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Good corporate governance in Nigeria: Antecedents, propositions and peculiarities☆

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ABSTRACT

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

1. Introduction

The agency theory was seminal in furthering modern corporate governance discussions. However, corporate governance in an international business context is notably influenced by institutional factors (Williamson, 1985; Powell & DiMaggio, 1991; Peng, Li Sun, Pinkham, & Chen, 2009; Tolbert & Zucker, 1983; Creed, Dejordy, & Lok, 2011; Suddaby & Greenwood, 2005). Orientations towards the antecedents of good corporate governance across varying national economies should therefore inculcate a broader perspective of institutional contingencies (Aoki, 2001; Aguilera & Cuervo-Cazurra, 2004; Aguilera, Rupp, Williams & Granapathi, 2007). Institutionalism based corporate governance literature progresses discussions much further from the boards of directors, to the legal structures and financial markets, and to the wider cultural understandings about the role of the corporation in a modern society (Davies, 2005). This has led to a maturing recognition of the institutional effects on corporate governance in developed countries (Aguilera & Jackson, 2003; Aguilera, 2005; Lubatkin, Lane, Collin & Very, 2007). In developing countries, usually marred by weak institutions, there is a comparative lacuna in literature even though there are prospects of a promising debate.

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

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of the Nigerian environment in the context of the extant literature, as well as accentuates important institutional contingencies and how these shape corporate governance.

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

Nigeria, Africa's largest economy (The Economist, 2014), provides a useful empirical context due to the distinctiveness of its corporate governance system from the frequently researched Anglo-American systems. For example, the development of corporate governance in Nigeria is characterised by founding families who frequently retain control on boards and on the management. Most times, the family is also responsible for corporate strategic direction and performance outcomes of public listed companies (Husted & Allen, 2006; Lien, Piesse, Strange, & Filatotchev, 2005; Adegbite et al., 2013). Also, corporate Nigeria presents a moderate representativeness of corporations in sub-Saharan Africa. However, whereas the cavernous lacuna in literature on corporate governance in Nigeria is receiving increasing scholarly attention (Okike, 2007; Adegbite & Nakajima, 2011a), authors have predominantly focussed on the environmental determinants of corporate governance in the country. This paper extends the macro-level descriptions of the budding empirical literature by presenting firm-level drivers of good corporate governance and offering suggestions on how African nations can structure their business corporations to prevent corporate corruption[1]. The rest of this study is organised as follows. The author first presents a review of relevant literature which guided the development of the research question and thereafter the methodology adopted in this study. Next, the findings are discussed. Lastly, contributions are summarised and some implications for theory, practice and future research are highlighted.

2. International business (corporate) governance: theoretical development and research focus

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

Agency theory, premised upon developed Anglo-Saxon markets, is however limited in shaping academic and organisational approaches to corporate governance in an international business context (Learmount, 2003; Bradley, Schipani, Sundaram, & Walsh, 2000). For example, there is empirical evidence that normative drivers of good corporate governance cannot be transplanted across countries without significant misalignment (Hove, 1986; Chang, 1992; Adegbite & Nakajima, 2011a; Demirag et al., 2000). The agency framework does not encapsulate the multi-dimensional complexity and character of the corporate governance phenomenon in an international context (Filatotchev & Boyd, 2009; Van Eves, Gabrielsson, & Morton, 2009; Adegbite & Nakajima, 2011a; Gomez-Meijia & Wiseman, 2012). Furthermore, the agency conflict can be dealt with in different ways in different countries. For example, it is addressed through dispersed ownership, markets for corporate control and contractual incentives in the UK and USA, and through weaker managerial incentives and greater supply of debt in continental Europe and Japan (Aguilera & Jackson, 2003; Forker & Green, 2000; Miller, 2010). The agency theory is therefore unable to fully account for cross-country differences in its operationalization. This is particularly relevant to comparative discourse on national systems of corporate governance, and for the corporate governance of international businesses.

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

Institutional theory offers a helpful complementary lens to the agency theory. Institutional theory accounts for the deeper and resilient aspects of socio-cultural structure, and considers the processes by which organisational schemas, rules, norms, and routines are established as guidelines for corporate behaviour (Scott, 1987; Scott, 2004). Local organisational structures arise as reflections of rationalised institutional rules which function as myths that organisations incorporate (Meyer & Rowan, 1977). Recent studies have thus begun to document the institutional effects on different areas of international corporate governance studies. These studies include the institutional effects on family businesses (Leaptrott, 2005); on corporate governance and director accountability (Aguilera, 2005); and on corporate social responsibility (Campbell, 2007). On the country level, Liu (2006)

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