

Perspectives on Corporate Governance Challenges in a Sub-Saharan African Economy

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Abstract

The purpose of this research is to investigate the barriers and issues hindering effective corporate governance development in Nigeria. A survey research method was used to gather data from 198 respondents from 100 firms listed in Nigerian Stock Market and Equity Security. This study provides vital information on corporate governance barriers hindering its development and implementation in Nigeria. The findings reveal that barriers hindering the implementation and promotion of effective corporate governance in Nigeria include abuse of minority shareholders' rights, lack of commitment on the part of board of directors, lack of adherence to the regulatory framework, weak enforcement and monitoring systems, and lack of transparency and disclosure. Nigeria has ample laws that are designed to protect shareholders' rights and ensure good corporate governance, but effective enforcement of existing laws and regulations constitutes a major challenge for the development and implementation of effective corporate governance system in the country.

1. Introduction

An economy's corporate governance system has a significant impact on the profitability and growth of corporations, their access to capital, and their cost of capital (Halpern, 1999). According to Halpern (1999), the governance system can influence the decisions undertaken by firms and ultimately has an impact on the wealth created in a country,

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if the governance system results in a focus on investments in low risk, low expected return projects, or on investments that reduce risk for a subset of investors but at a substantial cost, the wealth of the economy will be reduced or will grow at a low rate.

Further, investors' perceptions of the managerial decision making process can influence their confidence in the corporation, the price at which capital is provided to the firm and thereby, the cost of capital. A higher cost of capital will reduce economic growth (Halpern, 1999). Corporate governance has also become an important topic in developing economies because corporate stakeholders such as directors, owners, and managers have started to realize that there are benefits that can accrue from having a good corporate governance structure (McGee, 2009). According to McGee (2009), good corporate governance helps to increase share price and makes it easier to obtain capital, also international investors tend to be reluctant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles.

A great deal of research have been conducted on the topic of corporate governance structure and challenges of developing and implementing good corporate governance systems, however, the bulk of these studies have been conducted on the major economies of the Western industrialized countries such as Canada, France, Germany, United Kingdom, United States, and Japan. However, governance issues are equally if not more important for developing and emerging economies like Nigeria. Developing economies have highly concentrated shareholdings, usually held by founders or family members and capital markets that are neither deep nor efficient. The governance issues in these economies relate to the constraints imposed by governments on the evolution of markets and the role of competition in the product and capital markets (McGee, 2009).

In Nigeria, the issue of corporate governance gained importance in the post structural adjustment program (SAP) era. This period, witnessed the growth of private ownership and financial institutions. Because of the weak corporate culture in these institutions, the country witnessed a very high rate of corporate failures. To regain the confidence of the public, the Securities and Exchange Commission set up a committee in 2000 whose report was the first to articulate a corporate governance code for companies in Nigeria. This was followed by a similar code by the Central Bank of Nigeria in 2000 (CBN, 2006) to address corporate governance practices in Nigeria. This paper examined the challenges and barriers that are hindering the development and implementation of good corporate governance in Nigeria. The purpose of this research therefore, is to bridge the research gap on this issue and uncover the barriers and challenges preventing the development and implementation of good corporate governance systems in Nigeria, and provide an understanding and recommendations of these issues so that they can potentially be overcome.

2. Theoretical Framework

There are several well-developed theoretical perspectives that are available to researchers to aid them in exploring the issues of corporate governance. These theories include: managerial hegemony

theory, agency theory, stewardship theory, and resource dependence theory. A succinct review of each of them is as follows: *Managerial hegemony theory* advocates that boards of directors are just statutory additions which are dominated by the management; boards play only a passive role in strategy or directing the corporation (Mace, 1971; Vance, 1983; Lorsch and MacIver, 1989). *Agency theory* is built on the premise that there is an agency relationship wherein the principal delegates the work to the agent and involves risk sharing and conflict of interest between the two. Implicit in it is the belief that the agent will be driven by self-interest rather than a desire to maximize the profits for the principal. The board, as an intermediary, is expected to resolve such conflict of interest and minimize the agency costs. Some see the board's role of control as also encompassing a role in strategy. At variance with the notion of the agent being driven by self-interest, as advocated by the agency theory, *stewardship theory* postulates that managers are motivated by a desire to achieve and gain intrinsic satisfaction by performing challenging tasks. Proponents of this theory argue that managers need authority and desire recognition from peers and bosses. Thus, their motivation transcends mere monetary considerations. The role of the board of directors in matters of strategy is seen as contributing to this managerial perspective. Finally, the interaction of the board with the environment can be a source of strategic information and the *resource dependence theory* derives its insight from the fact that board members are also members of the boards of other firms, and this creates a web of linkages to competitors and other stakeholders. Linkages which are also created with the firm's external environment help access important resources and create buffers against adverse external changes (Riana, 2008).

