in Nigeria, the discussions in Chapter 5 have revealed specific problems arising from the political reconstruction of the corporate governance mechanism in Nigeria. The SEC Code for shareholders was initiated as an attempt to address observed negative practices of shareholder associations in the Nigerian capital market. Giving background to the new development at the launching of the Code, the ex-Director-General of the commission, Musa al Faki said the Code:

"Reaffirms SEC's commitment towards strengthening good corporate governance through the instrumentality of shareholders associations…………It will be recalled that the commission embarked on the journey to fashion out the code on April 27,2006 when

[13] Relevant extracts from the Code are provided in appendix 4

an inter-agency committee was set up in response to the observed inadequacies on shareholder associations' activities. Some of the identified key problems areas that constrained the effectiveness of shareholder associations include: Proliferation of shareholder associations, concerns over behaviour of some members at Annual General Meetings (AGM), intense competition towards getting on companies' audit committees, governance problems and unclear succession arrangements and the inadequate members enlightenment on shareholders rights, privileges and responsibilities. The rest were lack of regulatory oversight and funding constraints." (Sun News 2007)

An important recommendation of the Code is that the statutory audit committee of companies must elect members that are not executive members of shareholder's associations to further reduce the answerability of the latter to the executive management. While the SEC Code for Shareholders is indeed a very timely initiative, there is limited evidence to suggest that it has produced significant positive results. However it must be noted that many countries do not have comprehensive and separate codes of conduct for shareholders' associations. This further brings to fore the need for each country to fashion out its corporate governance regulatory strategy in order to deal with its own specific challenges, albeit within an umbrella of accepted principles of responsible corporate behaviour.

6.2.6 Assessing the Nigerian Stock Exchange (NSE)

The NSE established in 1960 as the Lagos Stock Exchange has 301 listed companies with a total market capitalisation of about ₦9.56 trillion (£43.5 billion) at year end 2008 (NSE 2009). In order to compete for FDI, the Nigerian government abolished laws preventing the flow of foreign capital into the country. The government has also allowed foreign brokers to enlist as dealers on the NSE. There are two markets for the ordinary shares of the Exchange which are the First-Tier and Second-Tier markets. Nmehielle and Nwauche (2004) argue that the listing and post listing requirements for both tiers are rigorous enough to ensure corporate and financial discipline. They further noted that part of the listing requirements of the NSE makes sure that public companies on the First Tier Market have at least 300 members and those on the Second Tier have at least 150 shareholders. They also suggest some diffusion in the Nigerian shareholding structure.

The NSE "2008 review and outlook for 2009" stated that African economies, especially the Nigerian economy, are not insulated from the global financial crisis, as previously considered. For example, the All-Share index of the South African Stock Exchange and the NSE dropped by 27 percent and 45.8 percent respectively (NSE 2008). More importantly, the equity market capitalisation of the NSE dropped from a high of ₦12.64 trillion (£57.5 billion) on May 3, 2008 to a low of ₦6.21 trillion (£28.3 billion) on December 16 2008 (NSE 2008). The report, however, noted that despite the declines in key market indicators, the fundamentals of the NSE remained strong. Nevertheless, it argued that whilst there have been strong corporate earnings and increased growth potentials in 2008, the predominantly local investors are still being ruled by cautious optimism which are based on the potential effects of the global financial crisis on the domestic market.

Findings from this survey suggest that good corporate governance will no doubt facilitate the recovery of the NSE. The NSE and the SEC work jointly to regulate financial reporting and disclosures by listed companies. The NSE is self- regulatory and supports the SEC in the supervision of the securities market operations by exercising a certain degree of control through its rules which apply to listed companies. Given that the roles of NSE and the SEC are intertwined, the ROSC (2004) findings indicate that there are occasional conflicts of powers with respect to disciplining erring companies. Okike (2007), whilst commenting on this problem, stated that although the NSE monitors compliance with the financial reporting requirements of listed companies on behalf of the SEC, the occasional conflicts between the SEC and the NSE requires a revision of legislation. She argued that this is necessary to ensure clarity with regards to the roles and powers of these two institutions. Furthermore, the ROSC report stated that although the audited financial statements of a listed company are only published after approval by the NSE, the punishment for non-compliance is ineffective. It must be noted that de-listing has conventionally been the only sanction meted out to companies that do not comply with financial reporting requirements. Whilst commenting on the issue of the effectiveness of this mechanism as a form of deterrence, a senior official of the NSE stated as follows;

"Although the Exchange suspended Unilever in 1998 for falsifying annual returns and responded vehemently to the recent scandal at Cadbury, cases of de-listing are not very common"

Furthermore, the Nigerian capital market remains relatively small and illiquid. It falls short of the developments in other developing countries such as South Africa; the NSE suffers predominantly from problems of poor and non-functioning infrastructure, which are indeed problems confronting the country in general (Alile 1997; Akamiokor 1995; Ahunwan 2002). Apart from infrastructural problems that plague the Exchange, the present capacity of the NSE to ensure good corporate governance seems to be in idealism. Indeed, the institutional commitment and capacity to promote good governance in Nigerian corporations is further undermined by problems which relate to "conflict of interests". For example, the present Director General of the NSE, Ndi Okereke-Onyiuke, is also the Chairman of Transnational Corporation of Nigeria Plc (TransCorp), a foremost "mega corporation" in Nigeria. A former chairman of a listed Nigerian corporation, whilst commenting on this situation, noted the following concerns[14];

"How on earth can the DG of the NSE who regulates listed companies be a chairman of a company listed on the exchange she manages? This relates to a naked conflict of interest. How have other regulators and other members of the business community, including the government and the profession, allowed that to happen? Nigerian regulators are clearly not using their influences positively in the pursuit of good corporate governance"

Following the indigenisation exercise of 1972, Nigerians have proved that they have a lot of investible funds and have demonstrated less courteousness in recent times, with aggressive investments in shares, in anticipation of future and promising returns (Soyode 1977; Sunday 2005; Okike 2007). No doubt, the NSE is gradually becoming the hub of the capital market in sub-Saharan Africa. It is playing increasing roles in the mobilisation of capital. For example, the last five years have witnessed a high level of investor activity on the NSE. The country's banking sector reform largely facilitated this development. Investors and stock brokers are increasingly demanding adequate knowledge of the

[14] These concerns have recently been justified by the CBN's ongoing investigation of Transcorp for contributing to distress in the country's financial sector, through unserviced bank loans and other possible corrupt dealings. At the time of submitting this thesis, these matters are still unfolding.

corporate governance of the companies in which lie their present or prospective interests. Current developments in the market, particularly the sharp decline in the share values of many listed companies, have further brought to fore the ability and integrity of the NSE to properly and correctly value firms listed on it. In this regard, doubts have been raised as to whether the companies were actually overvalued in the first place.

6.2.7 Role of the Professions

Okike (1998) gathered evidence from the audit reports of 45 large listed companies, during the periods of 1978 and 1989, which suggests that they contained other information besides those mandated by local statute. She therefore argues that this indicates that Nigeria's accountancy and audit reporting professions have conventionally been influenced tremendously from the outside. The discussions in the following chapter will indicate that external influences remain vibrant in the Nigerian corporate governance system.

The CAMA 1990 prohibits officers or their partners, as well as servants or providers of consultancy services to the company from being auditors; the aim of this is to ensure the independence of auditors in making honest accounting/auditing reporting (Oyejide and Soyibo 2001). However, findings from this survey do not suggest a significant level of independent audit reporting in Nigeria. Okike (2007) expressed the dissatisfaction of the Nigerian investing public with the performance of auditors. She subsequently argued that Nigerian shareholders no longer have confidence in the ability of auditors to protect their interests. Thus what roles do the professional affiliations of auditors, accountants, lawyers and other professions central to corporate monitoring play in ensuring that there is a professional, diligent and honest discharge of duties, in order to promote good corporate governance?

The Institute of Chartered Accountants of Nigeria (ICAN) is a member body of the International Federation of Accountants (IFAC) which is responsible for issuing International Standards on Auditing (ISAs); Nigeria thus has an undertaken to conform to ISAs (Okike 1998). ICAN also issues both international and local standards which govern the Nigerian accounting practice. The international standards comprise of the International Accounting Standards (IASs) and the Standing Interpretations Committee (SIC) while the local standards include the Statement of Accounting Standards (SAS) and Auditing Guidelines (AG). As a result, ICAN members are required to conform to relevant guidelines in the discharge of their duties. However, findings from this survey suggest limited compliance. Indeed, ICAN and other related bodies including the National Accounting Standards Board (NASB) as well as the Nigerian chapter of the Institute of Internal Auditors (IIA) have traditionally played limited roles in ensuring that their members promote good corporate governance (see Okike 1994; 1998; 2004).

Furthermore, there is limited cooperation between the professional bodies and the regulators, with regards to promoting good corporate governance. Abigael Obheiolo, whilst commenting on this stated as follows;

"In order to enable these professional associations to participate more in promoting good corporate behaviour, the SEC is currently setting up a committee, which will be made up of members of ICAN, ANAN, Association of Issuing Houses, NASB, amongst other bodies, to review the financial reporting requirements for listed corporations"

Given that regulators themselves are commonly members of these professional associations, sufficient positive synergy must be derived with a common goal of achieving good governance in Nigerian corporations.

6.2.8 Indigenous Initiatives at Corporate Governance Development and Regulation

In addition to codes of conduct and statutory requirements, institutional initiatives are being developed across the world, to foster good corporate governance. In Nigeria, the newly formed Society for Corporate Governance is a not-for-profit organisation which is committed to the promotion of good corporate governance through research and studies; advocacy and training; and standards monitoring. The organisation is being run in conjunction with Lagos Business School (LBS), Pan African University. LBS is a highly rated business school in Africa. The author is a member of the Society for Corporate Governance in Nigeria (SCGN), whose members include well respected figures in the

Nigerian corporate scenery. The goal of SCGN is to promote good corporate behaviour in Nigeria and in Africa. The society's objectives include the following; promotion and enhancement of quality in board composition; promotion of ethical standards in corporate governance; and encouraging compliance with the SEC Code (SCGN 2009). SCGN achieves its aims by conducting workshops for chairmen of boards, CEOs and board directors (Ajogwu 2007). The Convention on Business Integrity (CBI) is another Nigerian initiative against corruption in the private sector.

6.3 - PART 2 - CORPORATE GOVERNANCE IN THE NIGERIAN BANKING INDUSTRY

6.3.1 Overview

Preceding discussions have concentrated on the general nature of corporate governance regulation in Nigeria. In this regard, several corporate governance factors and their specific peculiarities in the Nigerian context have been examined. In this part, the author analyses the peculiar dimensions of the corporate governance regulatory model of the Nigerian banking sector. Specifically, the author investigates the corporate governance uniqueness and associated regulatory challenges of the nation's banking sector. Commensurate with the situations in many countries, the Nigerian banking industry is the most regulated sector on the capital market. As a result, Nigerian banks can arguably be described as having the most robust corporate governance structure in the country. Thus, a deep scrutiny of the corporate governance regulatory framework of the Nigerian banking industry, undoubtedly, ensures deeper insights into the complexity and effectiveness of the corporate governance regime in Nigeria. A case study of corporate governance in the banking industry will also give a pictorial representation of the extent of corporate governance development and innovation in Nigeria. It must also be noted that unlike the SEC Code which is principles based, corporate governance in the Nigerian banking industry is rules based. As a result, discussions give illuminations with regards to the extent to which both regulatory positions can efficiently co-exist.

Here, discussions are structured as follows. First, the role, nature and particular importance of corporate governance in the banking sector are first examined. This is followed by an exposition on the legal climate of regulation in the Nigerian banking sector. Given the catalytic importance of the banking sector to the Nigerian economy, the roles and effectiveness of the Central Bank of Nigeria (hereinafter referred to as the CBN) in ensuring good corporate governance are probed. The author further assesses the 2006 Central Bank of Nigeria's Code of Corporate Governance for Nigerian Banks, Post Consolidation (hereinafter referred to as the CBN Code), with regards to its ability to enforce good corporate governance.

6.3.2 The Role, Nature and Particular Importance of Corporate Governance in the Banking Industry

The central thesis here is that whilst firms, in all sectors, should ensure good corporate governance, the system of corporate governance in the banking sector is unique and has particular challenges. However, there is limited evidence in the literature with regards to theoretical and empirical investigations into the peculiarity of corporate governance in the banking sector, although the papers of Macey and O'Hara (2001) and Arun and Turner (2004) are notable developments. Indeed, most discussions in this area have been championed by regulatory agencies, including the World Bank, IMF and the central banks of different countries. To what extent should corporate governance regulation in the banking sector benefit from specific scholarly attentions? With the overall objective of assessing the effectiveness of corporate governance regulation in the Nigerian banking industry, the author further provides a framing of the particular relevance and importance of corporate governance in the banking sector.

Taking a leap from the Shareholder and Stakeholder theoretical standpoints of corporate governance, the author submits that corporate governance in the banking sector cannot be properly administered solely by the assumptions of these theories. It is important to note that there are certain corporate governance needs and challenges which are sector contingent. As a result, attempts to theorise corporate governance in the banking sector will require a broader perspective. This will have to encapsulate the peculiar nature and dynamics of the banking sector. It must also take into account, not only the shareholders but other risk-bearers of banks, especially the depositors. Furthermore, this view will accommodate the peculiar contractual form of banking as well as the governmental intervention which provides restrain for the behaviour and excesses of banks' management (Macey and O'Hara 2003; Arun and Turner 2004). To this extent, bank governance is different. Thus, the ideal corporate governance model for banks may differ from the ones in other sectors, given that it must encapsulate the welfare of diverse and important stakeholders.

6.3.3 The Statutory Framework of Corporate Governance in the Nigerian Banking Industry

The most important statutory requirements which specifically govern Nigeria's financial institutions include the following; the Central Bank of Nigeria Act (CBN Act); the Banks and Other Financial Institutions Act (BOFIA); and the Nigeria Deposit Insurance Corporation (NDIC) Act. The recent CBN Act of 2007, which repealed the CBN Act of 1991 and all its amendments, is the current legal framework within which the CBN operates. The CBN Act of 2007 provides that the CBN shall be a fully autonomous body in the discharge of its functions under the Act and the BOFIA (CBN 2008). These functions should concentrate on upholding stability and continuity in economic management. BOFIA further confers on the CBN, the power to regulate banking and other non-banking financial institutions. It also empowers the CBN to act during matters which are connected, but not limited, to the following: licensing, examination (on-site and off-site), supervision, take over and management control, setting of capital requirements, revocation of licences, as well as total control over banks and other financial institutions operating in Nigeria (CBN 2008). The NDIC Act established the Nigeria Deposit Insurance Corporation (NDIC) for the purpose of insuring all deposit liabilities of licensed banks and other financial institutions operating in Nigeria (CBN 2008). The NDIC is also mandated to give assistance in the interests of depositors, for example, by guaranteeing their payments in cases of imminent or actual financial difficulties in the banking industry (CBN 2008). The NDIC also assists monetary authorities in the formulation and implementation of banking policies (CBN 2008).

According to Nmehielle and Nwauche (2004), a major advantage of statutory standards of corporate governance is that they are both enforceable and subject to judicial review. They however noted that the problem in Nigeria is that the existence of these standards does not guarantee that they would be enforced. Furthermore, findings from this survey suggest that limited judicial review has also been at the fore of corporate governance problems in Nigeria.

6.3.4 Corporate Governance Challenges in Nigerian Banks: The Role of the CBN

The CBN, established by the 1958 CBN Act is the principal statutory regulator of banks and other financial institutions in Nigeria. Amongst other provisions, Nigerian banks are required to have their audited financial statements approved by the CBN. This must be done prior to publication in a national daily newspaper within four months of year-end. Auditors are also legally obliged to report matters related to breaches of legislation and irregularities, to the CBN. According to the ROSC (2004) report, outdated sanctions and reduced capacity undermines the effectiveness of the CBN in the enforcement of financial reporting requirements. The report further indicated that there are occasional conflict of views between the CBN and the NSE with regards to the approval of financial statements of listed banks. The CBN has also been ineffective in its regulation of non-banking financial institutions, due to a lack of sufficient capacity.

Before the banking sector reform which led to the reduction in the number of banks in the industry to 25[15], the complexity and problem with most banks in Nigeria have centred on board directors. According to Yakasai (2001: 240-241);

"The complexity and trouble with most companies in Nigeria is that the directors work to the answer, mark their own examination scripts, score themselves distinctions and initiate the applause. But to the stakeholders (especially the equity owners), the excellent report sheets are openly fudged or at best engineered and indeed, the activities of boards are so varied and deceptively intractable that the more critically you look, the less you see."

[15] However Stanbic Bank and IBTC Bank, which were separate in the wake of the banking reform, merged on the 31st of March 2008 with the launching of Stanbic IBTC Bank Plc. This makes the current number to be 24.

Numerous banks littered the Nigerian business environment prior to the banking reform process. This has traditionally impacted on the monitoring capacity of the CBN. Post banking reform, the CBN has continued to demonstrate commitment in eradicating traditional board and managerial corruption. As previously noted, the ₦25 billion (£100 million) minimum capital base for banks in Nigeria constitutes a major part of the banking reform programme. However, the CBN has noted that this is not enough for banks' survival. It has therefore put in place rules which state the roles and responsibilities of the chairmen, CEOs, executive and independent directors, audit committees amongst other players in the firm level corporate governance framework. These have been codified in the CBN Code. The banking reform programme also resulted in some unusual corporate governance problems. For example, the CBN code noted that the size of the banking industry is bound to task the skills and competencies of board directors and managements. This is in relation to the duty of maximising shareholders' wealth as well as the need to attend to other stakeholder interests. The mandatory CBN Code was thus formulated to help organisations overcome these difficulties in ways which make them remain competitive. This development stems from the realisation that the existing SEC Code will not be capable of achieving this.

The banking reform programme led to several mergers and acquisitions. These resulted in some peculiar corporate governance challenges. According to the CBN, they include the following: the politically influenced power-conflicts between management and boards of merged banks, the lack of experience and adequate proficiency among managements and boards, the pre-eminence of internal politicking to reap private benefits over essential corporate goals, and corruption. These problems were addressed in the CBN code. Furthermore, in the drafting of the code, the CBN envisaged additional corporate governance challenges which could arise from the inability of merged companies to integrate personnel and systems. Also, the CBN sought to address potential irreconcilable differences in corporate culture which could result in board and management misunderstandings.

According to the CBN, other corporate governance related challenges resulting from the post-consolidation process include the following;

- the technical incompetence of board and management to effectively redefine, re-strategize, and restructure to take advantage of the consolidation;
- boardroom squabbles as a result of different business cultures and high ownership concentration especially in banks that were formerly family owned or "one-man" entities;
- squabbles arising from knowledge gaps, harmonisation of roles and salary structure among staff and management; inadequate management capacity in terms of running a much larger organisation;
- resurgence of high level malpractices in order to boost income as a result of intense competition and lack of enough viable projects;
- insider-related lending facilitated by lack of transparency in bank ownership and the pervasive influence of family and related party affiliations;
- ineffective board/statutory audit committees; inadequate operational and financial controls;
- and lack of proper transparency and adequate disclosure of information.

Whilst the CBN code has been structured in ways which should tackle these issues, concerns remain on the degree of its enforcement and effectiveness. Appendix 5 provides relevant extracts from the CBN Code. Despite CBN's claim that the Code has made the apex bank to be on top of the situation, the secrecy which continues to surround the operations of banks in Nigeria is unhealthy (FS 2008). The CBN has been criticised for encouraging operational secrecy which relates to losses incurred, for example, through robbery attacks; the CBN allows banks to state losses such as these in general (non-quantitative) terms (FS 2008).

6.4 - PART 3 - THE ROLE OF GOVERNMENT IN CORPORATE GOVERNANCE: EVIDENCE FROM NIGERIA

6.4.1 Overview

Preceding discussions have examined the extent to which the regulatory infrastructure of corporate governance in Nigeria promotes good behaviour, with insights from the banking industry. Here, the author proceeds to account for the role of government in corporate governance, given the aforementioned challenges which confront the Nigerian corporate governance regulatory system. In setting the tone of this section, it must be recalled that the government has traditionally constituted a non-positive influence on corporate governance. As a result, discussions here reflect the extent to which the government can effectively engage with the governance of corporations in ways which promote rewards for performance, dynamism, flexibility and entrepreneurship, and minimise corporate corruption and fraud. Indeed, this would primarily require the Nigerian government to aggressively address public corruption. In this section, the author, first, examines the benefits and limitations of self-regulation in corporate conduct. Thereafter, the author investigates the rationale behind government's intervention in corporate governance. This is followed by an international perspective of government's role in corporate governance. Following on, the author examines the extent to which government's increasing intervention in corporate governance will promote good behaviour beyond what the principle based form of regulation can possibly achieve. Indeed what can government possibly achieve in corporate governance? What is government's agenda in corporate governance? The author further draws out specific deductions with regards to the ways in which the Nigerian government can usefully engage with corporate governance. Discussions in this part attempt to provoke a revolutionary thinking among corporate governance scholars with regards to the role of government in corporate governance across different institutional contexts. Discussions are also of significant practice and policy relevance.

6.4.2 Self Regulation: Benefits and Limitations

The economic literature has been at the fore-front of discussions on self-regulation. Self regulation models self-reporting of legal violations as a means to optimize enforcement regimes (Short and Toffel 2007). Whilst self-regulatory schemes extend beyond the concept of corporate governance it helps put corporations in check with no intervention from the government. It further reduces the costs of monitoring and compliance (Short and Toffel 2007). Innes (2001) argues that self-regulation optimizes the allocation of enforcement resources by lowering avoidance costs for the regulators and those being regulated. It also increases the chances of remediation and also lowers its costs (Innes 2001). Turnbull (1997b) argues that self-regulation simplifies corporate law by reducing the need for government to maintain the already immensely prescriptive laws and regulations. He further argues that self-regulation protects the interests of all relevant stakeholders, and that the most efficient regulation can be achieved by incorporating as much self-regulation as possible into firms. Indeed following Melville's (1999) research into the potential of control self assessment in evaluating non-financial control systems, he made a case for the adoption of a "soft" control mechanism in a corporate governance framework.

