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Corporate Governance In Nigeria: A Budding Debate

By Emmanuel Adegbite

While there are evidences of research in developing countries, most discussions on corporate governance in the last two decades have focussed on developed countries particularly the US, the UK, Canada, France, Germany and Japan. Apart from the palpable less developed nature of third world countries, corporations indigenous to Africa are relatively smaller with lesser financial strength; as such these amongst other rationalisations could explain why discussions focussing on corporate governance in African jurisdictions have comparatively not generated any substantial academic, practice, polity nor media attention on a global scale. However it is important to accentuate that this dearth is not an indication that the subject is not a matter of concern in Africa as the last five years have de facto witnessed an exponential upsurge in corporate governance discussions in the continent, especially in Nigeria. Furthermore, having the total market value of the securities listed on the Nigerian Stock Exchange (NSE) standing at about \$100 billion, corporate governance discussions in Nigeria has become a matter of brooding disquietude for all stakeholders. The response has been several corporate governance summits and reforms which have highlighted and attempted to tackle specific issues relating to the governance of listed corporations in the country.

Indeed, publicly quoted companies in Nigeria, especially banks and other financial institutions, have passably demonstrated their commitment to good corporate governance. An indication that the international community is becoming to recognise

the tremendous strides achieved in this area is the Nigeria Capital Markets Day which was held in London on June 8th 2007. Signalling to potential foreign investors (individual and institutional) that it is safe to invest in Nigeria, the London Stock Exchange (LSE) in conjunction with the NSE and Africa Practice held the Capital Markets Day to provide an overview of investment opportunities in Nigeria with 10 of Nigeria's leading banks presenting to London based institutional investors¹ Furthermore there is increasing acceptance that investor protection is being taken seriously especially in Nigerian banks, and as such this has enabled Guaranty Trust Bank (GTB), one of Nigeria's major banks, to become the first Nigerian company and first African bank to be listed on the LSE. Diamond Bank has followed suit. In addition 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.² Indeed having recognised the vital contributions of private sector corporations in national economic development, partly as a result of the recent but massive financial deepening of Nigeria's capital market, the Nigerian government has also become more ardent to attract foreign investments, and as such there has been a general renewed emphasis on good governance in Nigeria's corporations.

Corporate governance in Africa will even become more important. As the bubble of economic recession keeps looming across international financial markets (especially those of the UK and the US), investors are beginning to seriously consider investing

¹ LSE, (2007) Nigeria Capital Markets Day. The London Stock Exchange Available at <http://www.londonstockexchange.com/en-gb/products/irs/capitaldays/Nigeria/>

² Amao, O. and Amaeshi, K. (2007) 'Galvanising shareholder activism: a prerequisite for effective corporate governance and accountability in Nigeria' *CSGR Working Paper Series 228/07*: 1-22.

in emerging markets to diversify their portfolios. International investors have already begun to develop substantial interests in emerging markets as a result of the huge potential for growth, and the prospects of higher returns on investments that they offer compared with that of the over-saturated developed markets. The threat of economic recession will undoubtedly heighten this trend, as such, corporate governance in Africa will even become more important, as foreign individual and especially institutional investors will have to look beyond Asia but consider investing in other emerging African markets. And given that future economic development in the African continent is dependent on its ability to attract these investments; good corporate governance has become more imperative. As prospective investors will have to consider the level of protection that a particular country's corporate governance system guarantees their investments, one can posit that if the global economic turbulence, spiked by the US sub-prime mortgage crisis, continues, the country with the highest degree of investor protection and most robust corporate governance structure among the African nations could be the new location for investments in continent. Nigeria will thus have to act even faster since foreign investors considering investing in the country will have to primarily consider the country's corporate governance structure and practices before investing, as they also need to secure their investments irrespective of the prospects for higher returns.

However the state of corporate governance in Nigeria is fairly unimpressive. Traditionally the country's corporate governance structure and practices have been riddled with corruption, an endemic problem that has penetrated all areas of the country. The problems of corporate governance in Nigeria are part of a larger problem of the Nigerian society which has been characterised by political instability, bad

leadership, ethnic and religious tensions, firmly embedded in massive corruption. Specific problems also relate to the traditional ownership structure of Nigerian corporations and the damaging roles single/family owners have played. However while globalization and pressures from present but more especially potential foreign investors can catalyse significant corporate governance reforms in the country, it is important to stress that such reforms must be originally “Nigerian” although they could be ones with significant external influence and inputs. This will ensure that the reforms represent what Nigeria actually needs, tackling the country’s specific corporate governance challenges and not a Western influenced response to global economic activities. Although Nigeria will have to put in place a vibrant corporate governance system to achieve a significant local and foreign investor confidence but Nigeria should also bear in mind that any element borrowed from the corporate governance structure of any country must be reassembled to fit strategically and meet with the challenges of the country’s peculiar social, economic, legal, political and cultural institutions. In today’s environment of global competition for investment, good and competitive corporate governance has become more imperative than ever. Contributors to the debate must however realise that this would necessitate a scrutiny of the conceptual, theoretical and practical constructions of corporate governance in Nigeria. Until this becomes our immediate agenda, avoiding the likes of Cadbury and Lever Brothers will remain ‘wishful thinking’.

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