3. Literature Review

Definition

Corporate governance has been defined in different ways by different authors. Zingales (1998) defines corporate governance as a complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm. Hussey (1999) defines corporate governance as the manner in which organizations are managed and the nature of accountability of the managers to the owners. O'Donovan (2003) defines corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity (Academic dictionaries and encyclopedias, 2009). O'Donovan (2003) argues that sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. O'Donovan goes on to say that 'the perceived quality of a company's corporate governance can influence its share price as well as the cost of raising capital. According to O'Donovan (2003), quality is determined by the financial markets, legislation and other external market forces plus the international organizational environment; how policies and processes are implemented and how people are led. External forces, on the other hand are, to a large extent, outside the circle of control of any board. The internal environment is quite a different matter, and offers companies the opportunity to differentiate from competitors through their board culture (Academic dictionaries and encyclopedias, 2009).

The Ultimate Business Dictionary (2003) defines corporate governance as the managerial control of an organization, which can reduce the risk of fraud, improve company performance, leadership, and

demonstrate social responsibility. From these definitions, it may be stated that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. In this section of the paper we discuss a number of corporate governance challenges and issues in general and Nigeria in particular. We attempt to provide reasons why Nigeria is currently ill-equipped to implement corporate governance to the levels which might be accepted in developed economies. In light of the above, we discuss these constraints as those arising from: shareholders' rights, weak regulatory framework, lack of enforcement, weak monitoring, lack of transparency and disclosure, and ineffective boards of directors, among others.

Role and Responsibilities of the Board

The board has been defined as the relationship between the shareholders of the firm and the management delegated with undertaking the day-to-day operations of the organization (Stiles and Taylor, 2001). Several researchers have identified the key functions of the board as strategic, controlling (monitoring managers and accountability), institutional (building links with investors and stakeholders), approval of a core philosophy and mission, maintenance of legal and ethical practices, communication with shareholders, and review (Riana, 2008; Zahra and Pearce, 1989; ICC, 2009). The responsibilities of the board of directors of any company are explicitly stated by the statutory framework of the country in which the company operates. The corporation's by-laws and its declaration of board values and charter for the country in which the corporation operates serve as a guiding principle of the role and fiduciary duties of the board.

Board structures are not uniform across countries (Hopt and Leyens, 2004; Keenan, 2004). There is a diversity of ownership structures around the world. Most notably, company law in France, Germany, the Netherlands and China requires and/or allows listed firms to adopt a two-tier board (as opposed to a unitary board) composed of a Board of Management (or decision-making unit) and a Supervisory Board (or monitoring unit). For example, in Germany the supervisory board (Aufsichtsrat) is by law composed of independent or non-executive directors and includes employee representatives 50% in companies with more than 2000 employees (Aguilera, 2005). The dual-board structure, strongly embedded in some national systems, is currently being questioned. For instance, the EU allows new firms registering under European statutes (*societas europea*) to choose between one or two-tiered systems (Hopt, 2002). A comparative perspective highlights the immense power, charm, and leadership given in the US corporate governance system to the chief executive officer (CEO), who usually also exercises the role of chairman of the board. In fact, in the USA, the split of these two roles is generally perceived as a transitional arrangement or a sign of weakness, particularly in the case of new outside CEOs (Khurana, 2002).

One of the challenges facing modern corporations in Nigeria may stem from lack of qualifications of corporate board members. According to the Central Bank of Nigeria (2006), many board members may lack the requisite skills and competencies to effectively contribute to leadership of modern corporations. The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and

duties. There are issues about the appropriate mix of executive and non-executive directors. The key roles of chairperson and CEO should not be held by the same person (CBN, 2006).