Coglianese et al. (2004) argue that self-regulation gives room for proximity being that self regulatory institutions are closer to the industry being regulated, which gives them access to more detailed and current information about the industry. They noted that this increases the chances of compliance, given that the more the involvement of the industry in setting their own rules, the more those rules appear reasonable to abide by. Furthermore, Maaseen (2003) examined the applicability of self-regulation in Indonesia and argues that self regulation even works better when incentives are in place and when the nature, opportunities and costs of problems are understood. Self-regulation tends to allow management hierarchies to be transformed into network organisations which are governed by the competing interests of strategic stakeholders (Turnbull 2002).
On the other hand Short and Toffel (2007) argue that "self-policing" programmes in the context of self-regulation only shift the task of monitoring regulatory compliance from the government to the private sector. In this context firms are active participants in their own governance which begs the question of whether companies are actually regulating themselves or trying to avoid regulation altogether? (Short and Toffel 2007). A self-regulated corporate governance system puts objectivity in doubt and gives room for bias. Also the proximity and flexibility in self-regulation could lead to conflict of interests which may result in insufficient monitoring and under-enforcement (Coglianese et al. 2004). Underlying conflicts of interest could also leave self-regulatory bodies with insufficient funding (Coglianese et al. 2004).

Greater flexibility could mean inadequate sanctions, where only modest sanctions are meted out against severe violations (Coglianese et al 2004). Also, in situations where foreign markets are not equally laden with regulations, aggressive self-regulation could put local firms at a serious competitive disadvantage (Coglianese et al 2004). Self regulation further allows a great deal of "window dressing", with no clear recognition of the problems (Maassen 2003). Thus it may not be able to provide real solutions (Maassen 2003). Self regulation may also results into poor enforcement and makes shareholders passive (Maassen 2003). Lastly, self-regulation continues to suffer from the following problems; corruption of power; suppression of human nature; and information overload, biases, and errors (Turnbull 2002).

6.4.3 Rationale behind the Role of Government in Corporate Governance

It is worth emphasizing, once again, that the scandals of the past two decades transformed the global corporate governance landscape. Specifically, it led to increased demands for regulation in order to guide corporate behaviour and limit the reoccurrence of scandals. Consequently, countries across the world have developed their own codes of conduct or initiated legal reforms, or both, principally as reactions. For example, the Sarbanes Oxley Act in the US and the revised Combined Code in the UK came along as responses to the Enron scandal in the US. Historically, corporate self-regulatory bodies have prominently regulated corporate conduct. The role of government has traditionally been that of an overseer and not a major player in corporate governance regulation. The public uproar over the recent scandals has, however, made it clear that the status quo is no longer acceptable; government's role should thus be to restore corporate integrity and market confidence without undermining the dynamism that underlies a strong economy (Coglianese et al 2004). On the other hand, law and regulation intervene and become effective only ex-post, when damages have already been done (Betta and Amenta 2004) whereas self-regulation is quicker and more flexible to respond to changing market conditions (IOSCO 2002). Self-regulation also strengthens the relationship between firms and their environment (Golinelli and Gatti 2001) and serves as an incentive-based tool for firms to assess themselves (Betta and Amenta 2004).

No doubt, corporate misdemeanours seem to have awakened governments, across different countries, from their slumber. Regulation of corporate governance has become a major priority for policy makers in the bid to prevent corporate fraud. However, are governments across the world simply over-reacting? What is driving governments to intervene more in corporate governance? Have self-regulatory institutions failed? Should few, perhaps unrepresentative, corporate misconducts change the paradigm upon which firms have successfully dwelled? On the other hand, are the recent corporate scandals indicative of the massive decadence and fraudulent behaviour which have plagued the modern corporation under the watchful eyes of self-regulation? Indeed, in the case of Nigeria, Okike (1994) has drawn attention to some curious governmental regulations within a socio-cultural and political context. The following discussions highlights corporate governance challenges which are experienced in other countries. Given that some of these challenges are similar to those already discussed in the case of Nigeria, the author specifically examines governmental response to them.

6.4.4 An International Perspective of Government's Role in Corporate Governance

In China, several problems characterize the State-owned commercial banks which include the pursuit of multiple state objectives that compromises their commercial goals; lack of transparency in their reporting practices; and several other internal and external organisational problems (AFDC 2007). In this regard, the Chinese government recently clarified banks' objectives and ensured shareholder diversification. The aim of these is to ensure a good corporate governance model which fosters Chinese companies' competitiveness in their domestic and international markets (AFDC 2007). Furthermore, in order to enhance the soundness of corporate structures (many of which are family-run with non-transparent financial disclosure) and prevent the likes of Enron from happening in Taiwan, the Taiwanese government has established a task force committee which sees to corporate-governance reforms (Li 2003). In Australia, poor corporate governance practices and a number of high profile corporate collapses in the 1980s has led to the government's continued fine tuning of disclosure requirements in corporations laws and accounting standards (Hockey 2001). The aim is to achieve best corporate governance practices through transparency and disclosure and by ensuring the substantive rights of numerous stakeholders (Hockey 2001).

Without doubt, we are witnessing the evolution of government's intervention in the corporate governance of many countries. In some, it is increased participation. For example, the governments of East Asian countries have traditionally maintained a close relationship with business enterprises via formal or informal means (Qian 2000). In some other countries, such as the UK, there are already codes of conducts and best practices which companies have generally complied with. In many other developing countries, either these codes are lacking or are just a matter of "paper work". Nevertheless, the global rationale behind governments' intervention in corporate governance is related to the realisation, or rather perception, of laxity in self- regulation. Governmental actions have been hastened in a bid to prevent similar occurrences in the US as well as to restore investors' confidence in corporations. Findings from this survey, further, suggest that it has become "fashionable" for government officials, especially in developing countries, to show commitment with regards to governance reforms.

6.4.5 What is Government's Agenda in Corporate Governance?

Corporate crisis and reforms have been essentially cyclical, given that series of corporate governance regulations have followed a sequence of corporate recessions and subsequent scrutiny of the regulatory framework (Clarke 1998). Government's increasing intervention is due to the need to regain the lost confidence of investors in the capital markets. However, good corporate governance regulatory policy must ensure that there exists a proper, efficient and a workable structure through which companies can be run by an effective but honest management in pursuit of the interests of the company and its stakeholders. Given the limited studies on the role of government in corporate governance, an evaluation of scholarly "reasoning" with regards to governmental motive in corporate governance, is imperative. Will the differing levels of development across countries affect the agenda pursued by government in corporate governance? More importantly, a theorisation of the role of the State in corporate governance, in different institutional systems, is needed to further the debate in this area.

6.4.6 The Nigerian Government and Corporate Governance: A Recommendation

The ROSC (2004) recommends that the Nigerian government should improve the statutory framework of corporate governance in Nigeria. It also advised that the government should enhance the following: enforcement mechanisms, the capacity of regulatory institutions, and the training requirements of professionals. The role of the Nigerian government in the regulation of corporate conduct is daunting. It has to first address corruption which has been a great impediment to the enforcement of existing legislations and the effectiveness of self-regulation (see Okike 1994). Essentially, government's responses should be well measured. Excessive regulatory burden as a result of regulatory convergence pressures from foreign investors and international regulatory agencies could seriously undermine the competitive advantage of indigenous firms. Regulation should therefore aim to improve investors' confidence but must not limit the productivity and flexibility of companies. This is based on the premise that resources "wasted" in complying with "over intrusive and too demanding" regulations could better be used to benefit the company's success. Does this suggests a principle based regulatory framework is better considering the country's endemic corruption? Are there lessons to be learnt from the "comply or explain" principle in the UK? To what extent will this principle work in Nigeria? To what degree will Nigerian companies require heavy regulations with accompanying heavy sanctions to behave responsibly?

Let us consider the UK's experience; where the government has recently been more involved in corporate governance regulation especially through amendments to the Company law contained in the Companies Act 2006. It has been suggested that the rationale behind the UK government's role in corporate governance is to ensure an attractive regulatory structure for investments. Margaret Hodge MBE MP, the DBERR Minister of State for Industry and the Regions, whilst commenting on the Companies Act 2006, stated that the government's role is to "increase the competitiveness of the UK". She further argued that the UK government is committed to ensuring that a simple, accessible, flexible yet robust legal/regulatory framework exists within which businesses can operate to promote enterprise and growth. She also noted that this framework will provide the right conditions for investment and employment, which will produce a successful and competitive economy. Indeed, there is evidence that the UK is perceived as a good location for business. Studies by the FTSE, the National Association of Pension Funds in 2005 and Oxera (on behalf of the LSE) in 2006 all confirmed that the UK corporate governance model has a dual advantage of high standards of corporate governance and relatively low associated costs; this has been seen by some companies as one of the main factors influencing the preference of a UK listing to a US listing (FRC 2006).

Indeed some corporate governance scholars and practitioners alike have attributed the "demise" of the US as the world financial hub, to the burdensome and investment-unfriendly form of regulation entrenched in the Sarbanes Oxley Act. There is increasing evidence that the UK is becoming the 21st century prime location for businesses. This is because the UK's principle based corporate governance regulatory framework reduces the costs of regulation, allows the effective operation of a free market, creates wealth, eradicates poverty and facilitate innovative business practice (FRC, 2006). One can therefore conclude that the Companies Act, 2006 was engineered to make the UK, a more attractive place for investment and doing business, for both small business owners and large multinationals. And as the tussle between London and New York continues, one can further expect continuing UK governmental intervention in the domain of corporate governance so as to ensure that the UK remains a pace-setter in the today's competitive world of trade and finance.

So what can be learnt from the UK experience? There are two main lessons from the UK case study. First good corporate governance brings competitive advantage with respect to attracting investments which is good for Nigeria. Second the UK government has adopted a clear strategy to systematically interact with corporate governance, having taken into consideration the peculiarities of UK corporations, regulatory agencies and the general self-regulatory nature of the City of London. This suggests that government's role in corporate governance should be locally conceived as well as internationally responsive. In the same vein, government's response to corporate failures should be well considered as regulatory reforms that over-react or those that address symptoms whilst ignoring underlying causes can be expensive and counterproductive (Coglianese et al. 2004).

Considering the legal powers and supremacy of the government, it is better suited to ensure that listed corporations follow specific standards and regulations. Thus, the government can arguably ensure stricter enforcement. Undoubtedly, policy makers will have to rely on the expertise of self-regulatory bodies and credible corporate leaders to assist in regulating corporate behaviour. This leads to a joint effort by governments and self-regulatory bodies to put up standards that can be enforced. Nigeria will have to design this synergic relationship in ways which fit with her peculiar institutional configurations. As earlier mentioned, in order to achieve this, the Nigerian government needs to aggressively address public corruption and thereafter engage more strategically with the governance of corporations in ways which promote rewards for performance, dynamism, flexibility and entrepreneurship, and minimise private corruption.

6.5 CONCLUSION: BEYOND REGULATION

This chapter has attempted to look exhaustively into the subject of corporate governance regulation in Nigeria. This review has enabled a multi-stakeholder scrutiny of corporate governance regulation from a developing country perspective. The author has also accounted for the country-specific institutional embeddedness of corporate governance regulatory systems, through a comparative analysis of the systems in some other countries. However, to what extent can regulation alone actually achieve a long lasting culture of good corporate governance? Since the start of this thesis, discussions have clearly indicated that corporate governance and indeed corporate governance regulation are influenced by the wider institutional arrangements of a particular country. These institutional arrangements may be regarded as integral and inseparable constituents of any particular nation. Furthermore, they can either aggregate to facilitate the success of regulatory initiatives and promote good corporate governance or constitute barriers to the implementation of good governance principles. As a result, corporate governance regulatory initiatives must take into consideration, peculiar institutionalised arrangements which influence corporate behaviour. These would consequently determine the extent to which principles or rules based forms of regulation are adopted. However, to what extent can regulation alone actually achieve a long lasting culture of good corporate governance, particularly in developing countries?

Given the corruption-riddled corporate governance system in Nigeria, majority of survey respondents favoured more governmental participation and a rule-defined corporate governance regulatory system in the short term. Furthermore, there was a general agreement amongst respondents that principle-based approaches to regulation should be imbibed in the long term, when the situation improves. Furthermore, companies should be scrutinised not only on the factors that determine how well they perform on the stock market; indeed, corporate governance regulation should encourage good conduct in corporations even in areas such as safety and employment policies. In Nigeria, corporate governance discussions also need to extend beyond the board and top management alone. Addressing corruption, including corporate corruption, certainly requires the promotion of certain values at all levels. A principle/culture of discipline, accountability and honesty should thus be encouraged throughout the corporation by any corporate governance regulation. Lastly, excessive regulation, notwithstanding countries' peculiarities, could amount to box-ticking without any correction in behaviour. Nigeria must especially take note, particularly as mimicking regulatory initiatives best suited for other jurisdictions, may fail to address the country's peculiar challenges. In relation to external influences on the development of national systems of corporate governance, the next chapter looks into the implications of external influences on the Nigerian corporate governance system.

CHAPTER 7 - EXTERNAL PRESCRIPTIONS OF GOOD CORPORATE GOVERNANCE IN DEVELOPING COUNTRIES: A NIGERIAN PERSPECTIVE ON ANGLO-SAXON PRESCRIPTION (AND/OR IMPOSITION)

7.0 INTRODUCTION

Contemporary research on comparative corporate governance has been preoccupied with the study of differences in national systems of corporate governance as well as the identification of the strengths and weaknesses in different systems (O'Sullivan 2003). However while comparative studies of countries are common, there is limited evidence of a comprehensive study of the particular influence of a country's governance structures and mechanisms on those of another country. Whilst, the comparative corporate governance literature has been preoccupied with research on the UK and the US at one end of the scale (Rubach and Sebora 1998; O'Sullivan 2003; Liu 2005; Braendle and Noll 2006) and continental Europe and Japan at the other end (Wojcik 2001; Patrick 2004; Goergen, Martynova, and Renneboog 2005) developing countries have almost been unattended to. In a similar vein, although the potential for expanding the literature on corporate governance in developing economies is promising, the external factors shaping the corporate governance landscape are being somewhat neglected in the increasing debate. The author notes that attempting to conceptualize corporate governance in developing countries without considerable accounts of past and current external determining factors would be highly misleading and incomplete.

Since less industrialised nations, particularly some African countries, such as Nigeria, were former colonies of Britain, from whence the foundations of their company law and regulation were derived, the author investigates the extent to which the influence of the UK corporate governance system extends beyond the developed world. Again, viewing the UK as a global standard setter in corporate governance, any UK regulation, code of conduct and/or listing standards could become a "model of best practice" particularly for the countries of origin of the companies listed on the LSE (Aguilera 2005). Furthermore, given that Nigerian banks may gain a strong presence on the LSE in few years to come; it has become further imperative to account for the UK's influence on the shaping of corporate governance in Nigeria. Will the UK's "comply or explain" principle work in Nigeria? Should corporate governance structures and practices be copied? On the other hand, while Nigeria is ideologically and culturally stakeholder oriented, traditionally stakeholder oriented countries such as Japan, China and India have recently focussed on investing aggressively in Nigeria, especially in the oil sector (Bala 2003; Hanson 2008; Ajayi 2009). To what extent could these developments possibly amount to the prescription (and/or imposition) of their own governance practices on Nigeria to secure their investments and to cater for their oil dependent economic future? Indeed, can Nigeria emulate the corporate governance practices in these countries?

Furthermore, the debate on the convergence or divergence of national systems of corporate governance has stemmed from research on comparative corporate governance. At the heart of the convergence debate is the assertion that the ever increasing forces of globalisation will compel convergence to the best practice model. On the other hand, the proponents of divergence have based their arguments on the country specific institutional embeddedness of corporate governance systems. While the debate on convergence/divergence may never be resolved, a modest attempt to move the debate forward would be to understand the intense pressures of economic and political globalisation, and appreciating that the translations of these pressures are contingent on institutional peculiarities such as the economic, political, social, legal and cultural environments. Indeed, are we talking about convergence or conforming to the Anglo-Saxon model? Is a hybrid corporate governance structure developing? What are international best practices, and why should countries be encouraged to adopt them? What impact does the push for global standards have on Nigeria? What are the projected and actual roles of the OECD, IMF and the World Bank in promoting effective corporate governance? In what ways can corporate governance principles be prescribed (or imposed)? How effective are local institutional initiatives in ensuring good corporate governance in Nigeria? However, given the multi-country analysis that is offered in this chapter, discussions therein have significant relevance and general applicability to the corporate governance literature of developed, transitional and developing countries.

The rest of this chapter is divided into three parts. Part 1 examines the past and present influences of the Anglo-Saxon corporate governance system on Nigeria. Part 2 discusses the Stakeholder model's influence on Nigeria with particular references to Japan, China and India. Part 3 examines the subject of the convergence debate and the push for global standards. It specifically investigates the extent of corporate governance prescription (and/or imposition) on developing countries. Upon showing these three classes of external influences on Nigeria, in an attempt to conclude, the author explores the possibility of having a corporate governance system, that is locally of value, and considerably externally/internationally acceptable.

7.1- PART 1 - THE INFLUENCE OF ANGLO-BRITISH CORPORATE GOVERNANCE SYSTEM ON NIGERIA

7.1.1 Corporate Governance in the UK: An Overview

The Cadbury, Greenbury, Hampel and Higgs led committees and subsequent Codes of Conduct have addressed various issues which have all together enriched the corporate governance debate specifically in the UK and indeed globally. In all of these developments, the UK's emphasis on "principles", rather than "rules", based regulation has been reflected in her corporate governance regulatory framework for listed companies, namely the "comply or explain" principle. Historically, the UK corporate governance system has focused mainly on the financial aspects of corporate governance so as to enhance competitiveness. Corporate governance in the UK thus centres on the need to ensure that an effective framework exists to fortify the relationship between an organisation and those who hold future financial claims against that organisation such as shareholders, commercial lenders and other stakeholders with a view to avoiding corporate scandals as well as providing a platform for aggrieved stakeholders to be able to seek redress in court (Filatotchev et. al. 2006). The UK corporate governance aims to provide the structures and processes which ensure that companies are managed in the interests of their equity owners (Higgs 2003).

However, in recent times, there have been active debates between the adherents of the Shareholder and Stakeholder models of corporate governance in the UK context. While advocates of the latter view (Hutton 1995; Kay and Silberston 1995) have attempted to ensure the appreciation of other stakeholders, still the former remains dominant in the literature. Gamble and Kelly (2001) queried this long-held assumption that shareholders (both current and future) among all the numerous parties with interests in a company should be so privileged to be the ruling conception of the UK corporate governance system. Here are a couple of explanations. First shareholders bear the residual risks of the enterprise; thus they remain the definitive owners of the enterprise (Easterbrook and Fischel 1991). Second, maximizing shareholder value serves two purposes: accountability - on the part of managers to shareholders for their stewardship of the assets of the enterprise; and efficiency - absolute focus on a single clear objective leads to the most efficient outcomes (Gamble and Kelly 2001).

While a number of law scholars (Hansmann and Kraakman 2001) have argued that the shareholder model has defeated the stakeholder model as far as the fundamental issues of corporate ownership and control are concerned, Armour, Deakin and Konzelmann (2003) argue that the UK corporate governance has not come to the “end of history”, as the shareholder model is less deeply entrenched than is generally suggested. Armour et al. (2003) further argued that the intensity of shareholder pre-eminence was only achieved in the 1980s and 1990s, and is actually far from being the norm. Davies (2002a) argues that it is indeed an anomaly. The recent collapses of major Anglo-Saxon corporations have further suggested the limitations of the shareholder model to tackle corporate fraud and have highlighted the benefits of the Stakeholder model.

According to the UK Financial Reporting Council (FRC), corporate governance in the UK originated from a series of corporate misconducts in the late 1980s and early 1990s, such as the collapse of the BCCI bank and the scandal at Robert Maxwell pension funds, both in 1991 (FRC 2006). Thus it had identified the following as the essential features of corporate governance in the UK:

- *Effective rights for shareholders.*
- *Emphasis on objectivity of directors in the interests of the company.*
- *Transparency on appointments and remuneration.*
- *A single board collectively responsible for the success of the company.*

- *A Code of good practice based on extensive consultation with practitioners, and operating on the basis of the "comply or explain" principle.*
- *Also a system that has checks and balances which encourages*
    - *Separate Chief Executive and Chairman.*
    - *A balance of executive and independent non-executive directors.*
    - *Strong, independent audit and remuneration committees.*
    - *Annual evaluation by the board of its performance.*

The framework of corporate governance in the UK essentially features dispersed ownership (mainly by institutional investors), strong legal protection for shareholders, "indifference" to other stakeholders, and easy transfer of shares facilitated by the highly developed stock market. Shareholders exercise their control over firms through the board of directors (comprising of both executive and non-executive directors) who theoretically stand to protect shareholders' interests. The board decides the employment conditions and remuneration of top management and also appoints the chief executive officer (CEO), who runs the company. Lastly while UK firms do not have to consider too many complex and often conflicting interests of numerous stakeholders, which is advantageous in times of restructuring, there are concerns about the lack of encouragement to promote relationship, commitment and trust between employees and the management. Furthermore, this model renders labour unions ineffective.

