The current issue and full text archive of this journal is available at
www.emeraldinsight.com/0140-9174.htm

Board characteristics and involvement in strategic decision making

The Nigerian perspective

Chris Ogbechie
Lagos Business School, Pan African University, Victoria Island, Lagos, Nigeria, and
Dimitrios N. Koufopoulos and Maria Argyropoulou
Brunel Business School, Brunel University, Uxbridge, UK

Abstract

Purpose – This paper aims to review how corporate governance is institutionalised in Nigeria and examine the relationship between board size, CEOs' duality, board composition and the board's involvement in strategy.

Design/methodology/approach – A structured questionnaire was sent by post to the chairmen of 138 publicly quoted companies in Nigeria in November 2004.

Findings – Using primary and secondary data, our results suggest that the Nigerian public companies have embraced some principles of the Code of Best Practices for Public Companies. There is a high level of board involvement in strategy decision-making process, but no correlation was found between board involvement and a number of governance variables (board size, board independence and CEO duality).

Research limitations/implications – The sample of 39 responding companies is small although it represents a 28 per cent of response rate and is representative of the Nigerian stock market. However, we are unable to look at other factors such as industry sectors and we cannot generalise our findings regarding corporate governance practices in Nigeria.

Practical implications – The investment climate in Nigeria can become more reassuring than in the past although there is room for further improvements as the effectiveness of the corporate government practices is still in doubt.

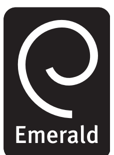
Originality/value – This paper adds to the scanty literature available on corporate governance practices in developing, countries. Findings extend our understanding about the strategic functions of the board in Nigeria, which is Africa's most populous nation, and the world's sixth larger producer of oil.

Keywords Corporate governance, Boards of directors, Chief executives, Strategic management, Decision-making, Nigeria

Paper type Research paper

Introduction

In the last five years, corporate governance has become a hotly debated corporate issue. One of the topics that exhibited an escalation of research is the board's involvement in strategic decision making. The governance of board processes and demography significantly affect strategic change (Golden and Zajac, 2001). While the prior experience of new chief executive officers (CEOs) predicts corporate strategic change, this situation might conceal the process by which an experienced board can influence strategy development (Westphal and Fredrickson, 2001). Other studies have found no evidence that factors such as board size (BS), or the percentage of outside directors per se are related to board involvement in strategic decision making (Ruigrok *et al.*, 2006). Ravasi and Zattoni (2006) showed that the board of directors participates in the political



Management Research News
Vol. 32 No. 2, 2009
pp. 169-184
© Emerald Group Publishing Limited
0140-9174
DOI 10.1108/01409170910927622

المنارة للاستشارات
www.mana

dimension of the strategic decision process not only as a single monolithic entity interacting with managers but also as a negotiation forum where an agreement between represented shareholders is to be reached before confronting the management.

The rising interest in corporate governance practices has also left its traces on the African continent (Rossouw, 2005). There is an upsurge in the research on corporate governance developments in Africa (Armstrong, 2003; Mallin and Jelic, 2000; Rossouw, 2005; Zalik, 2004). In Nigeria, like in many other developing countries, the international economic pressures have induced the government to adopt initiatives of deregulation and privatization and to address corporate governance issues. Prior studies range from Okike (1994, 2000) to Ahunwan (2002) and Okike (2007). Yakasai (2001) provides some evidence of the evolution of corporate governance in the banking sector. However, there is limited research on the specific topic of board characteristics and board involvement in strategic decision-making neither in Nigeria nor in the African continent. In the light of the foregoing, this paper aims to shed some light in the literature of corporate governance practices in developing countries focusing on a sample of 138 publicly quoted Nigerian companies in November 2004.

The remainder of the paper is organized as follows: first, we provide a review of the African context regarding corporate governance practices. Then, we proceed with Nigeria's major socio-political aspects and a brief historical background regarding economic environment to help international readers put the country into a proper context. A detailed review of the country's corporate governance scene follows. We then introduce our research framework which, in turn, is followed by our main theory and hypotheses development section. We then present our methodology and results. The paper finishes with a discussion of some empirical and theoretical implications.

The African context

There is a range of initiatives being taken in the field of corporate governance that bears the potential of positively affecting the improvement of corporate governance in general. Among the countries that already produced and published national codes of corporate governance are: Ghana (*Manual on Corporate Governance in Ghana*, IFC *et al.*, 2000), Malawi (*Corporate Governance Task Force*, Country of Malawi, 2001), Mauritius (*Report on Corporate Governance for Mauritius*, Republic of Mauritius, 2003), South Africa (*King Report,* Institute of Directors in Southern Africa, 1994/2002). The outcome of these initiatives is a greater awareness of the need for adherence to corporate governance practices in the private and public sector all over the continent (Rossouw, 2005). The drive toward corporate governance has been fueled by a number of factors. There is wide recognition that corporate governance can contribute to the economic success of corporations and to their long-term sustainability (Armstrong, 2003). Good corporate governance can enhance corporate responsibility and improve the reputation of companies, which in turn can attract local and foreign investors. Good corporate governance is a deterrent to corruption and unethical business practices that scars Africa's business image (Armstrong, 2003).