Ownership Concentration

The current literature on corporate governance structure has stressed the agency problem where ownership is dispersed and shareholders have a passive role. Professional managers have a strong independence and cross incentives through bonus shares payments. This implies that they have incentives to disclose information when a company's investments succeed but they also tend to hide information when there are significant losses. This figure usually applies to big American corporations and British publicly traded firms where legislation forbids individual stakes greater than 25%. In theory, a controlling shareholder can affect minority shareholders' rights and firm performance in two opposite ways. Shleifer and Vishny (1997) argue that ownership concentration is, along with legal protection, one of two key determinants of corporate governance. Large shareholders can benefit minority shareholders because they have the power and incentive to prevent expropriation or asset stripping by managers. In this vein, ownership concentration can be viewed as an efficient governance mechanism. On the other hand, large shareholders can collude with managers to expropriate minority shareholders' benefits, which is called tunneling (Johnson et al., 2000) and described as one of the central agency problems in countries with relatively poor shareholder protection (La Porta et al., 1999; 2000). Morck et al. (2000) also discuss how controlling shareholders may pursue objectives that are at odds with those of minority shareholders. Therefore, the relationship between ownership concentration and firm efficiency is a complicated issue. When ownership of shares is widely dispersed, increasing ownership concentration is likely to mitigate the free-rider problem and enhance firm efficiency. However, when the fractional ownership of the largest shareholder exceeds a certain threshold, increasing ownership concentration raises the likelihood of tunneling and decreases firm efficiency.

In Nigeria, a more prevalent constraint arises from restricted competition in the market for goods and services. Impediments to competition are diverse, ranging from anti-competitive practices by firms to policy restrictions on ownership and entry (Khemani and Leechor, 1999). Often, entry barriers are disguised as regulations supposedly designed to serve or protect the "public interest." These policies usually give owners profits in excess of competitive returns. Such profits, however, come from distorted prices in the form of a hidden tax on consumers. The lack of competition also accentuates ownership concentration. Owners of incumbent firms have an incentive to retain control of profitable operations. They may choose to remain a private firm or may go public, but without giving up control, by retaining a controlling stake or issuing non-voting shares (Khemani and Leechor, 1999).

Shareholders' Rights

Shareholders' rights vary from country to country. For example, in North America, shareholders' rights tend to be more developed than other nations and there are standard for the purchase of any common stock (Investopedia, 2009). Shareholders rights are included in corporations' laws and stock market rules and regulations. Share holders rights are crucial for the protection of investors against poor management. Protection of shareholders rights including minority shareholders rights has been become a challenge for developing and implementing effective corporate governance system in many developing countries. For instance, one of the major issues of corporate governance in Nigeria is the

lack of protection of minority shareholders' rights. Although there are laws in Nigeria that were intended to protect minority shareholders' rights, these laws are not strictly enforced (BrabnersChaffeStreet, 2003). Nigeria has adequate laws that are designed to protect shareholders' rights and ensure good corporate governance. However, these laws are often ignored because shareholders are generally unaware of the rights that they have as a shareholder. Experts such as BrabnersChaffeStreet (2003) have argued that the greater the shareholding of an individual, the greater are his/her rights and the greater is his/her power within the company. This is so not only because the larger the shareholding the more likely it is to represent a controlling interest. It is then logical to expect that minority shareholders would be expected to play a lesser role on how the firm is governed.

Regulatory Framework

According to the OECD (2004) corporate governance principles, to ensure an efficient corporate governance structure, it is essential that an appropriate and efficient legal, regulatory, and institutional foundation be established upon which all market participants can rely in establishing their private contractual relations. The OECD (2004) principles of corporate governance state that a corporate governance framework will typically comprise elements such as legislation, regulation, voluntary commitments, and business practices that are based on a country's specific circumstances such as history and tradition. However, as new experiences accrue and business circumstances change, the content and structure of this framework may need to be adjusted (OECD, 2004).