7.1.2 Colonial Influence of the UK on the Corporate Governance System of Nigeria

In line with previous discussions, Britain has traditionally structured the platform/backdrop upon which corporate governance mechanisms and practices have developed in Nigeria. Notably, Britons (individual, institutional investors and the British government) were the principal owners of most large corporations operating in Nigeria during the colonial era. These corporations were mostly subsidiaries of UK parent companies subject to British laws. Consequently, only a limited number of Nigerians had interests in how the companies were formed, structured, and governed. The major concerns at that time were centred upon employment and equality related issues as well as the desperation for political independence.

While corporate governance in Nigeria during the colonial era remained largely British; following independence, discussions began to develop on the need to put in place a "Nigerian" corporate governance system (Ahunwan 2002). Indeed, several factors affected the direction of the Anglo-Saxon framed corporate governance of post-independence Nigeria, such as the dominant zeal to attain economic independence together with political independence, which led to the abolition of many laws left behind by the colonial government (Ahunwan 2002; Okike 2007). However a deeper investigation into the governance practices of today's Nigerian corporations suggests that the Anglo-Saxon ideology remain vibrant. The principles, upon which regulatory initiatives and policy formulations in the area of corporate governance in Nigeria are based, are British in origin and still resemble those of the UK. The laws that govern the conduct of listed corporations are also Anglo-Saxon formatted.

7.1.3 UK Corporate Governance: A Global Champion or Local Success? Any relevance for Nigeria?

The Cadbury Report laid the foundations for a set of corporate governance codes, not only in the UK but as far as in Russia and India, which have integrated its key principles into their own corporate governance codes (Mallin, Mullineux and Wihlborg 2005). No doubt the UK corporate governance system has a number of competitive advantages. It is a market based model which enjoys adequate support from companies, investors and regulators alike; it further allows board's flexibility and accountability, and ensures the independence of non-executive directors (FRC 2006). According to the FRC (2006), this market-based model has been adopted in other financial markets as it enables the board to retain flexibility in the way in which it organises itself and discharges its responsibilities, and in a way that it remains properly accountable to its shareholders. The Department for Business Enterprise and Regulatory Reform (DBERR), the FRC, and the Financial Services Authority (FSA) are major players in the UK corporate governance regulatory framework which operates at a number of levels: through legislation, in particular the Companies Act; through regulation especially the listing rules, which the FSA oversees; and through the Combined Code, a responsibility of the FRC (DBEER 2007). Since October 1997, the FSA has absorbed the self-regulatory organisations and the Bank of

England’s supervisory responsibilities, thus becoming a single regulator for financial services (Nakajima and Sheffield 2002).

Traditionally self-regulatory institutions have been at the forefront of regulating corporate governance in the UK through the various codes of conduct and best practice. Before the Cadbury Code, the term “corporate governance” was already a known concept in the UK. The Cadbury Code features the belief that compliance of companies with a voluntary code coupled with disclosure is more effective than a statutory code (Cadbury 1992). About two years after the Cadbury Code, a survey among the FT100 companies showed that it has been implemented and that its compliance was virtually absolute in large firms (Bostock 1995 and Cadbury 1995). The Greenbury report sought to address the issue of directors’ remuneration which was not sufficiently tackled in the Cadbury report. The report concluded that if the issue of excessive executive pay were not to dominate the headlines in the future, as it did during 1994/95, then its recommendations would need to be taken seriously (Hughes 1996). The Greenbury report thus tied executive compensation with “how skilled and talented an executive is”, and required more comprehensive disclosure on directors’ compensation in the annual report of listed firms.

The Hampel Committee (see the Hampel Report) sought to review the Cadbury Code and its implementation to see if it was achieving its aims and to tackle issues that resulted from the Greenbury report. In addition to this, the committee looked afresh at the roles of directors, shareholders and auditors in the light of minimizing regulatory burden on companies, and to substitute principles for details wherever possible. There is an important point to be noted here. Unlike the Cadbury and Greenbury Committees, the Hampel Committee was set up, not as a response to things which were perceived to have gone wrong such as corporate failures in the case of Cadbury and unjustified compensation packages in the privatised utilities in that of Greenbury; and thus it was expected to provide the non-cynical and positive contribution which good corporate governance can make. Following several consultations and changes, the Combined Code was created and published in June 1998 and it essentially continued the “comply or explain” principle.

In 2003, the UK government initiated the review of the Combined Code with the aim of re-examining the role and effectiveness of non-executive directors, and the Higgs Committee was set up. At that time, the review of company 1aw was also in progress. Both reviews represent the first scrutiny of the effectiveness of UK laws since the collapse of an American company, Enron (Davies 2002b). Nevertheless the report by the Higgs Committee re-emphasized the “comply or explain” principle as opposed to legislation which leads to “box-ticking” and supported a counsel of best practices capable of being intelligently implemented with discretion (Combined Code 2003; Davies 2002b).

Having reviewed the development of self-regulation in the UK corporate governance system, it is important to investigate if this is applicable to Nigeria. First, has the “comply or explain” principle worked in the UK? To a large extent it has. Although the UK has had her share of corporate scandals, UK corporations have generally functioned and triumphed in an environment of flexible and principles-based corporate governance regulatory environment. There is evidence that the UK is globally perceived as a good location for business. As suggested in the preceding chapter, studies by the FTSE, the National Association of Pension Funds in 2005 and Oxera (on behalf of the LSE) in 2006 all confirmed that the UK corporate governance model has a dual advantage of ensuring high standards of corporate governance and relatively low associated costs. Indeed, in the tussle with the US to become the world’s foremost financial centre, the “comply or explain principle” has been a major advantage for the UK in attracting and retaining significant foreign investments.

While the legal underpinnings are a reflection of the UK framework, it would be unwise to assume that Nigeria mirrors the UK in terms of application (Okike 2007). What has gone wrong? Widespread corruption, following several political turbulences coupled with massive institutional shortcomings, has impacted negatively upon the Nigerian corporate governance system. Nevertheless, the UK colonial legacy of corporate governance development and administration in Nigeria remains vibrant. Findings from this survey show that the UK philosophy of corporate governance regulation is reflected in the 2003 corporate governance code of Nigeria. Indeed key players in the Nigerian corporate governance system regard the UK model of corporate governance as highly competitive and innovative as well as influential in shaping corporate governance in Nigeria. A key player in the drafting of the 2003 Code of corporate governance comments as follows:

Following from our colonial past, we regard the UK model of corporate governance as highly competitive and innovative. The UK system and Codes, from the Cadbury Code to the Combined Code, were consulted when we were drafting the Code. I would say the UK is very influential in shaping corporate governance in Nigeria.

Findings from this survey suggest that it is generally assumed that Nigeria's adoption of the UK's dominant preference for self-regulation, as codified in the 2003 SEC Code, will strengthen the relationship between Nigerian firms and their environment (Golinelli and Gatti 2001), and serves as an incentive-based tool for firms to assess themselves (Betta and Amenta 2004). The more recent 2006 Code of Corporate Governance for Banks is, however, more tilted in favour of the rules-based US corporate governance system. Given the deep rooted corruption that has trailed the banking system, certain mandatory forms of regulation would have to be in place at least in the short term to curb the board and managerial corruption that have flourished over time. A principles-based regulatory system can be strategically employed as the situation improves. As a senior official of the Nigerian CBN puts it;

"I think we need rules' based regulations now and once things get better, we can revert to principles"

Lastly, corporate governance regulation has developed in the UK and the US, principally as responses and reactions to corporate misconducts or their likelihood. However, corporate governance principles and regulatory initiatives must not be perceived merely as reactive mechanisms but must be proactively formulated with adequate sensitivity to the peculiar corporate environment. In the advent of corporate scandals, especially when the impact is enormous, regulatory measures developed often overreact and fail to tackle the specific underlying challenges.

7.2 - PART 2 - THE INFLUENCES OF JAPANESE, CHINESE AND INDIAN CORPORATE GOVERNANCE SYSTEMS ON NIGERIA

7.2.1 An Overview of Corporate Governance in Japan

Japanese firms are facing a fundamental challenge and transformation of their post-war corporate governance institutions. Following the revised Corporate Governance Code in 2001, the Chairperson of the Japanese Corporate Governance Committee stated that "companies exist in order to create value in undertaking projects using their management resources, such as labour and capital, and represent a system that is made up of the cooperative efforts of many stakeholders. A good company thus maximizes the profits of its shareholders by efficiently creating value, and in the process contributes to the creation of a more prosperous society by enriching the lives of its employees and improving the welfare of its other stakeholders" (JCGC 2001: 2). Traditionally, Japanese firms were characterized by cross-shareholdings, lifetime employment, and a central governance role being played by banks (Nakajima 1999). Jackson (2004) argues that all these seem to be eroding away owing to considerable legal reforms and innovations in corporate governance, but they have not disappeared. Indeed Japan's post-war model of corporate governance can be described as stakeholder oriented akin to that of Germany. However, the Japanese feeling of obligation to family, a company, or country, the strong feeling of being part of a family or a company and finally the emphasis on consensus rather than antagonism (Mallin 2006) substantially influence the Japanese corporate governance system and makes it subtly different from other stakeholder oriented countries such as Germany.

Before World War II, the *Zaibatsu* (family owned conglomerates) developed as a major feature of Japanese business ownership and corporate governance. However, as part of the US occupation reforms, the *Zaibatsu* families later lost their shares, which were widely redistributed to individuals. This transferred the control of firms from owners to managers. In other words, ownership and control became separated, and financing from banks became very important (Patrick 2004). Japan can be referred to as one of the most extreme cases of separation of ownership and control of listed companies. Though there are still a number of young companies that are principally family controlled and some that are foreign controlled, ownership and control is separated in the majority with most Japanese firms owned through a cross-holding of shares held by lenders (principally banks) and business partners as a symbol of altruism and commitment.

Patrick (2004) argued that the Japanese system is close to that of entrenched managerial autonomy and corporate governance guided by strong norms of managerial self-restraint. It is guarded by four major stakeholders, who are, in order of importance, its customers, as is true everywhere; its employees, especially those on the managerial track; its creditors, mainly its banks; and its shareholders. The role of the managers is to ensure adequate performance to keep every stakeholder reasonably satisfied. The management aims to ensure that a controlling interest is held by stakeholders, especially financial institutions that would not intervene in management and otherwise be passive unless called upon to block a take-over (Patrick 2004). The high stability of ownership allows a steady and continuous business relationship.

7.2.2 An Overview of Corporate Governance in China

The author takes an important caution here by not identifying China simply as a stakeholder oriented country. The Chinese corporate governance system has been influenced by both shareholder and stakeholder orientations, albeit within certain institutionalised traditional business arrangements. Therefore, it is not so clear as to which corporate governance theoretical model China can be best categorised under. However, there are important characteristics of the Chinese corporate governance system. For example, despite the opening of the Chinese market and subsequent privatisation of many state-owned companies, the government continues to hold controlling stakes in many large companies (Braendle, Gasser and Noll 2005). However, unlike most former centrally planned economies, China has in reality tried to avoid privatisation but has sought to reform state-owned enterprises by gradually introducing certain private enterprise measures such as managers' decision-making autonomy and financial incentives for executives (Naughton, 1995; Shirley and Xu, 2001; Chen 2004).

Peng (2000) argued that whilst the English term "corporate governance" seldom has an equivalent expression in many other languages and jurisdictions, the term has encountered even more difficulty in China, where the concepts of corporation and governance are ambiguous enough. Nevertheless, the development of corporate governance in China particularly sets out to investigate the role of corporate governance in China's development and to transform the large state-owned enterprises (SOEs) into properly governed corporations. A key agenda item for China's SOE reform was thus the clarification of property laws, rights and responsibilities, as well as the creation of separate government and enterprise functions (Peng 2000). Frye and Shleifer (1997) commended the Chinese state-guided economic reform describing it as an ideal way of governmental intervention in firms’ ownership and governance. Nee, Opper and Wong (2007), however, argue that while China’s market transition from an agrarian state socialist economy to a dynamic capitalist driver of global economic performance and growth has been remarkable, direct state intervention in the governance of firms is likely to yield more negative than positive economic effects.

The newest system of corporate governance in China dates from 2002 and is applicable to all listed companies on Chinese stock exchanges. There is evidence to suggest that China is establishing its corporate governance structures by emulating the Anglo-Saxon system, albeit within an environment where the necessary formal and informal institutions and infrastructure to make these structures work effectively are significantly lacking (Tam 2002). Tam (2002) further argued that corruption, fraud, stock market manipulation, tax evasion, amongst other forms of siphoning of state/company assets in an environment of non-robust protection of shareholders' rights, are some of the obvious manifestations of the Anglo-fashioned Chinese corporate governance system.

7.2.3 An Overview of Corporate Governance in India

The Indian corporate governance system is plagued by several infirmities. For example, Rajagopalan and Zhang (2008) argued that the lack of incentives, power of dominant shareholder, non-robust external monitoring systems, and the shortage of qualified independent directors are factors confronting the corporate governance system of India.

Indeed these problems have restrained India's potential to become part of the world’s top economies (Chakrabarti, Megginson and Yadav 2008). India’s pursuit of significant corporate governance reforms in 1999 and 2000, contained in “Clause 49”, set a new precedence for corporate governance developments in the country. Essentially Clause 49, based on a voluntary 1998 Code of Corporate Governance, requires public companies to have functional audit committees and a minimum amount of independent directors, and also requires the CEO and the CFO to both certify financial statements and internal controls (Khanna and Black 2007).

The corporate scandals at the start of the 21st century no doubt changed the corporate governance landscape globally. Following the Enron scandal, new codes have evolved in India, the latest being the Revised Clause 49, which is generally perceived as an off-shoot of the US Sarbanes-Oxley Act, and does not reflect the country’s history and corporate culture which are those characteristic of its socialistic society (Kanchan 2007). However, formal institutions of corporate governance in India have been present for long, even though corporate governance discussions only came to receive adequate attention after the structural adjustment and globalisation programmes commenced upon in 1991 (Sarkar and Sarkar 2000). These exposed the Indian economy to a new era where the existing norms of governance became obsolete owing to intense competition, removal of economic borders and massive foreign direct investment; globally accepted standards of corporate governance thus became imperative (Kanchan 2007). However, India’s move towards the Anglo-Saxon model has been contested by certain sectors of the business community and important concessions have been made which may, in the future, function to enable owners of the large conglomerates of India's post-colonial corporate economy to maintain control of their empires in as much as they remain internationally competitive (Reed 2002).

7.2.4 Implications for Nigeria

Following an overview of the state of corporate governance in Japan, China and India, the author proceeds to examine their influences on the corporate governance practices of Nigeria. It must be noted that these countries have begun what seems to be a lasting investment culture in the Nigerian business environment, especially in the oil sector, which accounts for some 95 percent of the country's total export revenues. While the oil industry is the mainstay of the Nigerian economy, the significant investments from Japan, China and India into the country's oil sector indicates the importance of the sector to the long term economic sustainability of these investing countries (see Bala 2003; Hanson 2008; Ajayi 2009). Indeed, the rate of economic growths and expansions in Japan, China and India suggest that they will continue to demand oil in large quantities to fuel their escalating economies. These countries seem to have thus taken a long-term strategic view by investing in the oil sector of the 12th largest oil producer in the world. For example, Chinese state-owned CNPC invested £1.4 billion in a Nigerian oil refinery in 2008 (Hanson 2008). Will the acquisition of large stakes in major Nigerian oil companies result in the prescription (and/or imposition) of their corporate governance practices on Nigeria, in order to ensure that their investments are within an environment they can identify with, trust and be confident of?

The overview of corporate governance structures and practices in Japan, China and India suggest that if imbibed considerably, they would have more negative than positive impact on Nigeria. The Japanese, Chinese and Indian corporate governance systems themselves are suffering from significant misfits, corruption and institutional weaknesses. They are somewhat in a flux, fluctuating between a traditional stakeholder model and a globalisation fuelled push towards the Anglo-Shareholder model. Indeed, one must ask if these countries have any agenda such as influencing the Nigerian corporate governance system. Considering recent developments in the global energy markets, could it be that all they desire is having some control/influence with regards to the Nigerian oil sector? According to a former CEO and Chairman of a large listed Nigerian corporation,

"I doubt if Japan, India and China as well as other countries investing in the Nigerian oil sector will drive any good corporate governance in the country. They are here because they have seen investment opportunities, they did not set out with corporate governance in mind, and they know they can even pay their way through the system to achieve what they want even if that constitutes large scale corruption. They are not here because they want to do clean business but profitable business"

However, there are few corporate governance related values in these countries that Nigeria can learn from. They include the role and efficiency of banks as corporate partners, the high importance/value placed on trust in business relationships, the long-term view of business efficiency and performance as against short-term profit seeking. Furthermore Japanese corporate owners are typically stable. High stability of ownership leads to steady and continuous business relationships. Furthermore, a hostile take-over is very unlikely in an environment of stable and concentrated ownership. For example, in Japan, a company, under a main bank system would form a long-term business relationship by reciprocal cross-holdings of shares, and loans, usually within the *Keiretsus*, closely-knit industrial/corporate groups, akin to the pre-World War 2 Zaibatsus albeit no longer family controlled (Nakajima 1999). The main bank thus has a special responsibility to monitor, rescue and restructure the company, if it falls into financial distress. The bank is an important shareholder of the firm and carries out a variety of banking and other transactions with the firm, for example, foreign exchange businesses and trustee functions of corporate bonds (Okabe 2004).

The close relationship between the main banks and the firms has further given Japanese firms the avenue to borrow for a long period of time, thus operating with a long-term perspective which helps stabilize operations. This indirect financing has dominated the financial system of Japan since the 1950s (Nakajima 1999) and Okabe, (2004) observed that even when direct financing was gradually biting into the field dominated by indirect financing in 1993, more than 90 percent of large listed corporations still had a "main bank" or two playing very prominent roles. This indirect financing and the close relationship between the banks and the firms had been long regarded as one of the factors behind the success of the Japanese style of management. However, there has been evidence of companies shifting from bank financing to market-oriented financing thus weakening ties with banks compared to the past. This is partly because the main bank-oriented system of corporate governance had been criticized both locally and internationally for the lack of transparency. Nevertheless, it has always been an efficient provider of funds and insurance to the client firm. It has enabled corporations to efficiently obtain low cost financing and assisted corporations to invest in more risky projects. However, while these mechanisms seem to have worked in Japan, Nigeria must be aware that they are contingent on Japan’s peculiar history, culture and polity.

7.3 - PART 3 - NIGERIA AND GLOBAL CORPORATE GOVERNANCE STANDARDS: WHO BENEFITS

7.3.1 Introduction

From an economic standpoint, globalisation calls for global corporate governance standards. No doubt standardisation of global corporate governance practices will benefit cross-border institutional investors. Indeed, as the competition for investments is growing in both developed and developing economies, the debate on the need to achieve a standardisation of corporate governance practices has gained more impetus. At the fore of this debate are globally and regionally powerful institutional initiatives aimed at corporate governance development and enforcement/compliance monitoring. It has, therefore, become even more imperative to account for the roles and influences of these global forces in shaping the perception and construction of corporate governance, especially in developing economies. The author, therefore, attempts to provide a scrutiny of global and regional moves towards the standardization of corporate governance principles and practices, in the case of Nigeria (see Adegbite and Nakajima 2010). In this regard, the roles of the World Bank, International Monetary Fund (IMF), Organisation for Economic Corporation and Development (OECD), the Commonwealth Association for Corporate Governance (CACG) and corporate governance rating agencies are examined. The roles of these organisations in influencing the corporate governance regulatory framework of Nigeria are specifically considered.

Findings from this survey show that the World Bank, IMF, OECD, amongst others, wield tremendous powers not singularly because of the “good” principles they promote through research papers, conferences and training activities, but through the over-bearing influence they are able to derive from providing financial help, especially to developing countries. For example, the World Bank is able to police the implementation of “good” corporate governance practices especially in debtor countries on a regular basis by essentially making these practices an integral part of its anti-poverty and growth strategies, and punishes them for non-compliance by withholding funds (Soederberg 2003) or not cancelling their debts. Therefore, global and regional forces covertly influence the corporate governance direction of countries especially in the developing world. To what extent is this form of prescribing (and/or possibly imposing) corporate governance to developing economies invariably to move them towards the Anglo-Saxon model, often posited as "international best practise"? In the following sections, the author investigates who benefits from the convergence of corporate governance principles. Is it the country that conforms or the westernised global organisations and their notable sponsors?

7.3.2 The World Bank, IMF and OECD: The Form of Prescribing (and/or Imposing) "good" Corporate Governance

"The OECD Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both the OECD and non OECD countries…The Principles also provide the basis for an extensive programme of cooperation between the OECD and non-OECD countries and underpin the corporate governance component of the World Bank/IMF Reports on the Observance of Standards and Codes (ROSC)" (OECD 2004: 3).

According to the ROSC, the World Bank conducts corporate governance country assessments, employing a diagnostic template to gather pertinent information in order to come up with recommendations that can lead to a country action plan. Furthermore, the ROSC states that its initiative represents an institutional commitment to carry out assessments of national corporate governance systems by measuring the legal and regulatory framework, as well as practices and compliance of listed firms against the OECD principles of corporate governance (ROSC 2004). ROSC ensures that these assessments:

- use a consistent methodology for assessing national corporate governance practices;
- provide benchmark indices by which countries can evaluate themselves and gauge progress in corporate governance reforms;

- strengthen the ownership of reform in the assessed countries by promoting productive interaction among issuers, investors, regulators and public decision makers;
- provide the basis for a policy dialogue which will result in policy recommendations.

