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Multiple influences on corporate governance practice in Nigeria: Agents, strategies and implications[☆]

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ABSTRACT

The literature on the convergence of corporate governance systems across different institutional contexts has often taken the role of 'agents of convergence' for granted. Against this background, we examine the influences of three major agents – international organisations, rating agencies, and local institutions – on the development of corporate governance practices in Nigeria. Findings indicate that the understanding and practice of corporate governance in Nigeria are in a flux and being pulled in multiple directions by the agents studied. This paper provides one of the very few studies utilising sub-Saharan African (Nigerian) data in international business governance research.

1. Introduction

The extent of convergence between corporate governance systems of different countries is a topical question in the literature on corporate governance in international contexts (Braendle & Noll, 2006; Filatotchev & Nakajima, 2010; Goergen, Martynova, & Renneboog, 2005; Gordon & Roe, 2004; Lane, 2003; Liu, 2005; Rubach & Sebora, 1998; Shleifer & Vishny, 1997). Conventionally, a broad contrast can be made between the dominant shareholder and stakeholder orientations/systems of corporate governance in various countries across the world. The former, which is the case in the USA and the UK, sees the firm in terms of relations between shareholder principals and managerial agents with an agenda to maximise shareholder value (Fama & Jensen, 1983; Jensen & Meckling, 1976; Shleifer & Vishny, 1997); the latter, as it is traditionally the case in Japan and Germany, sees the firm in terms of broader relations between all stakeholders with an interest in the firm, where a broader set of goals are maximised or satisfied (Donaldson & Preston, 1995; Filatotchev, Jackson, Gospel, & Allcock, 2007; Freeman, 2010; Solomon, 2010). Despite conflicting pieces of evidence, the extant literature on convergence seems tilted in favour of the emergence of the Anglo-American (shareholder) model of corporate governance as 'an international best approach' (Goergen et al., 2005; Lane, 2003; Rubach & Sebora, 1998).

For example, Shleifer and Vishny (1997) reported that the stakeholder corporate governance systems in Germany and Japan indicate a trend towards uniformity with the Anglo-American shareholder model. It has also been noted that one of the principal factors driving economies towards convergence to the Anglo-American model is the failure of the alternative stakeholder model (Braendle & Noll, 2006; Shleifer & Vishny, 1997), most notably in terms of the growth of their capital

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markets and market centred economies (Cross & Prentice, 2007; Gordon & Roe, 2004). This view has been supported by earlier research findings linking financial markets development to national economic success and it has been pursued by organisations such as the World Bank, the International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD) (Demirguc-Kunt & Maksimovic, 1998; King & Levine, 1993; Rousseau & Wachtel, 1998; Wurgler, 2000).

For the purpose of this paper, the authors make no attempt to resolve the debate between shareholder and stakeholder perspectives as both share some common prescriptions in promoting basic accountability of executive directors for how they use company assets (Filatotchev et al., 2007), but rather note that two important perspectives have received very limited attention in the literature on the convergence of national corporate governance systems. First, less is known about how convergence occurs, particularly in relation to the actors (agents), their roles, strategies, and influences in shaping the direction of convergence. 'Agents of convergence' can be regarded as those entities who are actively involved in promoting specific types of corporate governance model, through intra and cross-border initiatives. They include the following: international organisations such as the World Bank, the IMF, and the OECD; regional bodies such as the Asian Development Bank (ADB) and the African Development Bank (AfDB); multinational corporations and their foreign CEOs; institutional investors and international financial markets; and corporate governance rating agencies (Demirguc-Kunt & Maksimovic, 1998; Rousseau & Wachtel, 1998; Wurgler, 2000). Indeed much needed illumination could be offered to the corporate governance debate through a critical appraisal of the roles played by notable agents of convergence, in advocating and monitoring the implementation of uniform corporate governance practices across different institutional contexts.

Second, developing countries of sub-Saharan Africa have received limited attention in the convergence debate. The budding literature on corporate governance in sub-Saharan Africa (and Nigeria in particular), has been largely descriptive, taking a dominant internal focus, and paying limited attention to the external influences on the evolving landscape of corporate governance and accountability in the region (see Ahunwan, 2002; Okike, 2007; Yakasai, 2001). In our attempt to address this gap, we note that Nigeria, Africa's largest market for goods and services, provides a valuable insight. In addition to increasing local interests, corporate governance in Nigeria has continued to attract notable international interests and influences, given the significant influx of foreign investments in the country.[1] Furthermore, as Lien, Piesse, Strange, and Filatotchev (2005) documented for Taiwan, Nigeria also provides an interesting context in which to study the effects of external factors, due to the distinctiveness of its corporate governance system from the Anglo-American systems, such as the founding families who frequently retain control, play dominant roles in the management, and responsible for corporate strategic direction and performance outcomes of public listed companies. Nigeria presents an evolving corporate governance system, significantly influenced by notable agents of convergence, and provides a useful platform from which to examine the influences shaping the evolution, construction, expectations and expressions of corporate governance, in developing countries.

The major agents of convergence examined in this paper are namely: (a) notable international organisations, involved in cross-border corporate governance development and monitoring; particularly, the World Bank, the IMF and the OECD; (b) corporate governance rating agencies; particularly Standard and Poor's and Governance Metrics International; and (c) indigenous local (African) institutional initiatives, particularly by the AfDB. The rationale behind the focus on these three agents is four-fold. First, they have received limited attention in the extant literature on corporate governance convergence (for example, see Braendle & Noll, 2006; Corporate Board, 2001; Goergen et al., 2005; Gordon & Roe, 2004; Rubach & Sebora, 1998). Second, given the particular focus on sub-Saharan African that our study takes, this choice is in line with the very nascent literature on the activities of the 'agents of convergence' in developing countries (see Soederberg, 2003). Third, our focus is also justified by the substantial reports in the general media and by the agents themselves in terms of their cross-border corporate governance alignment activities in developing economies. For example, the African Development Bank lists the above agents as major players influencing corporate governance in sub-Saharan Africa (AfDB, 2009). Fourth, as generated by the empirical data of this study, the above agents are important due to the influence they retain in shaping and explaining the direction of the convergence debate.

As other important agents such as multinational corporations, institutional investors and international financial markets are frequently studied (see Husted & Allen, 2006; Ite, 2004), this paper explores the varying orientations underpinning the diffusion activities and strategies employed by the three agents. It also examines the implications of these on the direction of the evolving phenomenon of corporate governance and accountability in Nigeria. The paper proceeds with a review of the literature on the convergence of national systems of corporate governance in order to highlight the paper's research questions and agenda. Following on, the research methodology is outlined and the findings, discussed. Some recommendations for practice are further presented, which precedes the conclusions.

2. Literature review, theoretical development and research agenda

2.1. Supra-national and national institutions: an African perspective

On his reflection on the European Union's 'democratic deficit', Pogge (1997) highlighted two distinct democratic deficits in the emerging European Union (EU). First, he noted that ordinary citizens of the EU have very little meaningful influence on

[1] For example, the Nigerian Stock Exchange recorded a total of $3.01 billion in foreign portfolio investment in 2011 up from $2.7 billion (NSE, 2012).