In Nigeria, there are legal and regulatory systems in place to protect the rights and obligations of shareholders, rules and regulations for conducting business, and penalties for violations of these regulations (Okeahalam and Akinboade, 2003). As previously mentioned, one of the major laws regulating business conduct and operations in Nigeria is the CAMD (1990). However, the problem of supervision and enforcement of such laws and processes still remains a major issue hindering effective implementation of corporate governance. Judicial and administrative means of supervision have not been successful in bringing the type of changes necessary to implement effective corporate governance. Researchers have shown that the regulatory process should consist of setting the rules, creating standards of monitoring compliance, and enforcement of those rules and standards (Otobo, 1997; Okeahalam and Akinboade, 2003).

Transparency and Disclosure

In response to recent corporate governance scandals, governments have adopted a number of regulatory changes. One component of these changes has been increased disclosure requirements. For example, the Sarbanes-Oxley Act (sox) adopted in response to Enron, WorldCom, and other public governance failures required detailed reporting of off-balance-sheet financing and special purpose entities. Also the issue of transparency and disclosure was highlighted by The Cadbury Report (1992) which argued that a major barrier to the flow of relevant information is the risk of opportunism inherent to the manager's influence in the firm, which is referred to as an incomplete or distorted disclosure of information and calculated efforts to mislead, distort, obfuscate or otherwise confuse the public and shareholders. A credible disclosure is vital for allocation of resources. For example, the lemons problem arises where investors cannot distinguish between good and bad ideas; they will value both good and bad ideas at an average level (Healy and Papelu, 2001). A credible disclosure solves the lemons problem in which a bad security can appear to be as valuable

as a good one. The adverse selection avoidance, disclosure, and transparency, should therefore lower the firm's cost of capital by the impact of skeptical investors (Lundholm and Van Winkle, 2006). Investors typically view a well-governed company as one that is responsive to requests from investors for information on governance issues (Okeahalam and Akinboade, 2003). In an African country like Nigeria, an independent board of directors remains a challenge, not only for the government but also for those with whom such enterprises contract because of shortage of skills and lack of familiarity with board functions and fiduciary responsibilities.

Monitoring and Enforcement

According to the World Bank's (2003) report on corporate governance, most developing and transition economies have failed to enforce laws, rules, and regulations regarding corporate governance consistently and evenly. This failure was perhaps not anticipated by the OECD principles, which implicitly assume that countries have an efficient legal and regulatory framework in place and those courts and securities regulators have the means and capabilities to enforce it. Practices such as self-dealing and insider trading are widespread. Such offenses mostly go unpunished, even if stiff penalties apply in theory (World Bank, 2003). According to the report, auditing is another major area of weakness in corporate governance enforcement. Most countries delegate the setting of accounting and auditing standards to the accounting association (World Bank, 2003). However, professional associations usually lack the means to impose effective sanctions on their members. Auditors have been given unqualified opinions, certifying that the accounts audited provide a true and fair picture despite the many defects noted. The penalties for such behavior are minor and enforcement is generally lax. In Nigeria, the capacity to support the implementation of good corporate governance is undermined by the existence of weak monitoring and enforcement. Government departments and independent regulators responsible for monitoring corporate governance do not as yet fulfill their roles as overseers. Many are generally weak and subject to external influence by politicians and lawmakers. Community watchdog organizations such as consumer bodies are not well developed in Africa (Botha, 2001). There is a need for legislative overhaul or decree that establishes a regulatory agency and indicates its functions, including its enforcement powers (Otobo, 1997).

4. Research Questions

The following research questions were developed base the Organization for Economic Co-operation and Development's (OECD) corporate governance assessment instrument and literature on corporate governance (see Table 1).

Table 1: Research Questions

<i>Research question 1</i>	<i>To what extent do boards of directors effectively fulfill their functions?</i>
<i>Research question 2</i>	<i>What are the compositions of ownership structure in your company</i>

<i>Research question 3</i>	<i>To what extent are minority shareholders' rights protected?</i>
<i>Research question 4</i>	<i>How are listed companies in Nigeria regulated?</i>
<i>Research question 5</i>	<i>To what extent are company laws and regulations effectively enforced?</i>
<i>Research question 6</i>	<i>To what extent do all shareholders have equal access to information?</i>

5. Methodology

A quantitative research method was employed to gather data for this research. Specifically, data was collected from 198 respondents from 100 firms listed in Nigerian Stock Market and Equity Security. A survey was conducted to assess corporate governance issues and challenges facing Nigerian corporations from the perspectives of employees, managers, and shareholders of listed companies in Nigeria.