Soederberg (2003) argues that while good corporate governance embodies "universal principles", the definition advanced by the ROSC draws on the Anglo-American variant. She stressed that this imposed standardisation of corporate governance to stabilize the international financial system ensures that developing economies adapt to the exigencies of the neoliberal open market economy by placing greater emphasis on "shareholder value", as against other variants of corporate governance, in order to protect the interests of foreign capitals. She further argued that the ROSC initiative is an establishment of comprehensive webs of surveillance to police the behaviour of economies and states in developing countries, on the one hand, and to legitimize the subjective meaning of these codes on the other. When countries conform to the OECD principles, which the ROSC advocates, automatically what would result is less diversity in national corporate governance systems and practices but a global Anglo-Saxon style of corporate governance. This is worrisome. For example, what happens to the important traditional roles played by Japanese banks, the strengths of the *keiretsu* and the stable cross shareholding structures which are generally regarded to be strong points of the Japanese style of management and corporate governance?

By insisting that the ROSC represents "common values" across nations despite the fact that they appear to be serving the interests of Western institutional investors who are closely linked with the world's powerful financial centres, Soederberg (2003) argues that this strategy serves to construct a reality in which no other alternative but the Anglo-Saxon postulate of corporate governance is permitted to exist. Worst still, countries, especially debtors to the World Bank, get blacklisted and punished with restricted financial aid, when they fail to zealously demonstrate the commitment to ensure World Bank's prescriptions of good corporate governance.

The implications of this must be clearly understood. Given that Anglo-Saxon countries have already "perfected" their shareholder model of corporate governance, requiring other countries to conform to this model means that the US and UK will for a long time (and possibly forever) have comparatively better and more competitive corporate governance systems and practices. Furthermore, as conformity will imply that the efficiency of governance mechanisms, such as investor protection, are judged by Anglo-Saxon standards, it becomes automatic that the West would undoubtedly rank higher on a national comparative scale and therefore remain more competitive in attracting investments.

In the long term, conforming strictly to the OECD principles might not be in the best interest of emerging markets. If, indeed, globalisation would drive convergence of national systems of corporate governance, perhaps it should be allowed to do so without any significant push by the World Bank, IMF and the OECD. Furthermore, if globalisation and the ever increasing global competition for investments mean that only the countries with the best system of corporate governance and practices would attract the most investment, perhaps there should have been convincing evidence for this, or maybe we also should allow that to happen. OECD's prescription of "good corporate governance" to some developing countries who are not members of OECD, calls for a second look. Indeed, is the Anglo-American/OECD idea of "corporate governance" good itself? Considering the ongoing collapses of major US corporations, such as Enron, Xerox, K-Mart, Tyco and World Com, it has become even more imperative to explore the construction of the so-called "international standard of corporate governance" (Soederberg 2003).

Indeed, why do we need international standards on corporate governance? To what extent are there international standards on public governance? When the World Bank and OECD introduced the Global Corporate Governance Forum in 1999, Ira Millstein, chairman of the forum's Private Sector Advisory Group said the job of the forum was to "put together a demand pull for governance … and motivate private sectors around the world to want corporate governance … by persuading private enterprises that good governance has merit… The attitude should be, if they do it, money will flow. If they don't do it, money will not flow…Follow the money." (CGA 1999) Almost ten years on, is there empirical evidence to convince one that money has flowed into countries with systems of good corporate governance? What is the agenda? Is it for countries, especially developing ones, to accept that the Anglo-Saxon model of corporate governance is the best and therefore good for them, without any scrutiny whatsoever? Is it a "make believe agenda"? In the words of a senior official of a Nigerian corporate governance regulatory agency;

"There are significant doubts about the agenda of the World Bank, IMF, OECD and others. They are always around dashing money out, through organising symposiums and seminars, under the pretence that they want to improve our corporate governance. Most of us believe that these things are not free, as we would later pay for them; it is an extension of our colonisation"

As another senior official further comments;

"Must we follow the OECD standards? Can't we initiate and come up with our own standards that best suit our environment and society? These people (World Bank, IMF, OECD) are always interfering. They are impostors. For example, during local conferences organised by the World Bank as well as other bodies, these guys won't even give you room to ask questions, they would just tell you these are the best practices and that we must adopt them, in order to attract investments. Imagine! Who determines the best practice? America! Why must this be so? You find them at every of our meeting? They are everywhere. What do they want?"

7.3.3 The Role of the Commonwealth Association of Corporate Governance (CACG)

Nigeria is a member country of the Commonwealth as well as a Commonwealth Foundation member. However the role, influence and especially the underlying motive of the CACG also requires adequate scrutiny particularly in the context of developing countries. According to the CACG, the body was established in 1998 to promote "the best international standards germane to a country on corporate governance through education, consultation and information throughout the Commonwealth as a means to achieve global standards of business efficiency, commercial probity, effective economic and social development, and to facilitate the development of institutional capacity. The CACG published the CACG Guidelines/Principles for Corporate Governance in the

Commonwealth in November 1999 which was developed in collaboration with the Global Corporate Governance Forum and the World Bank with the aim of achieving global competitiveness and economic accountability.

While there is sufficient synergy between the World Bank and the CACG, the approach of the CACG is relatively different and somewhat commendable. Consider this paraphrased extracts from the 1999 CACG Guidelines:

The Purpose of the CACG Guidelines: *The CACG Guidelines are intended to be precisely that – guidelines to facilitate best business practice and behaviour, whether of a private sector or state-owned enterprise. These guidelines are neither mandatory nor prescriptive and have been designed as evolutionary in concept. In other words, the CACG Guidelines are seen as a "continuum", remaining flexible and responsive to further developments in corporate governance in the global economy…The challenge is now to move away from philosophical debates on corporate governance to dealing with the "hard" issues of practical implementation and the application of good corporate governance practices throughout the world. Naturally, each country and/or region must define for itself what its special circumstances and priorities are within this context*

The CACG approach is rather more appealing. It recognises the specific institutional emebeddedness of the corporate governance structures of Commonwealth countries. It therefore stresses that the guidelines are not in any way prescriptive. However, findings from this survey suggest some doubts which relate to the actual agenda of the CACG, as against its projected objectives.

7.3.4 The Role of Corporate Governance Rating Agencies

The external determinants of corporate governance in developing economies cannot be sufficiently analysed without reference to the increasing role played by corporate governance rating agencies. Whilst most of these rating agencies have not done much work in African jurisdictions, one must expect their influence to be significant when they eventually do. But there are causes to worry! These rating agencies are essentially Anglo-American in nature and ideology such that their standards are typically fashioned in this respect. Let us start with a very influential corporate governance rating agency – Governance Metrics International (GMI), which is the world's first global corporate governance rating agency. According to GMI (2008) , its research and rating system are aimed at helping institutional investors assess the governance characteristics of individual companies……

"By evaluating the quality of a company's corporate governance and the impact that governance practices plus certain environmental and social risk factors, may have on fund returns……. GMI ratings are calculated on the basis of six core extra-financial categories including board of directors, financial disclosure, shareholder rights, anti-takeover provisions, executive and director compensation and corporate social behaviour, including regulatory, environmental, labour and sourcing issues."

Furthermore Standard and Poor's Corporate Governance Scores, which have two levels of analysis- the country and company levels, are becoming highly influential. While Standard and Poor's accepts that there is no "one size fits all" model of corporate governance due to the peculiarities of companies and countries, a deeper reflection on their origin and predominant ideology indicates they are essentially another Anglo-Saxon corporate governance agency. For example, the methodologies they employ to do their ratings are formulated in line with the OECD principles. According to Standard and Poor:

A company Corporate Governance Score ('CGS') reflects Standard and Poor's assessment of a company's corporate governance practices and policies and the extent to which these serve the interests of the company's financial stakeholders, with an emphasis on shareholders' interests. For purposes of the CGS, corporate governance encompasses the interactions between a company's management, its board of directors, shareholders and other financial stakeholders. – 2002 Standard and Poor's Corporate Governance Score.

Although Standard and Poor argues that financial stakeholders include both a company's shareholders and creditors such that by addressing the interests of these two groups, the CGS recognizes the importance of stakeholders' rights and can therefore be applied globally since it operates with differing approaches to corporate governance. It must be noted that this may be an attempt aimed at acceptability as the Standard & Poor's CGS further states that they have been designed specifically with a shareholder primacy focus. Standards and Poor's CGS are essentially based on Anglo-Saxon perspectives of good corporate governance and it may be fundamentally inapplicable to rate the corporate governance practices of African countries solely based on such parameters.

7.3.5 More Confident Initiatives should come from Africa

From the preceding discussions, it is clear that corporate governance developmental initiatives formulated in other jurisdictions are unlikely to meet the challenges that are peculiar to Africa and especially in the case of Nigeria. Corporate governance innovations whose origins are African are more strategically posed to tackle the corporate governance issues which the continent faces. Having examined the roles played by the World Bank, IMF and OECD, it becomes imperative to ask what the efforts of the African Development Bank (AfDB) are in prescribing and promoting good corporate governance in the continent. Nigeria as well as other African nations may be less sceptical of the AfDB agenda as against those of the World Bank, IMF and the OECD. As a result, what is the AfDB doing? The African apex bank published a document in 2007 which sets out the Bank's strategy in promoting corporate governance reforms in Africa, highlighting the respective roles of key stakeholders while calling for full partnership with actors operating in the field (AfDB 2007). Let us examine the following extracts from the document:

"The research undertaken in the preparation of this document reveals a complex spectrum of corporate governance practices, institutional, legal and regulatory arrangements across the continent. One major finding to emerge is that many corporate governance problems stem from poor political and economic governance generally. Notwithstanding ongoing sustained efforts, a significant number of regional member countries (RMCs) continue to face endemic problems such as corruption, institutional instability, lack of transparency and accountability, and a weak rule of law. Within this context, corporate governance mirrors the wider environment; progress in both arenas is intrinsically linked and needs to be tackled in parallel…The overall goal of the Bank's strategy is to contribute to economic development by promoting good corporate governance in public and private sector corporations and ensuring that they create value for shareholders, not only from a financial standpoint but also in a socially and environmentally responsible way."

Unsurprisingly, the AfDB understands the corporate governance phenomenon in the African context. Indigenous initiatives would no doubt promote good corporate governance in Africa. In this light, the document further states that the Bank's corporate governance strategy will complement existing efforts and strategic partnerships with other key regional players and where feasible the Bank will promote initiatives that are regionally oriented and designed. Indigenous initiatives should also be developed in the area of corporate governance assessments and ratings. The seminal 2007 Mo Ibrahim Index of African Governance by the Mo Ibrahim Foundation is no doubt a good development. Mo Ibrahim while commenting on the development said

"We are shining a light on governance in Africa, and in so doing we are making a unique contribution to improving the quality of governance. The Ibrahim Index is a tool to hold governments to account and frame the debate about how we are governed. Africans are setting benchmarks not only for their own continent, but for the world. "

What remains is for this innovation to be taken further to encapsulate the governance of African corporations.

7.4 CONCLUSION

This chapter makes contributions to comparative corporate governance research by providing a cross-examination of the impact and influences of external governance systems and forces on Nigeria. A review of the influences of the shareholder and stakeholder corporate governance models on the ideology, structure and practices of corporate governance in Nigeria, has given insights into the evolution and present state of corporate governance in the country. It has also augmented our knowledge of corporate governance in jurisdictions such as the UK, Japan, China and India, and more importantly, it has enabled a more comparative analysis. One can therefore make a number of important conclusions. First, corporate governance in Nigeria, as well as in most other developing countries, are subject to external influences and interferences. Three classes of these external effects have been discussed in our Nigerian case. One can observe from the first part of this chapter that the UK has traditionally influenced the construction of corporate governance in Nigeria. However, the UK's influence has become less active in determining the actual governance practices of corporations even though the UK model and principles remain vibrant in shaping the legal framework of corporate governance in Nigeria. In this regard, there is evidence to support the UK's status as a global corporate governance pace-setter. However, as preceding discussions have shown, a total adoption of the UK style of corporate governance would lead to significant misfits with the Nigerian peculiar business environment. Nevertheless, there are ample positive lessons that can be learnt from the UK model which have also been discussed.

The story is not exactly the same for Japan, China and India. Corporate governance in these countries is, somewhat, in a state of flux, mingling between conforming to the Anglo-American model or rather sticking to their traditional stakeholder orientations, especially in the cases of China and India. Nonetheless, certain mechanisms, such as the Japanese traditionally stable cross-shareholding structure and the role of banks and creditors, could improve the state of corporate governance in Nigeria. However, while there have been notable reforms, good corporate governance in these countries is generally impeded by similar constraints to those found in Nigeria, such as board and managerial corruption. It follows that if the recent large influx of investments and business interests from these countries to the Nigerian corporate environment especially in the oil sector (see Bala 2003; Hanson 2008; Ajayi 2009), would amount to stifling corporate governance in the country, one should expect more negative than positive impact. If this happens, the Anglo-Saxon construed corporate governance regulatory structure in Nigeria maybe unable to cope with the new corporate governance scenery.

The author has also presented a survey of the prospects of corporate governance imposition in developing countries. This area of corporate governance research has been less studied, perhaps intentionally by Anglo-Saxon scholars. Discussions noted that prescriptions (and/or impositions) are largely not based on universally accepted principles but essentially on Anglo-Saxon constructions and preferences. The roles of the World Bank, IFC, IMF, OECD, CACG and other Westernised global bodies require scrutiny and a second look with regards to their corporate governance developmental activities and compliance monitoring in developing countries. This chapter makes an objective assessment. The activities of the World Bank and other Anglo-Saxon oriented organisations have attracted significant scepticism, especially in developing countries. It is therefore recommended that their approaches should be less over-bearing and ensure that local initiatives are not mulishly subdued. Imposing corporate governance ideologies and covertly transplanting Anglo-Saxon corporate governance systems in other jurisdictions have significant implications. From a scholarly sense it limits our discourse. It gradually eliminates comparative corporate governance research as well as the strengths specific to different national systems of corporate governance. While countries can share some similarities with regards to basic attributes of good corporate governance, prescribing the scope, extent and parameters of good corporate governance could itself be limiting. The author, therefore, calls for more indigenous initiatives in order to tackle Africa's specific challenges in such a way that the continent remains internationally competitive with regards to attracting and protecting capital. Rather than enforcing corporate governance ideologies and systems more suited to cope with the peculiar challenges specific to developed economies, African countries should adopt practices deemed fit to improve their respective corporate governance systems, irrespective of where those practices come from. To this extent, the next chapter investigates certain specific firm level practices which are capable of promoting good corporate governance in Nigeria.

CHAPTER 8 – SPECIFIC DRIVERS OF GOOD CORPORATE GOVERNANCE IN NIGERIA

8.0 INTRODUCTION

Having provided a comprehensive analysis of the institutional, regulatory and external determinants of good corporate governance in Nigeria; this chapter looks at the specific drivers of good corporate governance at the firm level. It must be noted that previous discussions have concentrated on the climate of corporate governance in the country and essentially the environmental factors which shape corporate behaviour. Particularly, the interdependent (and interacting) institutional factors, discussed in Chapter 5, wield tremendous influence on firm-level corporate governance characteristics. This chapter, therefore, examines the extent to which good corporate governance can be promoted at the firm level in Nigeria, given her peculiar institutional, regulatory and external environments. This chapter specifically aims to offer insights into the ways through which good corporate governance can be promoted in developing countries, particularly at the firm level.

Preceding discussions have shown diversity in national corporate governance practices, as well as the differing challenges in ensuring good corporate governance across different institutional arrangements. With evidence from Nigeria, this chapter argues that these differing perspectives must be accounted for in formulating the drivers of good corporate governance. Furthermore, the degree of relevance and applicability of certain "good corporate governance drivers" will differ across countries, regions and industries. In this chapter, the author discusses nine drivers of good corporate governance in Nigeria, as generated by the research data. These drivers represent the most important vehicles of good corporate governance in the Nigerian context. Respondents were generally unanimous with regards to the high importance of these drivers although there were subtle differing perspectives in relation to the means to promote some of them. Whilst the following discussions have significant implications for other developing countries in general, caution must especially be exercised in making confident generalisations about their applicability in other jurisdictions. Some key drivers of good corporate governance in Nigeria include;

1) Board independence
2) Board heterogeneity
3) Board reputation
4) Board evaluation
5) Vibrant institutional shareholders
6) Effective shareholder activism
7) Decent and explicitly defined Performance related executive compensation
8) Full public information disclosure
9) Competent and independent board audit committees

In the following sections, the author explains each of these drivers and their abilities to promote good corporate governance in Nigeria.

8.1 BOARD INDEPENDENCE

Board independence is generally considered to be central to good corporate governance. It predicts the behaviour of firms in different ways. For example, Black and Kim (2007) argue that more independent boards are able to make better acquisition decisions, and are more likely to appoint an outsider as CEO. Furthermore, independent boards are more likely to fight takeover bids, and are more likely to fire a CEO following poor performance (Black and Kim 2007). Whilst there is limited and inconclusive empirical evidence to correlate board independence with better overall firm performance in the finance literature of developed countries (see Bhagat and Black 2002), positive associations have been documented in emerging markets (see Choi, Park, and Yoo 2007; and Zheka 2005). The proposition that directors should act independently of management by ensuring a thoughtful and diligent decision-making process (Macavoy and Millstein 2003) has been a major preoccupation of the corporate governance literature for several years (HLR 2006). Board independence has become a conventional prescription of good corporate governance; it has now been prescribed by corporate law in most countries and has been encouraged by the voluntary codes of conduct in place in different countries.

What is board independence? It can be described as a subjective concept that connotes a willingness to bring a high degree of rigour and objectivity to the evaluation of a company's management and a scrutiny of its plans and proposals (Langevoort 2001). Several parameters, which promote board independence, have been highlighted in the literature. Let us start with the separation of the role of the CEO from that of the Chairman. Conventional wisdom has it that consolidating the roles of the CEO and Chairman into one position amounts to concentration of too much power and influence into one individual, hence bad for corporate governance. In Nigeria, the SEC Code for listed corporations encourages the separation of the roles of the CEO and Chairman. Consequently, there has been an exponential reduction in companies with CEO-Chairman role duality. Survey respondents identified this as one of the major achievements of the SEC Code. In the words of an independent director of a listed Nigerian firm;

"The separation of the chairman from the CEO is a very important development and constitutes one of the major achievements of the code. Almost all of the public quoted companies have separated the role of the chairman from the CEO. However, most CEOs, upon retirement, simply become the chairman"

Furthermore, as the saying goes "two heads are better than one". The separation of the roles of the CEO and chairman is not only important but wise for the corporate governance function. The responsibilities in each position are crucial to good corporate governance and firm survival. Therefore a board needs the benefits of "two wise men" to administer those responsibilities. According to the former CEO and chairman of a large listed Nigerian corporation;

"I do not think anyone in Nigeria is disputing the necessity of the need for separation anymore. We all have agreed that this is compulsory. Indeed, in cases where some companies do not want to split the roles, there have been numerous cases where significant shareholder activism has ensued. Companies are increasingly being forced to separate the roles."

There was complete agreement amongst survey respondents that the separation of the CEO and Chairman is an important parameter of board independence and eventual good corporate governance. This is in agreement with the management and business strategy literature which suggests that the absence of CEO/Chairman duality is associated with "critical" organisational decision making, including executive turnover, value-promoting business strategy, and limitations on anti-take-over defences, which are, in turn, related to efficiency and better firm performance (Filatotchev et al. 2006).

The literature has further posited that a significant number of independent directors, in board composition, are important in order to further ensure board independence. In today's increasingly turbulent corporate governance environment, board independence serves as the beacon for corporate governance reform; more independent boards will ensure more effective oversight of corporate management which should positively impact overall firm performance (Daily and Dalton 2003). Previous discussions have highlighted the negative influences of culture, social ties, political and corporate mentorship, and tribalism on corporate governance practices in Nigeria. For example, there are already provisions contained in CAMA, the SEC Code and the SEC Code of Conduct for Shareholders which encourage all board committees (especially board audit committees) to be composed of independent directors and members of shareholders' associations. However the political capture of this arrangement has undermined the efficiency of the intended board independence. Thus, achieving the highest degree of independence in board composition extends beyond the letters of the law and the prescriptions of corporate governance codes. Independence in board audit committees as well as other board committees would require express willingness and commitment at the firm level beyond what the law and voluntary codes can possibly prescribe. The challenge of board independence in Nigeria is more behavioural and legal.

In Nigeria, board independence cannot be achieved without a dominant presence of "truly" independent board members. Findings from this survey further question the degree of actual independence of the supposedly independent board members. No doubt, this problem is not restricted to Nigeria and other developing countries. However, the traditional role and overbearing influence of family ownership on the appointment of senior management and board members limits the fiducial oversight function and independence of the supposed independent directors. However, in whose hands would the corporation be best run? Is it the controlling shareholder or the truly independent director? There are mixed evidence in the literature with regards to this. For example, Klein and Shapiro (2004) argued that discussants have generally suggested that the boards of closely held companies should have a dominance of directors who are independent from management and the controlling shareholder. They pointed out that this is based on the notion that independence from management and the controlling shareholder is synonymous with excellence. However, they argue that this “fallacy” implies that shareholders are better off if they entrust their wealth to individuals who may or may not share the controlling shareholder's interest and commitment.

The benefits of executive directors and non-executive directors who are closely linked with the controlling shareholder must not be undermined, particularly in Nigeria, despite the traditional corrupt boards. The case of Oceanic Bank has earlier been highlighted where a board member and another member of the management team belong to the same family with the CEO. No doubt, this may connote some negative tendencies of undue power concentration and encourages more “rubber stamping” of CEO decisions. However, the strong commitment and drive such harmonious relationships can produce, with regards to the long term financial position and growth of the company could constitute important parameters for success. However, this is only possible when the directors involved uphold objectivity and integrity at all times, considering the endemic corruption in the business environment of Nigeria . As a result, the normative undertone which trails absolute board independence, as a force for good, needs to be scrutinised.

Findings from this survey further suggest significant regulatory conflict with regards to board independence in Nigeria. For example, the CBN Code, in line with most rule-based governance codes, mandates that the number of non-executive directors should be more than that of executive directors. Ndi Okereke-Onyiuke, Director General of the (NSE) flayed the CBN on this demand stating that “It is important that those who have substantial shares in a bank be allowed to sit on the board of such banks. I see no need for any independent directors on the board of banks” (The Nigeria Business 2006). Whilst reliance on certain independence standards can lead to practicable structural reforms and promote effective corporate governance (HLR 2006), the best course remains the middle course for Nigeria, which is a healthy combination of directors related and unrelated to the controlling shareholder and management (Klein and Shapiro 2004). This form of board independence will promote both objectivity (due to the presence of directors who are unrelated to the controlling shareholder and management) and long-term firm commitment (due to the presence of directors who are related to the controlling shareholder and management). Board independence, in this form, will promote good corporate governance in Nigeria.

8.2 BOARD HETEROGENEITY

Board heterogeneity can be defined as variation among board members. This variation may derive from multiple sources, including the following; expertise and managerial background; personalities; learning styles; education; age; as well as values (Coffey and Jia 1998). Indeed from the perspectives of the service, strategy and resource roles of boards, “good” corporate governance is linked with high degrees of board diversity including its human and social capital (Filatotchev et al. 2006). Board diversity, thus, benefits corporations for the following reasons: it allows a better understanding of the market, especially in a diverse market place; diversity is also linked with creativity and innovation; it further enables more effective problem-solving; it enhances the effectiveness of corporate leadership; and promotes more effective global networking and relationships (Cox and Blake 1991; Robinson and Dechant 1997). Indeed the starting point for building better governance structures is by encouraging greater board diversity (Odle 2007).

Analysis of findings from this survey suggests that board heterogeneity, in terms of gender, age, disciplinary background, industry experience, and tribe are important in promoting board effectiveness and good corporate governance in Nigeria. Let us start with gender. Carter, Simkins and Simpson (2003) examined the relationship between gender diversity and firm value for Fortune 1000 firms. They presented empirical evidence which positively correlates gender diversity (more female representation) with improved financial value. It must be noted that board composition in Nigeria has traditionally been male dominated. There are historical and cultural explanations for this. The female gender has traditionally been regarded as inequitable with the male, such that women have traditionally suffered societal discrimination[16], especially in terms of education (advanced education in particular). This has resulted in a traditional education/professional gap between men and women, especially with regards to those who are capable of filling senior positions both in the public sector as well as in private organisations.

In the light of this, one must recognise that the market for directors differs from country to country. By mandating the presence of a particular gender (in this case female) in board composition, we may run the risk of inhibiting the eventual effectiveness of the board. Thus, a wrong approach to gender diversity in board composition would be to suggest equal or near-equal representation of men and women. Board composition is crucial to organisational survival and must not be compromised by gender diversity, particularly in very traditional societies. No doubt, there are burgeoning empirical evidence which link board diversity to corporate philanthropy and corporate social performance (Coffey and Jia 1998). Board (gender) diversity is also considered to improve other corporate governance related matters such as ethical investments and ethical business conduct. However, the findings from this study suggest that board diversity must not be encouraged in Nigeria at the expense of overall board effectiveness. According to Fabian Ajogwu, the lead consultant to the SEC Code committee;

"When we were drafting the SEC Code, we made no provision for gender diversity in board composition although some people raised the need to address the issue, but we decided that it was not going to be diversity in terms of gender, but in terms of human capital and quality experience. The idea is that a smart board should keep in mind that to operate in this environment, you will need to have a wealth of diverse knowledge, expertise and experiences for you to have an encompassing reach"

However, it must be noted that the respondents surveyed were mostly male and their views must be treated with caution, as they may reflect the traditional gender bias.

[16] The ideology behind this is that "no matter the level of education a woman achieves, her place in the society is in her husband's kitchen". Undoubtedly, this primitive mentality is loosing its relevance and gender equality is increasingly being promoted in modern Nigeria.

Results from this study, nevertheless, suggest that board heterogeneity, in terms of educational and industry backgrounds and expertise are more important parameters which ensure board effectiveness. In order to improve corporate governance in Nigeria, competent individuals with sufficient and diverse human capital and array of experiences must be brought unto boards. This will enrich the decision making process of the board and create better firm value. Nevertheless, the market for directors seems to be further limited by absence of sufficient human capital. Taking into consideration the requirements of the SEC and CBN in relation to independent directorship, it must be noted that the market for such top quality individuals is small in Nigeria. According to a survey respondent, who serves on the board of a number of large listed companies;

"No doubt the board should be heterogeneous in terms of industry experience and disciplinary background. However there are constraints on the number of people you can have on the board; there are not that many highly experienced executives, such that you have to appoint the same people on different boards"

Furthermore, there is a cultural variant to board diversity in Nigeria. Specifically, boards of Nigerian firms, especially those that operate nationally, will have to reflect the cultural character of the country in their composition. Whilst, there is no requirement for this, the rationale behind it extends back to the essence of the post-colonial Nigerian republic. Nigeria became independent in 1960 and a republic in 1963, comprising of a British-defined democratic federal constitution which reflected three major geographical/ tribal character of the country (Northern Hausa, Western Yoruba and Eastern Igbo). As a result, organisations with a national scope of operation are generally expected to reflect the Nigerian cultural form in board composition. As a result, boards of Nigerian firms do not want to be seen as dominated exclusively by a particular tribe or region of the country. It must also be noted that a notable number of major corporations in Nigeria have risen with a tribal identity. As such there is a need to ensure some degree of tribal diversity in board composition. Boards with sufficient cultural diversity will thus have "a sense of belonging and identity" throughout the country. This may be crucial to customer allegiance and eventual firm performance.

Findings from this survey also show that age heterogeneity in board composition plays a role in the Nigerian corporate governance system. However there were variations with regards to respondents' comments on this. These variations were connected to the capacities in which they responded. For example, regulators generally downplayed the importance of directors' age. Accordingly, they argued that diversity in terms of disciplinary backgrounds, as well as expertise and experience supersede any consideration of age in terms of promoting effective corporate governance. This suggests that any individual with the sufficient human capital can be a good director. Notable directors of some high-profile boards, however, suggest that younger people are less risk averse and more exploratory. As such, they argue that age becomes crucial to board composition being that younger directors are prone to explore more business opportunities such as market expansions in ways which enable the company to become more competitive. According to an independent director on a number of high-profile boards;

"Age is crucial. Younger directors bring new knowledge, are more competitive and are ready to grow the business unlike the cautious older ones"

However experience spanning over many years of executive life must not be underestimated and compromised especially in the board composition of large companies. There are already regulatory provisions contained in Sections 252 and 256 of CAMA 1990 for mandatory disclosure of directors who are aged 70 or above; directors in this category are however eligible for appointment in as much as they are of sound mind and clear intelligence. The premise here is that with age comes useful experience. According to a former CEO of a large listed corporation,

"There is a lot of talent in the over 60s who have had, over time, the right experience and expertise in corporate governance and as such they should not be ruled out of participation on boards because they are simply over 60"

Here also, the middle course remains the best path for Nigeria, which is a healthy combination of both young and older directors. Fox (2007) developed a diversity matrix for improving board diversity. This matrix aims to generate more diverse perspectives when making decisions. As a result, this matrix can help Nigerian boards to identify areas in which they are well represented as well as those areas needing representation when recruiting and selecting new board members.

8.3 BOARD REPUTATION

To what extent is there a link between overall board reputation and good corporate governance? No doubt, this area of the corporate governance literature has been less researched. There are limited evidence in the literature with regards to the link between board/directors' reputation, especially independent directors, and good corporate governance. Chun-An and Chuan-Ying (2008), using Taiwan as a case study, have recently correlated directors' reputation with improved firm performance. They further provide evidence which suggests that high-performing firms are more able to attract reputable directors to join them and exert their monitoring talent to improve their firms' corporate governance quality and performance. On the other hand, Zajac and Westphal (1996) argue that powerful top managers seek to maintain their control of the board by selecting and retaining board members of low repute and excluding individuals of high reputable standards. They further stressed that powerful boards similarly seek to maintain their control by favoring directors with reputations of good performance (those who have actively monitored the management of other boards), whilst avoiding those directors with experience on passive boards. It must be noted that the reputation of independent directors normally account for overall board reputation.

In Nigeria, not only is board reputation important for good corporate governance; it generates significant investor confidence which drives firms' share performance. The findings from this study suggest that the reputation of directors is significant in promoting board effectiveness. Individuals with a good performance record on other boards, as well as a general reputable status in the Nigerian business society, are considered to bring credibility to the board. Given the legendary corruption in Nigeria, board members of high repute are constantly sought after. Commenting on this, a former CEO of a large listed corporation, who is constantly sought after to sit on a number of high profile boards said:

"Directors with high repute are more objective. From their perspective, they have lent their name to the company, and they are careful not to have them dragged into the mud. These individuals, not only contribute to board reputation but to the reputation of the company itself. However, there is a limited market for this group of highly experienced directors. Individuals of high corporate integrity are, however, in hot demand"

Indeed when reputable directors resign from boards, it sends negative signals to the market with regards to the corporate governance of the firm they have left. Consequently, other boards in the industry will contest for them. The results from this investigation suggest that firms with a significant number of independent directors of good reputation will improve its corporate governance and overall firm performance. Furthermore, if we take multiple directorships as proxies for reputational capital; a better reputation means a better performing firm (Chun-An and Chuan-Ying 2008). However, it must be noted that reputation has to do with the estimation in which an individual is held. Thus, it may not necessarily indicate the individuals' actual worth. Future studies must seek to determine the extent to which directors' reputation contributes to actual corporate governance improvement.

8.4 BOARD EVALUATION

No doubt, boards are already being "evaluated" by activists, investors, the media, and politicians; however, the issue of board evaluation is getting back to the boardroom, where it belongs, since these groups are not as well equipped, nor sufficiently close to the situation, to provide fair evaluations (Carey 1993). Board evaluations have thus become high on the list of corporate governance guidelines due to the realisation that only by regular assessment can directors be expected to make their optimum contribution with regards to their oversight function of managerial conduct (Heidrick 1997; 1999). The aim of evaluation should be to increase the effectiveness of the whole board and not to target nor intimidate poor performers (Carey 1993). As a result, there are growing boardroom interests in directors' evaluation, such that questions are being asked with regards to the right evaluation methodology for actual improvement in corporate governance (Bassett 1998).

Board evaluation can be carried out in two major ways which are self-evaluation and external evaluation. Self-evaluation is when the board evaluates itself without any significant external help, while external evaluation is when outside consultants are called in to access the performance of the board. Heidrick (1997; 1999) argues that the first step in undertaking directors' evaluation is to first evaluate the board as a whole which provides the context for developing tailored or company-specific assessment criteria. Bassett (1998) also argued the case for board self-regulation and recommended that self evaluation, in an objective, measurable, and meaningful manner, should be a regular part of every board's routine.

Whilst there is limited evidence of board evaluation in Nigeria, respondents noted that it is a highly significant parameter for effective corporate governance in the country. Section 5.4 of the CBN Code already stipulates provisions for board performance appraisal and mandates that this must be carried out by an outside consultant. However results from this study are consistent with Carey (1993) and posit that self evaluation of directors is widely preferred over evaluation by external consultants. As a result, most boards are not properly evaluated despite the CBN's statutory provisions. There is sufficient evidence which suggest that these provisions have only resulted in box-ticking, where the performance of all boards is rated optimum. A respondent who sits on the boards of several large listed corporations commented as follows;

"I sit on a board where K[17] has been called upon to evaluate us. Let me be frank with you, it was simply to conform with CBN rules and it only led to box ticking. Definitely, we would not call in consultants that would give us low scores, and if a particular consulting firm does, we would simply not call them again"

The CBN rightly noted in the CBN Code that whilst adherence to corporate governance principles promotes the performance of boards, this is not a sufficient condition. It further highlighted the clear need for board performance reviews or appraisals which constitutes a new concept to ensure exceptional board performance. Regular board evaluation would undoubtedly improve the corporate governance situation in Nigeria but it must be

[17] Pseudonym to ensure confidentiality of the company involved

approached systematically. Findings from this survey suggest that the concept is new and that it is important that the rationale behind it becomes clearly understood and accepted. With respect to this, relevant stakeholders must be educated on the benefits of effective board evaluation. Regulatory initiatives must be deployed in ways which suggest that honest board evaluation is both possible as well as desirable. Board evaluation is imperative to good corporate governance. In Nigeria, corporate governance effectiveness without board evaluation remains in idealism.

Whilst self evaluation and external evaluation are options which have their benefits and limitations, one thing not to do because of the Nigerian cultural peculiarity is to conduct a "boss-employee" type appraisal. Findings from this survey show that bringing in a boss-like evaluator to evaluate board performance in a way that management will appraise employees would be unacceptable in Nigeria and such proposition has indeed been earlier rejected. Board performance should be assessed in terms of individual members' appraisal as well as the entire board.

Furthermore, Nigeria is witnessing the emergence of advisory groups, nominated by shareholders, to monitor and encourage board effectiveness. Whilst this is still relatively uncommon, it is gradually becoming a recognised practice. Advisory groups normally comprise of retired chairmen and other individuals with proven records of useful experience, and reputable status. It must be noted that advisory groups are formed to provide board guidance and not evaluation. However, whilst the board is not subject to the recommendations of the advisory groups, the very persuasive nature of their functions and duties, as well as the calibre and reputation of its members create a vague sense of authority and indirect evaluation. Advisory groups assess the performance of boards with regards to organisational goals, and subsequently come up with guidance for the future. Thus boards are very unlikely to go against their advice and recommendations even though there is no legal provision which gives forceful authority to the advisory board. An advisory board can be regarded as a "council of elders" which is jointly nominated by shareholders and the board. Diamond Bank, Nigeria Plc is an example of a company with such arrangement.

8.5 VIBRANT INSTITUTIONAL SHAREHOLDERS

Sherman (1990) argues that the growth of institutional shareholdings and the corresponding concentration of stock ownership in the hands of fewer individuals have changed the nature of the relationship between those shareholders and their corporations. Specifically, shareholders are able to use their enormous powers to influence how their portfolio companies are managed and governed (Sherman 1990). Institutional investors have become giant players in the affairs of today's corporations, especially in the UK and US. However, Clyde (1997) noted that there remain considerable disagreements over the actual role they play in promoting good corporate governance. He argued that at one end of the debate, scholars have argued that concentrated ownership is imperative to efficient monitoring of management (Demsetz 1983; Demsetz and Lehn 1985; Shleifer and Vishny, 1986), whilst the central thesis at the other end is that institutional shareholders are practically powerless (Jensen 1989).

Institutional investors are expected to provide adequate policing of corporate management in ways which individual dispersed shareholders are incapacitated to do. Gaved (1998) noted that in countries where institutional investors play vibrant roles, they have also been generally instrumental and supportive with regards to many of the initiatives engineered towards achieving good corporate governance. He, however, also pointed out that their contributions are both pragmatically and structurally limited. Commenting on the UK corporate governance, he further argued that it is difficult for institutional investors to exercise the anticipated influence on the financial, operational or strategic management of a company. He noted that even when the largest institutional investors routinely meet privately with management, the information disclosed rarely gets down to smaller shareholders, who are thus further distanced from the management of the company.

The behaviour of institutional investors with regards to their supervisory functions are contingent on the following components; the legal framework detailing the limits of their involvement and influence in the company; the role of the financial intermediary; and more importantly the size of their holdings (Koladkiewicz 2002). In a 2007 OECD report on the role of institutional investors in promoting good corporate governance, a case was made for a proper understanding of the roles of institutional investors in order to increase their relevance and vibrancy especially in developing economies. The report argues that large institutional shareholders must play an active role in the governance of companies because of their shareholdings which enables them to actively influence the actions of companies. In order to adopt a proactive monitoring role, the report further stated that it is necessary that institutional shareholders view themselves as owners of corporations, and not mere equity owners who are after short-term profits. Institutional investors are major shareholders who are expected to take a long-term view of their shareholdings, and, where necessary, incur costs in intervening to correct managerial excesses and promote good corporate governance (OECD 2007).

In Nigeria, institutional investors are currently playing very limited roles in the corporate governance of listed firms. In the words of a senior manager of a Nigerian investment bank;

"Institutional investors/stockholders do exist but their influence is very feeble, because they have not come to understand their roles and responsibilities in keeping corporations faithful to their mission and objectives. Like ordinary passive individual shareholders, they tend to be focused only on the returns they get on their investments- short terminism. They have not yet identified a role for themselves in corporate governance"

However, findings from this survey indicate a great amount of optimism with regards to the ability of institutional investors to drive good corporate governance in Nigeria. The expected role of the few indigenous institutional shareholders has been constrained by the small equity they, most times, hold. Whilst it is unlikely for small institutional investors to make any impact in corporate governance in Nigeria, there is a great expectation that large institutional investors, especially foreign/international ones can contribute positively to the governance of Nigerian corporations. The premise here is that their large shareholding would almost guarantee them a representation on the board, which places them in an informed position to positively influence managerial conduct. However, in order for the institutional investor to be more effective, their board member representative needs to be someone with the sufficient human capital and required knowledge of the Nigerian terrain. These were the words of the chairman of a large listed firm in Nigeria;

"In order for the institutional investor to be more effective, their board member representative needs to be someone that could almost be a CEO of the company itself. This person must be able to stand up to the CEO and executives, and be able to ask important and seasoned questions about the company's operations and position. He/She must not just be someone who can spare the time but someone with a profound understanding and commitment to his/her roles and responsibilities."

The role of institutional investors in promoting good corporate governance must also bear need-driven attributes. It is clearly in the interest of institutional investors to ensure that the company in which lies their financial interests is governed with the highest degree of accountability, in order to secure their investments. Institutional investors playing increasingly active roles in the Nigeria corporate governance system include ACTIS, Renaissance Capitals and Capital Alliance. For example, these investors demand, as part of their terms of investing and retention of investments, that they get specific board member allotment (s). Institutional shareholders can further constitute a valuable source of information for directors as well as a rich resource for new ideas; they can provide the long-term/almost permanent financing that would lift corporate Nigeria to a long-term planning horizon (Sherman 1990). This would, however, require a conducive legal environment which limits the constraints on the processes of large stake acquisition by institutional shareholders, especially foreign ones.

8.6 EFFECTIVE SHAREHOLDER ACTIVISM

In Chapter 5, the author discussed the peculiarities of shareholder activism in Nigeria. The author specifically analysed the political misuse of shareholder activism, including the dilemma of shareholders' associations; the board/managerial capture of the intended activism; as well as the emergence of two classes of shareholder activists, as institutional response. More importantly, the impediments to effective activism were highlighted. Some of these include the ex-post nature of the activisms of shareholder associations, and the insufficient positive interactions between company's management and shareholders' associations. Following on from preceding discussions, findings from this survey suggest that effective shareholder activism in the broadest sense, which involves both large and small individual and institutional shareholders, will promote good corporate governance in Nigeria.

Indeed, effective shareholder activism will drive good corporate governance in developing countries such as Nigeria. Sarkar and Sarkar (2000) posited shareholder activism as a valued mechanism for corporate governance in India. They provided evidence on the role and importance of large shareholders in monitoring firm value. Amao and Amaeshi (2008) also galvanised for shareholder activism as a prerequisite for effective corporate governance and accountability in Nigeria. However, before galvanising for more activisms, we must be clear of what is at stake. More of the "shameful" practices of supposed shareholder activists only constitute pseudo activism and promotes bad corporate governance. As noted earlier, pseudo activism refers to a corruption motivated stage-managed conduct of shareholder activists, with no meaningful intention to promote effective stewardship and accountability of board directors and managers for corporate assets. On the other hand, genuine shareholder activism will drive good corporate governance in developing countries such as Nigeria, but findings from this survey suggest that this is highly contingent on a less corrupt corporate environment. Thus, while the emergence of shareholder activism in Nigeria is no longer in doubt, the undermined capacity to get useful information by genuine shareholder activists constitutes one of the executive management constructed barriers to impede activism. Commenting on the problem, a former CEO of a large listed corporation said:

"When I was running XYZ[18] *Plc, we had a policy of calling in members of these shareholder associations and their executives, once a quarter during the year, to our factories. This enabled them to have a better understanding of how the business was being done, and the identification of the key success drivers/indicators for the company. By thus keeping them adequately and frequently informed, we found out that we could improve the quality of our AGMs through informed shareholder participation."*

Shareholder activism can be promoted through a better informative interaction between shareholders' associations and corporations. This will have to go beyond yearly AGMs.

[18] Pseudonym to ensure confidentiality of the company involved

This will facilitate effective shareholder activism, given that enlightenment is crucial. Furthermore, upon being aware of their rights and responsibilities, Nigerian shareholders will also have to make a decision to be “active” and act on their rights and responsibilities. This would mean taking a step beyond the attendance of AGMs but asking specific questions to ensure sufficient clarity of corporate goals and strategies, as well as scrutinising managements’ and directors’ activities. Furthermore, the Nigerian media can promote shareholder activism by providing unbiased and fact-based information to the investing public. This will mean “taking the bull by the horn” and reporting all forms of corporate abuses and misdemeanours promptly without political interferences. Independent corporate watch-dogs and professional bodies should also rise up to assist in this much needed activism against corporate corruption.

8.7 DECENT AND EXPLICITLY DEFINED PERFORMANCE RELATED EXECUTIVE COMPENSATION SCHEMES

In the seminal article of Jensen and Meckling (1976), they examined potential conflicts between owners and managers, and addressed the relationship between managerial ownership and firm value. Their paper summits that when managers' wealth is not tied directly to firm value through performance related executive compensation, managers may lack incentives to increase shareholder value and may resolve to self-serving behaviours, at the firm’s expense (Jensen and Meckling 1976; Havey and Shrieves 2001). Indeed agency theory takes a positive outlook towards executive compensation. Agency theory seeks to align the interests of predominantly absent and information deficient owners with those of powerful and probably opportunistic executives (Fama 1980; Fama and Jensen 1983). The agency theory literature thus suggests that the linkage of executive remuneration with company performance is an important remedy which should provide an important mechanism to drive good corporate governance and corporate success (Randøy and Nielsen 2002).