Sample and survey administration

The sample for this study consisted of 105 employees of listed corporations in Nigerian Stock Market and Equity Security. The research questionnaire was administered to a random sample of 300 employees. The companies were chosen at random from 105 listed companies in Nigerian Stock Market and Equity Security. One hundred firms were identified from the list and contacted by telephone. The firms who agreed to take part formed the research sample. To enhance the response rate, the questionnaires were delivered by hand to the addresses of the companies identified for the study and collected by hand on a scheduled pick-up date. Ten trained assistants and four field supervisors were responsible for the questionnaire distribution and collection. The distribution was done in this way to avoid problems with the local communications system and to fit with local cultural issues, such as the background of the researcher and purpose of the research. A total of 300 questionnaires were distributed and 198 were returned, representing a 66% response rate.

Instruments

A modified version of the Organization for Economic Co-operation and Development's (OECD) corporate governance assessment instrument was used for this research. The questionnaire consisted of 31 items related to the common problems in developing and implementing a corporate governance program. The questions were phrased with a possible response continuum based on a Likert-style five-point scale (1 = strongly agree to 5 = strongly disagree). The instrument was submitted to a panel of 10 experts in corporate governance in Nigeria, the United Kingdom, and the United States for validation. The experts were asked to review the items in the instrument and determine whether these items were within the linguistic capabilities and understanding of Nigerian managers, and to eliminate items they found to be irrelevant to the Nigerian cultural environment, as well as to make suggestions on how to simplify items that were irrelevant or too complicated. After some minor revisions and modifications were made, instruments were resubmitted to the experts for another review. The experts recommended the use of the modified instrument for the study. The correlation of random split-halves for internal consistency for the questionnaire ranged from 0.80 to 0.85; the step-up formula ranged from 0.85 to 0.90.

6. Findings

The mean and standard deviation scores of selected barriers shown in Table 2 are as follows: shareholders' rights are not protected (mean 3.43 and SD 0.35), minority shareholders' rights are not entirely protected (mean 4.45 and SD 0.52), aggrieved shareholders often have no recourse (mean 4.20 and SD 0.44), preferential treatment is often given to large shareholders (mean 4.60 and 0.35), weak monitoring and enforcement of corporate governance laws (mean 4.06, SD 0.32), board members are not effectively committed to their responsibilities (mean 4.15 and SD 0.32), rules and regulations regarding independent composition of board members are not followed (mean 3.20 and SD 0.22), laws, stock market listing rules, stock market regulators and corporate codes of conduct are very often violated (mean 3.52 and SD 0.65), lack of investigation on non-compliance with statutory requirements (mean 3.60 and SD 0.75), lack of autonomy on the part of the auditors (mean 4.11 and SD 0.40), lack of investigation about oppression of minority shareholders (mean 3.48 and SD 0.55), insider trading laws, rules, and regulations are not followed (mean 3.46 and SD 0.51), rules requiring equity ownership disclosure are not followed (mean 3.62 and SD 0.44), lack of actions against auditors' failure to report improper financial records (mean 2.36 and SD 0.48), and lack of equal access to information for all shareholders in the same class (mean 3.34 and SD 0.42).

Table 2: Selected barriers for corporate governance in Nigeria

Items	n	Mean	Max	Min	SD	%
Shareholders' rights are not often protected	198	3.43	5	1	0.35	90
Minority shareholders' rights are often violated	198	4.45	5	1	0.32	91
Preferential treatment is given to large shareholders	198	4.60	5	1	0.31	98
Aggrieved shareholders often have no recourse	198	4.20	5	1	0.44	95
Weak monitoring and enforcement of corporate laws	198	4.06	5	1	0.32	98
Boards are not fully committed to responsibilities	198	4.15	5	1	0.32	96
Rules on independent boards are not followed	198	3.20	5	1	0.42	95
Laws and rules on stock market listing are violated	198	4.52	5	1	0.38	96
Lack of investigation on non-compliance with laws	198	3.43	5	1	0.36	92
Lack of investigation about of minority shareholders	198	3.48	5	1	0.55	90
Lack of actions against auditors' fraud	198	3.36	5	1	0.44	89
Lack of access to information for all shareholders	198	3.34	5	1	0.42	94
Insider trading laws and regulations are ignored	198	3.46	5	1	0.51	91
Lack of autonomy on the part of the auditors	198	4.11	5	1	0.41	90
Rules requiring equity ownership disclosure are not followed	198	3.62	5	1	0.48	87