Havey and Shrieves (2001) argued that the use and extent of incentive compensation are related to the following: (a) the presence of outside directors and blockholders, (b) the use of leverage, and (c) the nearness of retirement for the executives as well as the percentage of the firm's stock they already own. However, Cyert, Sok-Hyon and Kumar (2002) noted that the striking growth in executive compensation, especially in developed countries, mostly in terms of equity-based compensation, in the past decade has attracted extensive public scrutiny. This scrutiny largely relates to risky business ventures often pursued by managers in order to reap maximum monetary bonuses. Current economic crisis have further highlighted the caveats of a financial based compensation scheme for executives.

In developing countries, especially Nigeria, the mechanism of linking executive compensation with executive performance in order to drive firms' success and increase shareholder value, is still in its infancy. There is, however, increasing evidence of executive compensation schemes, especially in the country's financial sector. Findings from this survey suggest that executive compensation in the Nigerian banking industry has only focussed on monetary bonus schemes. No doubt, diverse and robust performance linked compensation mechanisms will have to be developed to drive good corporate governance in Nigeria, beyond the financial services industry. At present, except in the financial services industry, executives do not appear to be well compensated. There are significant implications of the absence of a performance related executive compensation culture. In commenting on this, the vice-chairman of a large listed bank in Nigeria said:

"The traditional absence of clear performance related compensation strategies has been a major factor behind some of the corporate governance related corrupt practices of executives. If executives are not well compensated, they create other avenues to accrue money to themselves, at the expense of shareholders"

It must be noted that there is an informal/cultural disapproval of paying executives huge bonuses by the Nigerian public as well as the subtle uncomplimentary regulatory positions towards such. For example, the SEC Code states that "There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid director, including pension contributions and stock options where the earnings are in excess of ₦500,000 (£2000)" (Part A; Section 6A). No doubt, appropriately compensating management would mean taking a far journey from the £2000 mark. Furthermore, when companies make such disclosures about their executive compensation, what normally follows is “an uncomfortable public high brow that the directors are milking the company dry”, which makes executives resolve to more corrupt means to accrue wealth to their pockets”.

Whilst performance related executive compensation schemes will promote good corporate governance in Nigeria, adequate caution must be exercised. Understanding the reality of industry specific business operations and relationships is important to the formulation of executive compensation schemes. Specifically, the profitability potentials of a particular company must inform its executive compensation. In the words of a former CEO of a large listed corporation,

“The profit margins that companies in certain areas, in this environment, can achieve almost without trying/performing are significant. Indeed, like most developing countries, the profitability potential of companies operating in some industries, such as the financial services, insurance and manufacturing are so enormous; formulating compensation packages simply based on “end of year profits” and stock appreciation could amount to executives getting huge sums at the end of the year without any real performance on their part”

A more analytical framework must be adopted to understand what an executive performance compensation scheme must entail. This will undoubtedly go beyond the financials and percentage increases in yearly profits, but allows a deeper investigation into the overall efficiency of business operations. This limits the tendency of managements to engage in accounting mal-practices and, as a result, misrepresent the position of the company. Indeed purely stock related compensation for executives could induce manipulation and pseudo share value appreciation. An example is the previously mentioned case of Cadbury Nigeria Plc. Executive compensation must, thus, extend beyond the financials but seek to account for facts behind the figures. A decent and explicitly defined reward system is needed to inform good corporate governance and promote corporate success in Nigeria.

8.8 FULL PUBLIC INFORMATION DISCLOSURE

The literature recognises that “information asymmetry” (Akerlof 1980) or “information impactedness” (Williamson 1985) is pervasive in firms and result in uncertainty, adverse selection, moral hazard, and opportunism which in turn leads to the following: higher transaction costs; incorrect pricing of assets; and lower liquidity (Filatotchev et al. 2006). In most countries, there are both mandatory and voluntary disclosure requirements; the discussions here are however limited to the latter. Clausen (1979) stresses the importance of voluntary disclosure practices in enhancing good corporate governance. He further argued that information disclosure must be embodied in a consistent policy that can be enunciated, implemented, and reviewed, in ways which are coherent with the corporate objectives, and not a matter of uncoordinated responses to external stimuli. Adequate information flows constitute a key driver of good corporate governance (Filatotchev et al. 2006). Mallin (2002) argued that good corporate governance should ensure the full, timely and comprehensive disclosure of information on all important matters, ranging from the financial position of the firm to its performance and other governance related matters. She itemised the following fundamental information as important to ensuring that shareholders have the necessary knowledge of the business and as such must be transparently disclosed (Mallin 2002: 253):

- 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
- execution of unusual and complex transactions, transactions on derivative products and their risk levels.

Findings from this survey suggest that full public disclosure on most of these fundamental issues is critical to ensuring good corporate governance in Nigeria. Respondents agree that true, transparent, and consistent disclosures will improve the quality of corporate governance in the country. The challenge, however, remains the possibility of such disclosures, in an environment of endemic corruption. Furthermore, the survey data indicate that there is a need for companies with employee share ownership schemes to make such disclosures. Bassett, Koh and Tutticci (2007) recently found evidence to suggest that disclosure on Employee Stock Options (ESO) affect corporate governance. It is essential that there is disclosure on the ownership structure of Nigerian companies with respect to the percentage of shares owned by employees. In Nigeria, the ESO potentially benefits two classes of individuals, whose agenda could be different. On one hand, it benefits the employees through the return they can potentially get on their investments as well as some degree of employment security given that they are somewhat employing themselves.

On the other hand, it must be noted that share ownership means the "right to vote". Since most employees/employee representatives focus less on this important power, managements are able to influence how they vote. This gives management more controlling power on the shareholders and the company. Some takeover bids have failed primarily as a result of managements' reliance on ESO. Union Bank Nigeria Plc and Afri Bank Nigeria Plc are good examples[19]. Given that ESO's equity fund keeps increasing, the consequential increasing voting power continues to remain subject to management's influence. This suggests that regulatory initiatives must ensure that companies deploy mechanisms which aid specific and relevant voluntary disclosure. However, Nigeria must take note that a voluntary disclosure programme should not substitute good corporate behaviour (Clausen 1979).

8.9 COMPETENT AND INDEPENDENT BOARD AUDIT COMMITTEES

There has been a renewed emphasis on the importance of auditor competence and independence as key drivers for good corporate governance. Arthur Levitt asserted in his speech at New York University in 1998 that "management had become obsessed with making their numbers, that accounting practices had seriously slipped, and the bedrock

[19] Both banks have the employees' equity fund as one of their major shareholders. As a result, takeover bids have failed because the management of both banks have relied on employee shares. During periods of take-over bids, management of companies with such schemes normally echoes into employees' ears that they will eventually get sacked in the hands of a new investor. As a result, votes are normally cast in favour of managements.

basis of capitalism — honest and transparent financial reporting — was being dangerously compromised" (Biggs 2000: 8). Following on from previous discussions, the literature also stresses "the importance of auditor independence in promoting the quality and integrity of information provision and disclosure" (Filatotchev et al 2006: 88). However Spira (1999) noted that research into audit committees has not extensively explored the subject of their independence. Independence is crucial to board audit committees in Nigeria. Whilst the SEC Code and the CBN Code both define the independence of auditors, findings from this survey suggest that regulations only cannot achieve the desired independence. Survey respondents highlighted moral uprightness and individual integrity as the major instruments of an independent audit function.

In relation to the competence of board audit committees, DeZoort and Salterio (2001) found effects of financial-reporting and audit knowledge on audit committee's corporate governance function. They further suggest that varying knowledge levels lead to systematic differences in audit committee members' judgments especially in disputes involving auditors and management. Adequate proficiency is primary to the success of auditors' corporate governance function, specifically in developing countries. Al-Mudhaki and Joshi (2004) examined the composition, focus and functions of audit committees in India. They concluded that whilst the concept of an audit committee is no longer new in the country, their formation is slow and their composition lacks independence. More importantly, they argue that their functions remain concentrated in the traditional areas of accounting which makes it less responsive to changes in the corporate governance scenery. Independence in board audit committees, no doubt, has the potential of alleviating weaknesses in existing corporate governance structures (Turley and Zaman 2004), particularly in developing countries. However, the capability of members is primary and must first be ensured. In turn, this will enhance the independence of auditors from managements as well as protect auditors from allegations of inadequate and fraudulent auditing (Mautz and Neumann 1970).

8.10 SUMMARY

This chapter has identified nine specific drivers of good corporate governance in Nigeria at the firm level. These factors are to a differing extent interdependent on one another. Particularly, the presence or effectiveness of one could significantly impact on the other. Other drivers which were found to be somewhat significant but not of prime importance in driving good corporate governance in Nigeria include board size, and disclosure of private information to major shareholders and analysts. The drivers identified in this chapter are by no means absolute, further research is needed to identify more drivers and more importantly the complimentarity relationships amongst these drivers. Discussions have, however, given more insights into the drivers of good corporate governance in developing countries, having taken into consideration previous discussions on the institutional, regulatory and external climate of corporate governance. Indeed, this chapter further attests to the dependency and interaction of firm-level corporate governance practices with the broader institutional environment.

CHAPTER 9 – CONCLUSIONS AND CONTRIBUTIONS

9.0 THESIS SUMMARY

In Chapter 1, the author gave a general overview of this thesis including the rationale behind this study, and introductions to the key themes that have been explored in this research. The author also highlighted the research questions and objectives of this study. In Chapter 2, the author made an attempt to delineate the conceptual and theoretical issues relating to the terms “corporate governance” and “good corporate governance”. As a result, the author conducted a comprehensive and cross-disciplinary review of relevant literature. Discussions here highlighted the fact that a normative approach to good corporate governance may limit our scope, in ways which consequently facilitate a common blunder of assuming cross-national and cross-institutional applicability, particularly with regards to the notion of “good corporate governance” in varieties of capitalism. Therefore in seeking to investigate the determinants of good corporate governance in one of Africa’s most important financial markets – Nigeria, the author adopted a mix of qualitative research methods, which are detailed in Chapter 3. Discussions in Chapter 4 show that one size does not fit all, and that developing countries face peculiar corporate governance challenges. In particular, Chapter 4 analyses the conceptual, theoretical and practical constructions of corporate governance in Nigeria. Here, the author examined several corporate governance related mechanisms and the particular forms and shapes in which they express themselves in Nigeria. In these discussions, the author analysed the influence of the country’s endemic corruption on the whole corporate governance system.

In seeking to understand why the state of corporate governance in Nigeria as well as in most other countries of the sub Sahara is not very encouraging, the author analysed the evolution of corporate governance in Nigeria from the lens of institutional theory. Whilst the author did not expressly consider all the institutional determinants of good corporate governance in Nigeria, he represented the principal data generated determinants in a simple and flexible model which facilitates an understanding of how two classes of institutional forces shape corporate governance structures and practices in Nigeria. The author also advocated the use of institutional theory to complement the agency theory in conceptualising and explaining the construction and practice of corporate governance, particularly in developing countries.

The author subsequently argued, in Chapter 6, that regulatory measures aimed at addressing Nigeria's corporate governance problems must be institutionally based. In this regard, corporate governance regulatory strategies in developing countries must systematically employ globally, regionally and locally accepted principles of good corporate governance in order to produce more efficient and easily implementable administrative and regulatory governance mechanisms. Indeed, Chapter 6 provided a detailed scrutiny of corporate governance regulation in Nigeria, whilst adopting a multi-stakeholder approach for the review. Discussions challenged some of the "taken for granted assumptions" with regards to generalisations on corporate governance regulatory requirements for developing and developed countries. The author further documented the peculiar characteristics and importance of corporate governance regulation in the Nigerian banking industry. The author subsequently examined the role of government in corporate governance in an attempt to summit that countries must account for their specific circumstances, including relevant historical perspectives, ownership structures and characteristics, cultural norms and values, as well as the broader polity and ethical characteristics, in formulating regulatory initiatives.

Given relevant historical dimensions and present day influences, comprehensive studies on corporate governance in developing countries can be considered limited, if the external factors shaping the landscape are neglected. In Chapter 7, the author focused on the impact and influences of external governance mechanisms and forces on Nigeria. Three classes of these were discussed. The author analysed the traditional and present influences of the UK's corporate governance system on the construction of corporate governance in Nigeria. Similar studies were conducted in Japan, China and India. The author further provided some evidence of Anglo-Saxon corporate governance prescription (and/or imposition) on developing countries. On the basis of these determinants, the author identified, in the preceding chapter, nine specific drivers of good corporate governance in Nigeria, particularly at the firm level. In all, this research has made use of survey extracts (typed in italics and single spaced) from the raw interview and focus group data, in a way which facilitated useful deductions, and ensured a clearer link between existing literature, the research findings and analysis, in an attempt to make scholarly, practice and policy contributions. So what can we make of all these?

9.1 PREREQUISITES OF GOOD CORPORATE GOVERNANCE: RECOMMENDATIONS FOR NIGERIA

The institutional, regulatory, external and firm level dimensions to corporate governance in Nigeria have been evaluated. Their determining influences on the shaping of corporate conduct have been expressly considered with in-depth insights, useful case studies, and extracts from raw survey data. Overall, the analysis presented in this thesis has shown that the quality of corporate governance in Nigeria is somewhat middling. Whilst related studies in this area have made similar conclusions, it must be noted that this thesis has provided relevant explanations with regards to the evolution and present-day reality of the corporate governance phenomenon in developing countries, and particularly why the state of corporate governance in the country is what it is today. Apart from the already explained predominantly negative macro and micro institutional settings, this thesis further suggests that the unimpressive state of corporate governance in Nigeria is also related to inefficient enforcement of corporate governance laws as well as inadequate compliance with voluntary codes of conduct. Some of the problems which relates to the inability of corporate governance legal provisions to ensure good conduct have been highlighted, such as the non-stringent penalties for non-compliance. Indeed a major impediment to promoting and sustaining good corporate governance in Nigeria remains the regulatory capacity to ensure enforcement. For example, Okike (2007), whilst concluding her paper on the status quo of corporate governance in Nigeria, stressed that companies get away with violating company laws due to weak and ineffective enforcement. She therefore, recommended that rather than coming up with more forms of regulations such as the SEC 2003 Code, efforts should be geared towards enforcing compliance, especially as Nigeria is a country which is generally considered as highly corrupt both locally and internationally.

Adopting a less normative approach, some attributes of good corporate governance have also been highlighted in thesis. Here, this research argues that business integrity, investment security and good corporate governance are imperative to corporate and economic survivals in both developed and developing market economies. Indeed, the increasing globalisation of capital markets and the ever increasing numbers of cross-national investment portfolios have brought to the fore the need for companies to adopt generally acceptable standards of good corporate governance. Conventional wisdom has it that good corporate governance allows firms to raise cheaper capital more efficiently and enhances shareholder value. This thesis has, however, argued that good corporate governance must be conceived more broadly in order to have meaningful impact on corporate performance.

This will require a focus on fundamentals and people; Causey (2008) argued that in achieving good corporate governance, there must be open and frank lines of communication, transparent policies and practices, clarity with regards to domains of authority, board independence, as well as strong internal controls and audit functions. Patel (2006) argues that in developing countries, good corporate governance will mean a very effective system of checks and balances on board and managerial behaviour. He further noted that these will ensure effectiveness in the rules and practices that underpin and govern the relationship between the management and shareholders. It will further enable the company to engage constructively with its other stakeholders including employees and creditors who all make important contributions to the growth and stability of the company (Patel 2006).

For this to happen, certain institutional arrangements must be clearly understood and accounted for. The discussions in this thesis have shown that institutional interactions seriously dictate the legitimate expectations of stakeholders from corporate governance. Institutional forces also guide the administration of corporate governance and the practices adopted. Consequently these determine the corporate governance problems experienced, and undoubtedly the efficiency of regulatory mechanisms deployed to address them. Judge, Douglas and Kutan (2008) studied panel data for corporate governance ratings in 50 countries in order to investigate the country-level predictors of corporate governance legitimacy, exploring how the institutional environments of different countries influence their perceptions of corporate governance. They concluded that the greater the extent of law and order in a country and the more the culture emphasizes global competitiveness, the higher the corporate governance legitimacy. Institutions can therefore shape good or bad corporate governance. Discussions have shown that the belief system and culture of the Nigerian society have negatively influenced the direction, practice and quality of corporate governance despite the legal and statutory requirements in place. Whilst there is an increasing ideological and regulatory move towards a "best practice" corporate governance system, Nigeria must minimise the effects of her negative institutional environments and allow her corporate governance system to decouple from such forces.

Institutional arrangements are very powerful forces which shape corporate governance. This can further explain the diversity of national systems of corporate governance despite globalisation fuelled pressures for convergence. Okike (2007) noted that whilst there is a case for global convergence of corporate governance standards owing to pressures due to the increasing globalisation of trade and finance, there is a clear need to appreciate the differences in the environments in which businesses across various countries operate. Africa must, therefore, not simply mimic the corporate governance systems and practices of other jurisdictions without accounting for her peculiar institutional environments. In the same vein, corporate governance ideologies should not be imposed on developing countries. Discussions in this thesis have highlighted several problems with the transplantation of corporate governance structures which are best suited for particular jurisdictions. Especially, certain institutional uncomplimentary effects have been examined. As a result, Africa must not respond futilely to pressures amounting from the globalisation of national financial markets and, indeed, the push for convergence of national systems and practices of corporate governance. Alternatively, developing countries must imbibe universal principles of good corporate governance in ways which fit with their culture and history, as well as their social, political, economic and legal environments.

Rwegasira (2000) made a case for Africa's choice of corporate governance system to be in the direction of the institutionally-based model and emphasized that African economies must adapt the model to the peculiarities of their specific economies. He further stressed that inputs can be gathered from more than a single model in order to provide for globally competitive corporate governance systems. The discussion in Chapter 7 further advocates necessary caution with regards to a conventional push towards the Anglo-Saxon corporate governance model, and summits that countries should imbibe structures and practices that are applicable and beneficial to their environment, irrespective of where these come from. A long term strategy such as this would effectively promote good behaviour in African corporations. This has the potential to correct the inherent negative practices and those sustained over time both at the national and firm-level dimensions of corporate governance in developing countries. Yakasai (2001; 250-252) while taking into account some of the problems associated with the climate of corporate governance in Nigeria proposed the following recommendations with a view to improving corporate governance in Nigeria, especially in the banking sector;

• The government should concern itself with the business of providing the enabling environment for the private sector to perform. In spite of the attractiveness, the government should steer clear of the appointments to and not interfere with the boards of private companies in the so-called command or strategic sectors because the problem with such an unsustainable system is to ask these boards to serve God and Mammon i.e. the benevolent state and the bottom line (equityholders) at the same time. To my mind, the governance of private companies should be left in the hands of boards to pursue their bottom line and other objectives but still fulfilling the Holy Book's law (Matthew 22:21), ``Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's".

• Another area of conflict to be avoided in the governance of a private company especially in any Nigerian banking institution is that between the chairman and the managing director/chief executive………The Managing director/chief executive should be a man of many parts who must provide the strategic leadership and act as the custodian of the corporate image and culture and nurture key relationships with the media, the regulatory institutions, employees, unions, government and shareholders.

•Given the global nature of banking today, the nominating committee must put knowledge and competency above other factors such as ownership and affirmative actions in recommending appointments to BOD………a good clue when looking for executive directors is to first of all search from within the organisation to recruit from serving managers unto the board due to their encyclopaedic knowledge of the company and their experience and professional competence, failing which the committee should look outwards with the provision that competence counts above other considerations.

• On the issue of motivation and benefits, these are the driving forces making people to lobby extensively to be on board. In particular, if the benefits are no longer in the short-term, prospective board members will only seek nomination and appointment for what they can contribute to the governance of the company.

• Our legal system should be free to deal promptly and decisively with erring and fraudulent board members so as to act as a deterrent to others.

• Lastly, rare is the company that does not periodically review the performance of its key contributors - individuals, work teams, business units and senior/top managers and advisers. One contributor, in Nigeria at least, usually escapes such a review, and that one is arguably the most important i.e. the board. And who will guard the guardians? Done properly, board appraisals can improve the relationship between the corporate board and its management. No one can evaluate a board better than the board itself, a self-evaluation that need not be self-serving.

On Yakasai's first recommendation – that government should stay clear of corporate governance; this may not be totally desirable. Corporate scandals and their potential huge impact, as exemplified by current economic crisis has taught us that government has a role in corporate governance (see Okike 1994; 2004). During periods of corporate scandals and subsequent turmoil in the capital markets, governments have generally stepped in to "quench the fire" through reforms in company laws and enforcement mechanisms (see Okike 1994; 2004). No doubt this ex-post function of the government may lead to non strategic policy initiatives and misguided responses to corporate misdemeanours. There is limited evidence that the seemingly governmental over-reactions in periods following large-scale corporate misdemeanours, have achieved true improvement in corporate governance, and correction in corporate behaviour. On the other hand, they potentially increase the compliance burden of corporations. In this thesis, the author has provided useful discussions on the legitimate and strategic role of government in corporate governance. It must be noted that governments are part of the larger stakeholder community of modern day corporations, and they clearly wield tremendous powers especially with regards to the provision of a conducive business environment which underpins the behaviour of management and board members, especially in developing countries. I, therefore, note that government must delineate a clear and locally conceived strategy, with regards to the affairs of corporations. The author has also called for a systematic governmental interaction with corporate governance with the aim of creating a competitive environment for investments. This would necessitate a synergic relationship between policy makers and self-regulatory bodies, one which takes into account the country's institutional environments and associated challenges.

No doubt, Yakasai has provided certain useful recommendations. For example, he foretold the need to address CEO-Chairman role duality years before the issues were addressed in the SEC Code and the CBN Code. His paper clearly draws on decades of experience in the Nigerian banking sector and particularly on the experiences which he gathered from the various executive and non-executive directorships which he has occupied in the Union Bank of Nigeria Plc. However, given that the subject of corporate governance is still at its infancy in Nigeria, commentators must be exceptionally careful with regards to their recommendations. The subject is still comparatively fragile in developing economies and, as a result, rather than suggest practices best suited for developed countries, we must understand our environment first. This understanding has to do with our legendary and increasingly endemic lawlessness. A clearer account of this climatic factor on corporate governance systems will enable the development of locally conceived structures and mechanisms based on general notions of good corporate governance. These will facilitate Nigeria's construction of an investment friendly corporate governance system.

Furthermore, undermining the importance of equity ownership on the part of executive directors by Yakasai potentially impairs the necessary commitment desired of them in the pursuit of long term growth strategies for firms. The findings of this research indicates that there is a compelling personal business interest to run a business well if one has got equity in it. Integrity, knowledge and competency are no doubt important attributes necessary to make a good and resourceful board (as the discussions in Chapter 8 have indicated), but discouraging equity ownership by directors of Nigerian banks totally underestimates the nonchalant and lackadaisical attitudes they can potentially express in the discharge of their very important duties of assets stewardship for the rather externalised shareholders, especially minority ones.

Also, whilst this research has also found evidence in line with Yakasai, which suggest the need to foster a long term orientation towards performance related compensation, the author's findings disagree with his suggestion to hastily prosecute and punish corporate offenders. This could lead to improper investigations which are based on more assertions than facts. For example, the Cadbury Nigeria Plc scandal led to a very hasty prosecution of "fraudulent board members" by the SEC. In this case, the Cadbury board sacked the CEO - Bunmi Oni, as well as the finance director - Ayo Akadiri for their roles in "falsifying the company's financial statements". Thereafter, SEC further banned them from operating in the Nigerian capital market, from taking up a job in the financial services sector, and from holding directorship positions in any listed company in Nigeria. Whilst rigorous enforcement and deterrent corporate governance mechanisms must be in place, findings from this survey suggest these must be carried out honestly and systematically within the confines of the law. Given the sensitivity of the issue and also given that the matter is still in court, respondents however expressed adequate caution in their comments, and those who commented requested for 100 percent anonymity.

Nevertheless, two problems were generally associated with rapid and unthoughtful prosecutions of corporate offenders, particularly in Nigeria. First, they suggest political witch-hunting and connote undue political interferences. For example, the hasty prosecution of corporate offenders may be as a result of an influential politician who has basically decided to intimidate and settle personal grudges against a particular corporate leader. No doubt if there has not been an incidence of corporate misconduct, convictions are unlikely, but given that the motive might not be to correct bad behaviour and promote good corporate governance, the deterrent message that prosecutions should ideally pass are highly disrupted negatively. Secondly it connotes some degree of foreign interference. Cadbury Nigeria Plc, a subsidiary of Cadbury Schweppes, had Bunmi Oni as its CEO for 11 years. Given the traditional practice of MNC's having expatriates as CEOs, his case was considered very uncommon in Nigeria. It is thus generally assumed that MNCs constantly look for means to sack local CEOs of high performing subsidiaries in order to have control of firm's management and more direct relationships with local customers and networks. For example, it must be noted that Bunmi Oni won the award of Nigeria's most respected CEO on September 14, 2006 for his corporate excellence and high integrity. This award was conferred on him by the Price Water House Coopers' international audit consultants (PWC). Ironically, PWC was engaged by parent company Cadbury Schweppes, few months after, to conduct an audit of Cadbury Nigeria Plc. Has this been the case of "give a dog a bad name and hang him"? No doubt, prosecution and subsequent punishment of corporate offenders are imperative to instilling good behaviour in the governance of corporations in developing countries. However, this must be well investigated without political and foreign interferences, in order to truly have a deterrent effect.

Furthermore, unlike Yakasai's strict preference for self evaluation of the board, findings from this survey suggest this may lead to significant box ticking. In this regard, it is expected that no director is likely to be deemed underperforming, taking into consideration the general Nigerian business culture and role of ethnicity, religion and their impact on trust, faithfulness as well as division, as against considerations of effectiveness in board evaluation. As discussed in Chapter 8, board evaluation should aim to increase the effectiveness of the whole board and not to target and intimidate poor performers (Carey 1993) and as such potential options should not be limited to self-evaluation, which undermines the abilities of external trained consultants which is a strong preference of the CBN.

This thesis has also shown that the necessary legal infrastructure and regulatory instruments to successfully promote good corporate governance in Nigeria are reasonably present, but that enforcement and compliance related issues remain the major impediment. Indeed the fundamental problem of corporate governance in Nigeria centres on the gulf between the provisions of the law and its actual implementation (Nmehielle and Nwauche 2004). This gulf has been created by limited political will, endemic corruption as well as insufficient capacity and commitment of regulatory agencies to ensure adequate implementation of laws. The company is an artificial rather than a natural "person" in law; its formation, activities and demise, all occur within the confines of the laws of the jurisdiction of its location (Morrison 2004). It is time to make the law work in Nigeria! At the firm level, the Enron case has taught us that it is not enough for a company to have a good corporate governance structure in place. What matters is if this structure eventually produces good behaviour. Corporations in developing countries (including foreign multinationals) must be wary of bribery (directly or indirectly) and corruption in business administration, especially in a situation where the institutional climate provides an enabling environment for these. Good corporate governance is thus achievable but it is important that local initiatives, with regards to corporate governance development and monitoring, must not only aim to tackle peculiar challenges, but should also strive to be internationally acceptable, whilst being weary of corporate governance impository tendencies.

9.2 A REMINDER OF MAJOR RESEARCH CONTRIBUTIONS

A quick literature search of scholarly, practice and policy papers on corporate governance in sub Saharan Africa would reveal a comparative astounding lacuna, in relation to the literature on developed countries. This has become thwarting to scholars from the region. In this thesis, the author has investigated the institutional, regulatory, external and specific determinants of good corporate governance in one of Africa's most important financial markets - Nigeria. Employing a mix of the following qualitative research methods: in-depth interviews, focus group discussions, direct observations and case studies, the author has provided, in this thesis, a scrutiny of corporate governance in developing countries. Part of the richness of this thesis is the deep insights it has provided into the nature, practice and complexity of the corporate governance phenomenon in developing countries. It has also encouraged a deeper discourse of the subject, especially as it challenges specific Anglo-Saxon theoretical postulates and assumptions with regards to their applicabilities in the Nigerian environment.

This thesis contributes, not only to the academy but, to the business sector and the polity of developing economies, particularly Nigeria. The author has provided in-depth discussions with regards to the definitive motive of corporate governance through a non normative multi-theoretical and multi-disciplinary scrutiny of the literature. No doubt this is imperative to the survival and continued/future relevance of the already vast but somewhat deficient literature. Good corporate governance, despite disagreements in its meaning, remains imperative to corporate and economic survival and sustainability, and can be usefully discussed because of the basic principles of honesty, accountability, transparency and fairness that it promotes.

This thesis has further shown that developing countries face peculiar corporate governance challenges. The state of corporate governance in Nigeria has been depicted in order to serve as an outlook to understand the complex dynamics of corporate governance relations in developing countries. Discussions also suggest that whilst countries share some similar corporate governance challenges, the translations of these challenges and the means of tackling them, especially in developing countries, differ. This difference is contingent on the following; the ownership structure of corporations; the influence of the state in their governance; the presence and role of a viable market for corporate control; the extent to which shareholder and stakeholder activism is legally and informally encouraged; the ethical climate of business conduct; as well as orientations towards corporate social responsibility. The author has argued that corporate governance is thus country specific based on explanations from the spectacles of institutional theory.

In this respect, it is anticipated that discussions will add, not only to the corporate governance literature but also to the literature on institutional theory. There is also a secondary contribution to the broad literature on comparative institutionalism and comparative management, respectively. Noting that the financial economics' favoured spectacles of the agency theory do not accommodate the relevance of key institutions in the workings of a corporate governance framework, corporate governance discussions need a complementary institutionalist perspective in conceptualising the complex dynamics of the subject, particularly in the developing world. The author concluded that corporate governance is multi-dimensionally influenced by institutional environments. Specifically, this study shows that the effectiveness of corporate governance structures and regulatory mechanisms depends on the complimentary relationships of certain national and firm-specific institutional environments with good corporate governance principles and practices.

Therefore in enriching scholarly discourse in the area of governance and opportunism in the modern corporation, the author brings insights from a Nigerian case to add to the increasing scholarly recognition (Boehmer 1999; Aoki 2001; Aguilera and Jackson 2003; Aguilera 2005; Leaptrott 2005; Liu 2005; Lubatkin et al 2005, 2007; Judge, Douglas and Kutan 2008) with regards to the institutional embeddedness of countries' corporate governance systems and key players. This thesis has augmented the burgeoning corporate governance-institutional theory literature by examining how certain national and industry/firm specific institutions have shaped and are shaping the corporate governance structure and practices of Nigeria. Understanding these macro and micro institutional forces is of the essence with regards to our understanding of the underlying rationale and machinery upon which business conduct and governance systems are developed, nurtured and sustained over time. This brings to the fore the benefits of the institutional theory to encapsulate these relationships. Notably, the author also makes efforts to enrich institutional theory by exploring a case of institutional maintenance, where changes at micro (firm) level are unable to change the self-reinforcing institutional landscape. Thus, both institutional and agency theories can complementarily be employed to explain corporate governance. This institutionalist approach is particularly needed in explaining corporate governance in developing countries, which are characterised by lesser economic development, weak legal infrastructures, as well as public and private corruption.

In line with this, corporate governance cannot be separated from corporate governance regulation. The thesis has attempted to look exhaustively into the subject of corporate governance regulation in Nigeria. Discussions highlighted that countries will have to position their regulatory systems to tackle the particular challenges they face. As such corporate governance regulation in developing countries will differ in ideology, necessity, concerns, complexity and robustness in specific areas. The implications of these for the role of government in corporate governance, which has generally not attracted substantial scholarly focus, have also been clearly examined in this thesis. Particularly, the thesis has explored the potential for an effective governmental participation in corporate governance, whilst attempting to help Nigeria's Federal Government to develop an engagement strategy in the governance of corporations. Primarily, this would require the government to address the endemic public corruption in the country.

Furthermore, corporate governance in developing countries cannot be separated from past and present external influences and interferences. In this regard, the author has made further contributions to the literature on comparative corporate governance research by providing a cross-examination of the impact and influences of external governance mechanisms and forces on Nigeria. Here, the thesis' comparative analyses further contribute to the literature on corporate governance developments in other countries especially the UK, Japan, China and India. Particularly, the author draws scholarly attention to the fact that corporate governance in Nigeria, as in most developing countries, is subject to external influences and interferences. The implication of this is the probability of corporate governance imposition. Indeed, imposing corporate governance ideologies and covertly transplanting Anglo-Saxon corporate governance systems in other jurisdictions potentially limits our scholarly discourse, especially in the area of comparative corporate governance research. Lastly, in order to improve the practice of corporate governance in Nigeria, the author has identified nine key drivers of good corporate governance. Whilst, these drivers are by no means absolute, they may indicate the path of improvement for corporate governance in the developing world.

9.3 RELEVANCE, IMPLICATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH IN DEVELOPING COUNTRIES

Nigeria is a regional power. In a 2005 Goldman Sachs report (see Wilson and Stupnytska 2005), Nigeria (alongside Bangladesh, Egypt, Indonesia, Iran, Mexico, Pakistan, Philippines, South Korea, Turkey, and Vietnam) was recently listed among the "Next Eleven" economies as having a high potential to become one of the largest economies in the world. Goldman Sachs ratings centered predominantly on degrees of economic and political stability. This suggests Nigeria is gradually becoming a true pace setter in economic development in Africa. Rigorous corporate governance research is important to the African continent given the enormous role of the private sector in economic development. Nigeria must thus put in place an effective corporate governance system, to set a good example to many African countries, who are looking up to the African economic giant.

While South Africa seems to be leading the debate (Vaughn and Ryan 2006), Nigeria catches up a step further with this research. Corporate governance developments in Nigeria are also becoming increasingly notable in the African corporate governance literature. However what is happening in other African countries? Apart from Mensah et al. (2003) who documented the prevalence of corruption in the Ghanaian corporate governance regime and Abdel and Shahira (2002) as well as Boutros-Ghali (2002) who examined the corporate governance structure and practice of Egypt, there are limited academic discourses on corporate governance developments in most countries in Africa. What is happening in Angola, Sudan, Equatorial Guinea, Ethiopia, Liberia, Mozambique, Democratic Republic of Congo, Cape Verde, and Gambia? The author hopes that this thesis will encourage further research into corporate governance developments in other African jurisdictions where the subject is even at a more infantry state. However, future studies on corporate governance in Africa must be weary of Anglo-Saxon ideological transplantation. In promoting good corporate governance in Africa, future studies should aim to be profound and must account for the complex dynamics of local business relationships and culture and their interaction with governance and opportunism in the African business enterprise. Again, one size does not fit all! In relation, the author advocates for more indigenous initiatives in order to tackle Africa’s specific challenges. Particularly, African countries should adopt practices which they deem fit in order to improve their respective corporate governance systems.

9.4 LIMITATIONS OF STUDY’S SCOPE

This is a Nigerian case study. As such, whilst this research has important implications for developing countries in general, adequate caution must be exercised in making generalisations. Although, there may appear to be striking resemblances with regards to the general state of African countries, there abound remarkable differences in their history, economic base, political systems, laws, and ethics, which dictate the conduct of business and the shaping of corporate governance. However, it is anticipated that this thesis adds to the increasing rich resource materials for future studies on corporate governance, especially in sub Saharan Africa.

Nevertheless, whilst the findings of this study are not easily generalisable, given its contextual dimension, it nevertheless offers significant analytic generalisability (Yin 2003). In this thesis, the author has also employed a qualitative mixed-method approach to data collection and analysis. Future studies may employ alternative methodologies to further validate or challenge its findings. Finally, as suggested by Steger and Hartz (2005), prescriptions of good corporate governance is not always enough, some further efforts should be made to find out and develop some economic and sociological theories which may add to our understanding of what is really going on.

9.5 CONCLUDING REMARKS: FOOD FOR THOUGHT FOR CORPORATE GOVERNANCE RESEARCH

Pressures from globalisation on one hand and strong forces of institutionalism on the other continue to wrestle in comparative corporate governance research and in the debate on convergence. Despite global similarities in corporate governance codes of conduct and regulatory frameworks, the eventual translation into practice is contingent on the country-specific structures and processes of enforcement; these lead to different governance outcomes. At the “First Global Academic Conference on Internal Audit and Corporate Governance” in 2008, Mahbub Zaman presented a paper titled “(F)utility of corporate governance reforms: institutional and power analysis of internal audit functions”. Zaman argued that corporate governance extends beyond changing structures and processes, but has to do with changing individuals – the mind of individuals. Personal ethics is thus central to good corporate governance and the efficiency of voluntary codes and regulations. Adopting an over-forceful regulatory strategy can be counterproductive as corporations may eventually find means of circumventing the legal provisions. Caution must thus be especially exercised, with regards to this, in developing countries. Corporate governance reforms should begin to concentrate on affecting the minds. No doubt, this is difficult and will take time. However, developing resources to encourage and create an ethical environment for governance will be the way to effectively govern our corporations in the years to come. The need to take a long term view of regulation in corporate behaviour has already been highlighted.

No doubt, corporate governance is a reality, but so may be corporate governance failures. Corporate scandals will likely continue to occur although well-considered reforms can reduce the likelihood of their occurrences. Subsequently, corporate governance research and reforms must have and reflect a long term agenda – not just coming up with findings and/or recommendations and wanting immediate results when implemented. Furthermore, most discussants would agree that modern corporate governance discussions have originated with a shareholder focus. However, the subject has encapsulated a variety of other issues that centres on the existence and day to day activities of today's corporations. These have enriched discussions on the subject across the globe. However, the findings of this study further bring to the fore the benefits of studying the corporate governance systems of less reported economies in the literature, whilst employing multi-theoretical lenses, given their conceptual and practical implications for a global theory and discourse on corporate governance.

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Appendix 1: A Summary of the 18 Drivers of Good Corporate Governance (Filatotchev et al. 2006: 83-95).

Board independence: … has a significant effect on "critical" organisational decisions, such as executive turnover, value-enhancing business strategy, and limitations on anti-take-over defences. These "critical" decisions are, in turn, related to efficiency improvement and superior performance. In terms of specific operationalisations of board independence, independent board committees and the absence of the CEO duality are essential. The presence of a senior (lead) independent director and the proportion of independent directors have median importance, whereas the large board size is also a relatively less important factor...… high proportion of executive directors on board might be detrimental for "good" governance.

The diversity, human and social capital within the board: … boards can extend their involvement beyond monitoring and controlling top management to the provision of ongoing advice and counsel to executive directors on strategic issues…. In terms of specific operationalisations of board diversity and its human and social capital independence, human capital of independent board members (experience, expertise, reputation), board directors' heterogeneity in terms of human capital (education, expertise, etc.) are very important. International experience among independent directors is also advantageous. The number of network ties to other firms and external constituencies are quite important, whereas board directors' heterogeneity in terms of gender and age are relatively less important factors.

High engagement in board processes: the extensive and timely provision of information to independent directors is widely considered as a "good" governance driver…… Also the "board's focus on strategic controls (growth of market share, competitiveness)"and information-related drivers of "good" governance, such as regular communications among board members, vertical and horizontal information flows, etc., are generally important. Independent directors' social ties with the CEO are a sign of bad governance.

Presence of large-block shareholders: has a significant effect on "critical" organisational decisions, such as executive turnover, value-enhancing business strategy, and limitations on anti-take-over defences….various associations of institutional investors play strong governance roles, as do individual blockholders and family owners.

Shareholder activism: shareholder activism, or direct involvement of shareholders in "critical" decisions, may be another important driver of "good" governance. Investors' active involvement in revisions of executive compensation and board/management turnover are very important, as well as regular discussions with board members on strategy issues and "good" voting practices.

Breadth and depth of public information disclosure: information disclosure is a significant driver of corporate governance…. More broadly, information on employment and environmental policies are important prerequisites for promoting corporate social responsibility and socially responsible investment as governance mechanisms…….. Annual reports with general information, as well as particular sorts of information on corporate governance, operating and financial reviews, and related party transactions were important aspects of disclosure.

Breadth and depth of private information sharing…the flow of private information to large investors, fund managers, and analysts is good governance practice. In terms of private information, it is not the provision of information to fund managers and analysts that is highly important but the provision of internal information to boards themselves….both public and private information flows are key drivers of good corporate governance and that it complements various other mechanisms.

Independence of the external auditors: auditors' independence promotes the quality and integrity of information provision and disclosure. Evidence stresses the prevention of conflicts of interest by restricting non-audit tasks. Other devices such as rotation of auditors, shareholder involvement or unconstrained legal liability are moderately important.

Competence of the audit committee: in tandem with auditor independence, oversight by a professionally qualified audit committee has positive effects on the intensity and quality of the audit process….nominal independence of audit committee members is insufficient to improve audit quality without sufficient qualification…..professional qualification, reporting of the committee to shareholders and board involvement in the appointment of auditors are highly important.

Presence of internal control systems and support of whistleblowing: having adequate systems of financial controls and risk management are a driver of good corporate governance. It might also be noted that the literature often lacks detailed codification of what constitutes good systems of internal control, as these are often very specific to the firm. However, the literature also stresses that the integrity of such systems may be enhanced by support and protection of whistleblowers with inside information to form internal checks and balances, particularly where ethical misconduct or fraud is an issue.

Long-term performance-related incentives: While there is still apparent dispute between academic literature as to whether pay and incentives provide stronger links with performance, long-term incentive plan and performance related bonus as against share option schemes help in promoting good corporate governance and long-term objectives

Transparent and independent control of the remunerations committee: High levels of disclosure come top in good corporate governance drivers. Shareholders should be able to see within the remuneration report details of pay for individuals and details of incentives schemes along with performance conditions. This is not just confined to the performance conditions but also the company must provide an analysis of the methods used to assess whether the performance conditions have been met with an explanation of why those methods were chosen.

An active market for corporate control: The role of the market for corporate control has been highly controversial within the corporate governance literature. Empirical research does not provide strong evidence for a positive effect on the long-term shareholder returns. As such, the disciplinary role of takeovers must be considered a governance mechanism "of last resort." However, management and business strategy research suggests that M&A may play an important role in managing certain organisational transitions as the firm grows, matures and declines. These "critical" decisions are, in turn, related to efficiency improvement and superior performance.

Transparency and protection for shareholders and stakeholders during mergers and acquisitions: ….to function effectively, the market for corporate control must be characterized by high transparency and fair treatment of various shareholders, including protection of minority shareholders…..the protection of employee rights and firm-specific human capital are important in minimizing "breaches of trust" and undermining cooperation and commitments within companies…….Transparency and equal treatment of shareholders are highly important as well as One-share / one-vote principles.

Board power regarding takeover bids, subject to shareholder veto: The literature on takeovers suggests that the board should play a substantial role in the takeover process. Empirical research showed that while some sorts of takeover defences may destroy firm value, the complete neutrality of the board is likely to be unrealistic and undesirable. Managers should be able to say "no," but not say "never" regarding takeover bids….the board should play an active role in takeovers rather than being neutral, but board actions should also be subject to some oversight or final power by the shareholders. Various anti-takeover devices and defensive actions are inappropriate.

Stakeholder involvement within corporate governance: the economics and corporate finance literature does not assign much role to stakeholders as drivers of corporate governance, with the exception of debtholders. Employees and debtholders are the two most important drivers of corporate governance among the various stakeholder parties.