Duties and responsibilities of the board of directors

The first research question was asked in order to determine how the board members are fulfilling their responsibilities in terms of board-of-directors' responsibilities. As shown in Table 3, more than 90% of

our respondents stated that board of directors are not effectively fulfilling their responsibilities in terms of the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. An overwhelming majority over 90 % of the respondents who responded to the items regarding board of directors' duties and responsibilities stated that board members often demonstrate a lack of concern as to the integrity of the corporation's financial reporting system. Over 95% of the stated that board members do not adequately supervise the process of disclosure and that they showed lack of concern in ensuring a formal and transparent board nomination and election process.

Table 3: Responses regarding duties and Board of Directors

Items	n	Mean	Max	Min	SD	%
Board members are not fully committed to reviewing and guiding corporate strategy	198	2.20	5	1	0.58	90
Board members do not pay adequate attention to executive compensation	198	2.23	5	1	0.49	92
Board members often demonstrate a lack of concern as to the integrity of the corporation's financial reporting system	198	2.18	5	1	0.54	94
Board members do not show concern about proper monitoring and enforcement of laws, rules, and regulations of corporate governance practices	198	2.10	5	1	0.46	93
Board members show lack of concern in ensuring a formal and transparent board nomination and election process	198	2.15	5	1	0.52	98
Board members do not adequately supervise the process of disclosure and communications	198	2.22	5	1	0.54	96
Board members are not effectively committed to their responsibilities	198	2.20	5	1	0.42	95

Table 4 shows responses regarding ownership structure. As shown in Table 4, the majority of the respondents 98% indicated that their companies have large concentration of ownership. Whereas 80% reported that their companies have different composition of ownership. Over 90% of those surveyed indicated that family members hold the majority of the stocks in the company and that board members and the senior management are the majority stock holders of the company. The government and foreign national own less than 50% of the stock for the companies surveyed.

Table 4: Responses regarding ownership structure

Items	n	Mean	Max	Min	SD	%
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Have large concentration of ownership	198	4.20	5	1	0.60	98
Have different compositions of ownership	198	3.23	5	1	0.58	80
Family members hold the majority of the stocks in the company	198	4.18	5	1	0.63	95
Board members and the senior management are the majority stock holders of the company.	198	3.10	5	1	0.66	93
Foreign national are the majority shareholders of the company.	198	3.21	5	1	0.57	40
The government holds the majority of stock in the company.	198	2.22	5	1	0.44	20

Research question three was posed to find out if minority shareholder rights are protected. The survey contained seven questions on this topic. An overwhelming majority of the respondents 97% indicated that the basic shareholder rights such as secure methods of ownership, registration, conveyance of or transfer of shares, participation and voting in general shareholder meetings, election and removal of members of the board, and a share in the profits of the corporation are protected in Nigeria. Results also show that 98% of the respondents stated that minority shareholders are often not allowed to express their views at general meetings. More than 98% of all those surveyed indicated that special treatment is often given to large shareholders. Over 95% indicated that minority shareholders are on occasion ignored at general meetings, aggrieved shareholders seldom have recourse, and that shareholders who wish to speak at company general meetings are often allowed to speak only if they are known to side with the board of directors.

Table 5: Responses regarding Shareholders' rights

Items	n	Mea n	Max	Min	SD	%
Basic shareholders' rights are not protected	198	4.60	5	1	0.40	97
Minority shareholders' rights are often violated	198	4.25	5	1	0.38	98
Minority shareholders are often not allowed to express their views at general meetings	198	4.18	5	1	0.33	96
Preferential treatment is often given to large shareholders	198	4.20	5	1	0.66	98
Chairpersons often ignore minority shareholders at general meetings	198	3.21	5	1	0.37	96
Aggrieved shareholders often do not have a recourse	198	4.22	5	1	0.40	97
Shareholders who wish to speak at company general meetings are often allowed to speak only if they are known to side with the board of directors	198	3.48	5	1	0.32	98

The fourth research question was posed in order to find out the legal and regulatory requirements that affect corporate governance practices in Nigeria. Table 6 shows that over 97% of the respondents indicated that there are laws for corporate governance. However, they also indicated that the regulatory framework is ineffective because of weak monitoring and enforcement. For example, over

95% of the respondents agreed that there are rules and regulations governing board members' independent composition, but these rules are often violated. Pertaining to laws for appointing and removing auditors, 95% agreed that the rules and results exist but are frequently ignored. More than 90% indicated that there is a lack of commitment on the part of government agencies responsible for the enforcement of corporate laws.