Voice mechanisms for debtholders: Debtholder voice is an important driver of "good" corporate governance. The finance literature stresses the potential monitoring role of banks, particularly as a substitute for the market for corporate control. In terms of specific operationalisations, direct voice based and formal contractual mechanisms are important.

Employee participation in financial outcomes and collective voice in decision-making: Employee participation is widely considered as an important driver of "good" corporate governance by supporting firm-specific investment of employees and alignment of incentives with those of shareholders or managers. In terms of specific operationalisations of employee participation, share ownership, voice via pension funds and via consultative committees such as works councils, are very important.

Appendix 2: Useful Extracts from the Companies and Allied Matters Act (CAMA) 1990

CAMA is an Act to establish the Corporate Affairs Commission, provide for the incorporation of companies and incidental matters, registration of business names and the incorporation of trustees of certain communities, bodies and associations.

Part VIII
Directors and Secretaries of the company
Chapter 1
Directors

Appointment of Directors

246. (1) Every company registered on or after the commencement of this Decree shall have at least two directors and every company registered before that date shall before the expiration of 6 months from the commencement of this Decree have at least two directors.

(2) Any company whose number of directors falls below two shall within one month of its so falling appoint new directors and shall not carry on business after the expiration of one month, unless such new directors are appointed.

(3) A director or member of a company who knows that a company carries on business after the number of directors has fallen below two for more than 60 day shall be liable for all liabilities and debts incurred by the company during that period when the company so carried on business.

248. (1) The members at the annual general meeting shall have power to re-elect or reject directors and appoint new ones.

249. (1) The board of directors shall have power to appoint new directors to fill any casual vacancy arising out of death, resignation, retirement or removal.

251. (1) The shareholding qualification for directors may be fixed by the articles of association of the company and unless and until so fixed no shareholding qualification shall be required.

252. (1) Any person who is appointed or to his knowledge proposed to be appointed director of a public company and who is 70 or more years old shall disclose this fact to the members at the general meeting.

Removal of Directors

262. (1) A company may by ordinary resolution remove a director before the expiration of his period of office, notwithstanding anything in its articles or in any agreement between it and him.

(2) A special notice shall be required for any resolution to remove a director under this section, or to appoint some other person instead of a director so removed, at the meeting at which he is removed, and on receipt of notice of an intended resolution to remove a director under this section, the company shall forthwith send a copy of it to the director concerned, and the director (whether or not he is a member of the company) shall be entitled to be heard on the resolution at the meeting.

Remuneration and other payments

267. (1) The remuneration of the directors shall from time to time be determined by the company in general meeting and such remuneration shall be deemed to accrue from day

to day.

(2) The directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or any committee of the directors or general meetings of the company or in connection with the business of the company.

(6) A director who receives more money than he is entitled to, shall be guilty of misfeasance and shall be accountable to the company for such money.

(7) The remunerations of directors shall be apportionable.

Disclosure of directors' interests

275. (1) Every company shall keep a register showing as respects each director of the company (not being its holding shareholding company) the number, description and amount of any shares etc in or debentures of the company or any other body corporate, being the company's subsidiary or holding company, or a subsidiary of the company's holding company, which are had by or in trust for him or of which he has any right to become the holder (whether on payment or not):

Duties of Directors

279. (1) A director of a company stands in a fiduciary directors relationship towards the company and shall observe the utmost good faith towards the company in any transaction with it or on its behalf.

(3) A director shall act at all times in what he believes to be the best interests of the company as a whole so as to preserve its assets, further its business, and promote the purposes for which it was formed, and in such manner as a faithful, diligent, careful and ordinarily skilful director would act in the circumstances.

Part XI

Financial Statement and Audit

Chapter l

Financial Statements

Accounting records

331. (1) Every company shall cause accounting records to be kept in accordance with this section.

(2) The accounting records shall be sufficient to show and explain the transactions of the company

332. (1) The accounting records of a company shall be kept at its registered office or such other place in Nigeria as the directors think fit, and shall at all times be open to inspection by the officers of the company.

333. (1) If a company fails to comply with any provision of section 331 or 332(1) of this Act, every officer of the company who is in default shall be guilty of an offence unless he shows that he acted honestly and that in the circumstances in which the business of the company was carried on, the default was excusable.

(2) An officer of a company shall be guilty of an offence if he fails to take all reasonable steps, for securing compliance by the company with section 332 of this Act, or has intentionally caused any default by the company under it.

(3) A person guilty of an offence under this section, shall be liable to imprisonment for a term not exceeding six months or to a fine of ₦500.

Appendix 3: Relevant extracts from the SEC code

Part A- THE BOARD OF DIRECTORS

1. COMPOSITION OF THE BOARD OF DIRECTORS

As much as possible, the Board should be composed in such a way as to ensure diversity of experience without compromising compatibility, integrity, availability, and independence.

(a) The Board should comprise of a mix of Executive and Non- Executive Directors headed by a Chairman of the Board, so however as not to exceed 15 persons or be less than 5 persons in total.

(b) The members of the Board should be individuals with upright personal characteristics and relevant core competences, preferably with a record of tangible achievement, knowledge on board matters, a sense of accountability, integrity, commitment to the task of corporate governance and institution building, while also having an entrepreneurial bias.

(c) Executive directors' remuneration should be set by a Remuneration Committee made up wholly or mainly of non-executive directors.

2. CHAIRMAN & CHIEF EXECUTIVE OFFICER POSITIONS

(a) A Board should not be dominated by an individual. Responsibilities at the top of a company should be well defined.

(b) The position of the Chairman and Chief Executive Officer should ideally be separated and held by different persons. A combination of the two positions in an individual represents an undue concentration of power.

(c) In exceptional circumstances where the positions of the Chairman and Chief Executive Officer are combined in one individual, there should be a strong non-executive independent director as Vice Chairman of the Board.

(d) The Chairman's primary responsibility is to ensure effective operation of the Board and should as far as possible maintain a distance from the day-to-day operations of the company, which should be the primary responsibility of the Chief Executive Officer and the management team.

3. PROCEEDINGS & FREQUENCY OF MEETINGS

(a) To maintain effective control over the company and monitor the executive and management, the board should meet regularly, and not less than once in a quarter with sufficient notices, and have a formal schedule of matters specifically reserved for its decision.

(b) Company meetings should be conducted in such a manner as to allow free flowing discussions. There should be enough time allocated to shareholders to speak and to enable them contribute effectively at the Annual General Meeting.

5. NON-EXECUTIVE DIRECTORS

Non-executive directors should be of such calibre as to make constructive contributions and for their views to carry significant weight in the board's deliberations.

(i) Non-executive directors should bring independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

(ii) Directors' service contracts should not exceed three years without shareholders' approval.
(iii) Non-Executive directors should not be dependent on the company for their income other than their director's fees and allowances. The non-executive directors should ideally be independent and not be involved in business relationships with the company that could fetter or encumber their independent judgment.

6. EXECUTIVE DIRECTORS

(a) There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid director, including pension contributions and stock options where the earnings are in excess of ₦500,000.
(b) Executive directors should not play an active role in the determination of their remuneration.

7. COMPENSATION OF BOARD MEMBERS

(a) The remuneration of Executive Directors should be fixed by the Board and not in shareholders' meetings.
(b) There should be remuneration committees, wholly or mainly composed of non-executive/independent directors and chaired by a non-executive director, to recommend the remuneration of executive directors.

8. REPORTING & CONTROL

(a) There is an overriding need to promote transparency in financial and non-financial reporting.
(b) It is the Board's duty to present a balanced, reasonable and transparent assessment of the Company's position.
(c) The prime responsibility for good internal controls lies with the Board.
(d) The Board should ensure that an objective and professional relationship is maintained with the auditors. External Auditors should not be involved in business relationships with the company.
(e) The Board should establish an audit committee of at least three non-executive directors with written terms of reference, which deal clearly with its authority and duties.

Part B- THE SHAREHOLDERS

9. SHAREHOLDERS' RIGHTS & PRIVILEGES

(a) The company acting through the Directors should ensure that shareholders' statutory and general rights are protected at all times.
(b) Shareholders should remain responsible for electing Directors and approving the terms and conditions of their directorships.
(f) The Board should ensure that decisions reached at the general meetings are implemented.
(g) The Board should ensure that all shareholders are treated equally; and that no shareholder should be given preferential treatment or superior access to information or other materials.

Appendix 4: Relevant Extracts from the Code of Conduct for Shareholders' Associations in Nigeria

The code is designed to ensure that association members uphold high ethical standards and make positive contributions in ensuring that the affairs of public companies are run in an ethical and transparent manner and also in compliance with the Code of Corporate Governance for public companies.

1. ESTABLISHMENT AND MEMBERSHIP OF SHAREHOLDERS' ASSOCIATIONS
(a) A body of not less than 50 shareholders of public companies may be established for the purpose of advancing the interest of its members and influencing the standard of corporate governance to optimise shareholder value.
(b) The body of shareholders so established shall be registered with the Corporate Affairs Commission with not less than 5 persons as trustees.
(c) Membership of a Shareholders Association shall be open to all shareholders on a voluntary basis.
(d) The Shareholders' Association shall have a constitution or bye-laws which shall govern the operation and membership of the Association.
(e) The Association shall have an Executive Committee of not more than 10 officers constituted through an electoral process.
(h) The Association shall file annual returns to the CAC and comply with other provisions of the CAMA, 1990 in relation to incorporated trustees. It shall also file an annual report of its activities with the SEC.
(i) The Association shall meet periodically at least twice a year.
(j) The Association shall respect and properly comply with all laws, regulations, standards, norms and code of practice appropriate to it.
(k) The Shareholders' Associations shall recognize their duty to the industry in which their companies operate and the need to maintain the integrity of the financial market as well as the general corporate governance standards.
(l) A member/or officer of a Shareholders' Associations' shall not engage in conduct which is dishonest or which may otherwise bring the Association into disrepute.

3. MEMBERSHIP OF AUDIT COMMITTEE
(a) Shareholders should ensure that members who are elected into the audit committee of their company have knowledge of accounting and internal control processes.
(b) Membership of Audit Committee shall be one term of three (3) years subject to good performance provided that such shareholders shall not be eligible for re-election until the expiration of 3 years after his term.
(c) Shareholders through the shareholders' association should ensure that the internal control systems of the companies in which they are shareholders, are effective.

4. All Shareholders' Associations shall adopt this code of conduct in their constitution and the regulatory authorities would only recognize Shareholders' Associations which comply with the provisions of this Code.

Appendix 5: Code of Corporate Governance for Banks in Nigeria Post Consolidation

PART II: CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE

5.0 Code of Corporate Governance Practices for Banks Post Consolidation

5.1 Equity Ownership

5.1.2 Government direct and indirect equity holding in any bank shall be limited to 10 percent by end of 2007.

5.1.3 An equity holding of above 10 percent by any investor is subject to CBN's prior approval.

5.2 Organisational Structure

5.2.0 Executive Duality

5.2.1 The responsibilities of the head of the Board, that is the Chairman, should be clearly separated from that of the head of Management, i.e. MD/CEO, such that no one individual/related party has unfettered powers of decision making by occupying the two positions at the same time.

5.2.2 No one person should combine the post of Chairman/Chief Executive Officer of any bank. For the avoidance of doubt, also no executive vice-chairman is recognised in the structure.

5.2.3 No two members of the same extended family should occupy the position of Chairman and that of Chief Executive Officer or Executive Director of a bank at the same time.

5.3 Quality of Board Membership

5.3.1 Institutions should be headed by an effective Board composed of qualified individuals that are conversant with its oversight functions.

5.3.2 Existing CBN guidelines on appointment to the board of financial institutions should continue to be observed. Only people of proven integrity and who are knowledgeable in business and financial matters should be on the Board.

5.3.4 The Board should have the latitude to hire independent consultants to advise it on certain issues and the cost borne by the banks.

5.3.5 The number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors.

5.3.6 At least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank) appointed by the bank on merit.

5.3.7 A committee of non-executive directors should determine the remuneration of executive directors.

5.3.10 In order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years each, i.e. 12 years.

5.3.11 Banks should have clear succession plans for their top executives.

5.3.12 There should be, as a minimum, the following board committees – Risk Management Committee, Audit Committee, and the Credit Committee.

5.3.13 The practice of the Board Chairman serving simultaneously as chairman/member of any of the board committees is against the concept of independence and sound corporate governance practice, and should be discontinued.

5.4 Board Performance Appraisal

5.4.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.

5.4.3 Boards should determine the skills, knowledge and experience that members require to achieve those objectives.

5.4.5 There should be annual Board and Directors' review/appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies and respective roles in the Board's performance.

5.4.6 The review should be carried out by an outside consultant.

5.4.7 The review report is to be presented at the AGM and a copy sent to the CBN.

5.5 Quality of Management

5.5.1 Appointments to top management positions should be based on merit rather than some other considerations.

6.0 Industry Transparency, Due Process, Data Integrity and Disclosure Requirements

6.1.2 Where board directors and companies/entities/persons related to them are engaged as service providers or suppliers to the bank, full disclosure of such interests should be made to the CBN.

6.1.4 False rendition to CBN shall attract very stiff sanction of fine plus suspension of the CEO for six months in the first instance and removal and blacklisting in the second. In addition, the erring staff would be referred to the relevant professional body for disciplinary action.

6.1.6 All insider credit applications pertaining to directors and top management staff (i.e. AGM and above) and parties related to them, irrespective of size, should be sent for consideration/approval to the Board Credit Committee.

6.1.7 The Board Credit Committee should have neither the Chairman of the Board nor the MD as its chairman.

6.1.8 Any director whose facility or that of his/her related interests remains non-performing for more than one year should cease to be on the board of the bank and could be blacklisted from sitting on the board of any other bank.

7.0 Risk Management

7.1.1 The Board/Board Risk Management Committee should establish policies on risk oversight and management.

7.1.2 Banks should put in place a risk management framework including a risk management unit that should be headed by a Senior Executive, in line with the directive of the Board Risk Management Committee.

7.1.3 The internal control system should be documented and designed to achieve efficiency and effectiveness of operations; reliability of financial reporting, and compliance with applicable laws and regulations at all levels of the bank.
7.1.4 External auditors should render reports to the CBN on banks' risk management practices, internal controls and level of compliance with regulatory directives.

8.0 Role of Auditors
8.1.0 Internal Auditors
8.1.1 Internal auditors should be largely independent, highly competent and people of integrity.
8.1.2 The Head of Internal Audit should not be below the rank of AGM and should be a member of a relevant professional body.
8.1.3 He should report directly to the Board Audit Committee but forward a copy of the report to the MD/CEO of the bank. Quarterly reports of audit must be made to the Audit Committee, and made available to examiners on field visits.
8.1.4 Members of the Board Audit Committee should be nonexecutive directors and ordinary shareholders appointed at AGM and some of them should be knowledgeable in internal control processes. One of such appointed ordinary shareholders should serve as the Chairman of the Committee.

8.2.0 External Auditors
8.2.1 External auditors should maintain arms-length relationship with the banks they audit.
8.2.2 Appointment of External Auditors will continue to be approved by the CBN.
8.2.3 The tenure of the auditors in a given bank shall be for a maximum period of ten years after which the audit firm shall not be reappointed in the bank until after a period of another ten years.
8.2.4 A bank's external auditors should not provide the following services to their clients:

1. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
2. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
3. Actuarial services;
4. Internal audit outsourcing services;
5. Management or human resource functions including broker or dealer, investment banking services and legal or expert services unrelated to the audit contract.

Appendix 6: Experts' Interview Questionnaire

1. How important are the following national (macro) environments in terms of promoting "good corporate governance" in Nigeria: Political, Social, Economic and Legal. Please suggest other national environments that are important for promoting "good corporate governance in Nigeria."
2. How important are the following industry (meso) environments in terms of promoting "good corporate governance" in Nigeria: Values, Culture , Ethics and History. Please suggest other industry environments that are important for promoting "good corporate governance in Nigeria."
3. How important are the following firm-level (micro) environments in terms of promoting "good corporate governance" in Nigeria: Values, Culture , Ethics and History. Please suggest other firm-level environments that are important for promoting "good corporate governance in Nigeria."
4. Are these institutional forces weakening in terms on their effects on "good corporate governance in Nigeria"? Which one (s) and to what extent?
5. How important are the governance mechanisms of other countries (especially the UK, USA, Japan, China and India) on Nigeria's governance system?
6. How important is the UK's colonial influence/Nigeria's traditional mimicking of the UK legislation on its present state of corporate governance?
7. Considering the recent note-worthy investments of Japan and China into Nigeria, how important are these developments in terms of these countries pushing their respective governance's standards and practices to influence those of Nigeria?
8. Pressures for the embracement of global standards of good corporate governance seem to be on the increase. How important are the following key corporate governance standards drivers in the shaping of good corporate governance in Nigeria? - World Bank, IFC, IMF, OECD and CACG.
9. How do you regard current Nigeria's regulation regarding corporate governance in the following areas: Protection of minority shareholder interests; Facilitating shareholder activism; Increasing information disclosure; Raising effectiveness of the Board of Directors ; Promoting appropriate incentives in executive pay; Raising effectiveness of auditors; Improving internal control systems ; Regulating the market for corporate control; Promoting corporate social responsibility
10. How do you regard the efficiencies of the following governance "watch dogs" in promoting good corporate governance regulation in Nigeria? - CAC, SEC, NSE, CBN, NDIC, ISAN, NSSA, NASB, ICAN, ANAN and the IIA. Please suggest other watch-dogs as regards their efficiencies in promoting "good corporate governance" in Nigeria.
11. How do you regard the efficiency of the Federal Government in promoting/ensuring good corporate governance regulation in Nigeria?
12. How do you regard the role/policies of the Federal Government in corporate governance, in terms of its effects on corporate independence and flexibility?
13. How important are the following aspects of board structure and board characteristics in terms of promoting "good corporate governance" in Nigeria: Board size ; A high proportion of independent board members; A high proportion of executive directors; Separation of the roles of CEO and board Chairman; Independent nomination, remuneration and audit committees; Presence of a senior (lead) independent director;

Number of network ties to other firms and external constituencies; Human capital of independent board members (experience, expertise, reputation); Board directors' heterogeneity in terms of human capital (education, expertise, etc); and Board directors' heterogeneity in terms of gender and age. Please indicate any other aspects of board structure or any other board characteristics that you consider important for "good corporate governance" in Nigeria.

14. How important are the following board processes in terms of promoting "good corporate governance" in Nigeria: Regular evaluation of board members; Frequency and lengths of board meetings; Regular meetings of independent directors (separately from board meetings); Regular communications with major shareholders/investors; Board focus on financial controls (accounting performance, TSR, EPS etc); Board focus on strategic controls (growth of market share, competitive advantage); Directors' financial incentives, including cash and equity-based incentives; Imposing age and term limits for independent directors; Imposing age and term limits for executive directors; Extensive and timely provision of information to independent directors; Bottom-up information flow from functional departments to independent directors; Using specialist recruitment companies when recruiting new board member; and Independent directors' social ties with CEO/executive directors . Please indicate any other factors related to board processes that you consider important for "good corporate governance" in Nigeria.
15. How effective are the following types of shareholders in terms of promoting "good corporate governance" in Nigeria: 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 of shareholders that you consider important in promoting "good corporate governance**.**"
16. How important are the following aspects of shareholder activism in terms of promoting "good corporate governance" in Nigeria: Publicly criticizing board members; Influencing board and management turnover; Influencing revisions of executive compensation; Regular discussions with board members of strategy issues (M&A, etc.); 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 of shareholder activism that you consider important in terms of promoting "good corporate governance in Nigeria."
17. How important are the following executive pay related items and processes in terms of promoting "good corporate governance" in Nigeria: 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 executive pay related items and processes that you consider important in promoting "good corporate governance in Nigeria."

18. How important are the following forms of public and private disclosure of information in terms of promoting "good corporate governance" in Nigeria: 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; Information on employment policies; Information on environmental policies; Audit committee's oversight of publicly disclosed information; Private information to key investors; Private information to analysts; Vertical information flows between the board and function departments; Horizontal information flows between functional departments; Provision of information to employees and other stakeholders. Please indicate any other aspects of public and private information disclosure that you consider important in promoting "good corporate governance in Nigeria."
19. How important are the following audit related items and mechanisms for internal control in terms of promoting "good corporate governance" in Nigeria: 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; Restriction on the quantity of "non-audit" tasks involving external auditors; Unconstrained legal liability of auditors; Risk management systems; Financial control and budgeting systems; Support and protection of "whistleblowers". Please indicate any other audit related items or internal control mechanism that you consider important in promoting "good corporate governance" in Nigeria.
20. Leaving aside potential issues of anti-trust and competition policy, how important are the following aspects of the market for corporate control in promoting "good corporate governance" in Nigeria: An active M&A market; Hostile takeovers; Leveraged buy-outs (LBO); Management buy-outs (MBO); Public-to-private transactions; Mandatory bid rule; Principle of equal treatment of shareholders; Transparency of ownership and control (inc. defensive measures); Squeeze out and sell-out rules ; One-share / one-vote principle; Break-through rules; Payment through cash; Payment through share swaps; Payment through debt (e.g. LBO); Protection of firm-specific assets during M&A; Protection of employee interests during M&A; Establishment of an international "level playing field" that reduces takeover barriers; Ability to "ring fence" target firms from acquirers in countries with higher takeover barriers. Please suggest other aspects that you consider important in promoting an effective market for corporate control in Nigeria.
21. How important is the involvement in company decision-making process of the each of the following stakeholders in terms of promoting "good corporate governance" in Nigeria: Debtholders; Employees; Customers; Suppliers; Local communities; NGOs; and the government? Please suggest other stakeholders who are important for promoting "good corporate governance in Nigeria.