Table 6: Responses regarding regulatory framework for corporate governance

Items	n	Mean	Max	Min	SD	%
Stock market listing rules and corporate codes of conduct are abused and often ignored	198	3.42	5	1	0.44	98
Rules and procedures for transactions are in place	198	3.30	5	1	0.43	97
Laws, rules, and regulations for appointing and removing auditors are frequently violated	198	3.34	5	1	0.46	95
Lack of commitment on the part of government agencies responsible for enforcement of corporate laws, rules and regulations	198	3.19	5	1	0.42	91
Rules and regulations for a formal and transparent board nomination and election process are often ignored.	198	3.43	5	1	0.40	93
Rules and regulations for disclosure and communications are not often followed	198	3.41	5	1	0.44	90
Rules and regulations regarding board members' independent composition are often violated	198	3.30	5	1	0.42	95

The fifth and sixth research questions were asked in order to ascertain the impact of enforcement and level of transparency/disclosure on corporate governance development. The data in Table 7 show that the majority of the respondents indicated that lack of enforcement is a major obstacle hampering development and implementation of corporate governance in Nigeria. As shown in Table 7, over 95% of the respondents agreed that with the items on the questions monitoring and enforcement are weak. With regard to disclosure and transparency, 92% agreed that transparency/disclosure is a major obstacle for successful implementation of corporate governance. According to the respondents, all shareholders do not have equal access to information, and this is agreed upon by more than 96%. For prohibition of insider trading, 95% of the respondents agreed that insider trading is effectively prohibited, however most of the respondents stated that there are laws banning insider trading, but these have not prevented insider trading. With regard to independent auditors, 94% disagreed with the statement that auditors are independent. Some respondents commented that the majority of the auditors are cronies of the board members and top management. For equity ownership requirements, 93% indicated that there is a requirement for equity ownership disclosure enshrined in the law. However, most corporations and their board members do not fully disclose equity ownership.

Table 7: Responses regarding Enforcement, monitoring, disclosure, and transparency

Items	n	Mean	Max	Min	SD	%
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Enforcement and Monitoring						
Lack of investigation on non-compliance with laws/regulations	198	4.50	5	1	0.40	98
Lack of investigation on complaints by shareholders about mismanagement	198	4.49	5	1	0.43	97
Lack of investigation on the oppression of minority shareholders	198	4.46	5	1	0.37	99
Lack of actions against corrupt auditors.	198	4.48	5	1	0.41	96
Transparency and disclosure						
Lack of equal access to information for all shareholders	198	4.38	5	1	0.44	97
Insider trading laws, rules, and regulations are often not followed	198	4.33	5	1	0.45	95
Autonomy or independent auditors	198	2.51	5	1	0.62	94
Rules requiring equity ownership disclosure are not followed	198	2.62	5	1	0.48	93
Lack of autonomy on the part of auditors	198	2.51	5	1	0.62	94

7. Discussion

This exploratory study investigated barriers, issues, and challenges inhibiting the development and implementation of effective corporate governance in Nigeria. The common barriers and challenges identified from our survey are as follows: shareholders' rights, responsibilities of boards of directors, regulatory framework, enforcement and monitoring, ownership concentration, and transparency and disclosure. With regard to shareholders' rights, the majority of the respondents indicated that the basic rights of shareholders are protected. This is consistent with previous studies (Oyejide and Soyibo, 2001; Nganga, Jain, and Artivor, 2003). Although rules exist in many jurisdictions to protect minority shareholders or for shareholder derivative suits, these are rarely used. Listed companies in Nigeria must comply with CAMA (1990). The majority of those we surveyed for this study indicated that minority shareholders are often not protected. For instance, minority shareholders are often not allowed to express their views or are ignored by the chairperson at general meetings. Special treatment is often accorded to large shareholders, aggrieved shareholders seldom have recourse, and shareholders who wish to speak at company general meetings are only allowed to speak if they are known to side with the board of directors. Based on these findings, one may surmise that while there are laws that protect shareholders' rights, minority shareholders' rights tend to be frequently violated and not respected.

Over 95% of all respondents reported that board members are not fulfilling their responsibilities to the companies and shareholders. This is consistent with the findings of Oyejide and Soyibo (2001), who learned that most respondents in Nigeria believe that the idea of an independent board is gaining acceptance, but there is little evidence of this in practice, meaning that there is little evidence that these independent boards are discharging their function adequately. The reason for this could be that most board members do not have the necessary qualifications to be on the board. Lack of commitment on the part of board members was also reported as a key challenge for corporate governance development. The reason for this may be that they do not want to be involved in the day-to-day management of the company. They want to entrust the day-to-day running of the company to

professional managers. In terms of regulatory framework, our respondents stated that there are laws and regulations for corporate governance. They also indicated that the regulatory framework is ineffective because of weak monitoring and enforcement. As a result, laws designed to protect shareholders' rights are often violated. These results are also consistent with Oyejide and Soyibo's (2001) findings which indicated that there seems to be evidence of abuse of laws, rules, and regulations by a number of corporations. One may speculate that the reason some boards of directors can get away with not being as independent as the law mandates is that they have political connections.

Effective enforcement of existing laws and regulations constitutes a major challenge for the development and implementation of corporate governance. Meeting this challenge requires recognition that the structure and capacity of regulatory and judicial frameworks are integral parts of the corporate governance environment. As indicated by the respondents, Nigeria has adequate laws that are designed to ensure good corporate governance. However, these laws are frequently disobeyed with impunity, such as one example where the 21-day notice rule is disregarded in the instances where a number of companies do not give annual general meeting notices on time. More than 88% indicated that lack of disclosure and enforcement are impediments to the development and effective implementation of corporate governance. Respondents indicated that there is a lack of investigations or actions taken on non-compliance with statutory requirements, complaints by shareholders about mismanagement, oppression of minority shareholders, and auditors' failure to report improper accounting and financial records. It appears that the regulatory agencies are ineffective. Reasons for this may include a shortage of qualified personnel or corruption. In terms of ownership concentration, we find a high level of ownership concentration in most corporations. This presents a problem as these large stockholders are reported to have special privileges compared to minority shareholders.

8. Conclusions and Recommendations

Constraints identified in this study that hinder the implementation and promotion of corporate governance in Nigeria include weak or non-existent law enforcement mechanisms, abuse of shareholders' rights, lack of commitment on the part of boards of directors to their responsibilities, lack of adherence to the regulatory framework, weak enforcement and monitoring systems, and lack of transparency and disclosure. Nigeria has ample laws that are designed to protect shareholders' rights and ensure good corporate governance, but effective enforcement of existing laws and regulations constitutes a major challenge for the development and implementation of corporate governance. In sum, the strict rights and entitlements that come with the ownership of shares in listed companies are not fully exploited by shareholders and abused by top management and boards of directors. This is largely because shareholders—especially minority shareholders—are generally unaware of the rights that they have as a shareholder.

The findings reveal that there are a number of barriers facing the development and of effective corporate governance in Nigeria. Based on these, we recommend the following: Overhaul of the enforcement machinery and composition of audit committees, whose members should be more observant to their responsibilities. Auditors must ensure strict compliance with codes of conduct, commitment and vigilance of directors, see to the need for high level of disclosure and transparency,

improve regulatory framework by making the laws available to all shareholders and the public, devise active mechanisms for law enforcement, strengthen enforcement mechanisms (by providing logistics, training, and equipment), adopt alternative dispute resolution mechanisms, create an enabling environment by maintaining the political will to implement policies, and create an independent and courageous judiciary. This is a study to determine corporate governance constraints in Nigeria, so the findings do not apply to other African countries. In addition, the sample does not represent all the corporations in Nigeria, so the results cannot be generalized to corporations that were not part of this study. Future research may be strengthened by using a sample comprising a more diverse set of businesses (small and large). Future research should collect data on a longitudinal basis to help draw causal inferences and to validate the findings of this research.

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