There are many barriers in Africa that frustrate the quest for good governance (Rossouw, 2005). Prominent on the list of obstacles is the lack of effective regulatory and institutional frameworks that can ensure the enforcement of the standards of good corporate governance. Organisations such as institutes of directors or professional bodies such as associations of accountants often take the lead along with other stakeholder groups to produce standards of good governance that are recommended to the local business community. In developing such codes recognition is taken of

المنارة للاستشارات
www.mana

corporate governance developments elsewhere on the African continent and in the world. Three codes of corporate governance are often cited and explicitly referred to as major influences on the development of such national codes (Rossouw, 2005). These codes are: the OECD *Principles of Corporate Governance* (2004), the Commonwealth Association for Corporate governance *Principles of Corporate Governance* and either the first or second *King Report on Corporate Governance for South Africa* (Institute of Directors of South Africa, 1994, 2002). The dominant model of corporate governance that emerges in these national codes is an inclusive model of corporate governance in which boards of directors are not merely accountable to shareholders but also responsible to all other stakeholders of the company. The notable exception here is Nigeria that does not commit explicitly to an inclusive model of governance (Rossouw, 2005).

The Nigerian socio-political context[1]

Oil-rich Nigeria is Africa's most populous country, long hobbled by political instability, corruption, inadequate infrastructure and poor macroeconomic management. Nigeria's former military rulers failed to diversify the economy away from its overdependence on the capital-intensive oil sector, which provides 20 per cent of GDP, 95 per cent of foreign exchange earnings, and about 65 per cent of budgetary revenues. The largely subsistence agricultural sector has failed to keep up with rapid population growth. The international economic pressures have induced the country to adopt a program of economic liberalisation and deregulation. In 2003, the government began deregulating fuel prices, announced the privatisation of the country's four oil refineries, and instituted the National Economic Empowerment Development Strategy, a domestically designed and run program modelled on the International Monetary Fund's (IMF's) poverty reduction and growth facility for fiscal and monetary management. In the last year, the government has started showing the political will to implement the market-oriented reforms urged by the IMF, such as to modernise the banking system, to curb inflation by blocking excessive wage demands and to resolve regional disputes over the distribution of earnings from the oil industry.

Brief historical background for Nigeria's economic environment

An issue relating to the regulation, control and governance of business enterprises in Nigeria is largely contained within the provisions of company legislation, which has its roots in Nigeria's colonial past. During the colonial period, British company legislation was introduced into the country; hence, Nigeria's legal system and corporate governance practices mirrored the Anglo-Saxon pattern (Okike, 2007). Nonetheless, Nigeria failed to deal with company law problems that were peculiar to Nigeria's socio-cultural and political environment. The nature of Nigeria's problems is also related to the ownership structure in the corporate sector. In Nigeria, as in many former colonies, the government of the newly independent country perceived a need for greater local control over productive resources, which during the colonial period were largely dominated by foreign owners (Ahunwan, 2002). A prominent feature of ownership structure of Nigerian corporations is majority (or substantial minority) ownership (Ahunwan, 2002; Okike, 2007). This feature means government participation in the economy, where government as an owner (or regulator) is able to adversely affect the interest of shareholders. Moreover, in corporations wholly owned by the government, corporate governance and partisan political considerations merge (Ahunwan, 2002). Appointment to the board, senior management positions, and even lower cadres is

المنارة للاستشارات
www.mana

often based on political connections, ethnic loyalty and/or religious faith as opposed to considerations of efficiency and professional qualifications (Yerokun, 1992).

The ownership structure resulting from governance policy can be classified under four categories (Ahunwan, 2002): Category "A" is composed of corporation wholly owned by government and includes petroleum refineries, petrochemical plants, insurance companies, banks, hotels etc. Category "B" comprises joint venture arrangements between the government and foreign crude oil corporations. This is the most important category as Nigeria derives 97 per cent of its total revenue from joint ventures in oil and gas (Federal Office of Statistics, 1997). Group "C" consists of publicly listed companies where foreign investors hold a majority of controlling interest. Finally, category "D" consists of privately-owned corporations that are not listed in the stock market are family owned and lack business sophistication. In comparison to the 500,000 companies registered in Nigeria, only a little over 200 companies have their shares listed on the Nigerian Stock Exchange (NSE) as the majority of corporations are not publicly listed (Okike, 2007).

The NSE is composed of the first tier and second tier securities markets. The first tier includes bigger companies, whereas the second tier is made up of smaller companies with at least 10 per cent of the equity capital available to the public. Despite the initiatives for privatisation, the NSE still falls short of the developments of other countries as is small and illiquid. As of December 2003, the number of all listed companies (first and second tier) stood at 210, with a combined market capitalisation of US 10 billion (Okike, 2007). However, the combined market capitalisation shows an increase in the portfolio of foreign investments and suggests that the various initiatives introduced by the Government to attract investments into the country are making an impact (Okike, 2007). In 31 December 2006, there were 173 companies in the first tier covering 24 sectors and 20 companies in the second tier.

Recent developments in Nigerian corporate governance practices

There is a renewed emphasis in Nigeria for effective corporate governance in the public sector (Okike, 2007). In June 2000, the Securities and Exchange Commission (SEC) of Nigeria set up The Committee on Corporate Governance of Public Companies in Nigeria to recommend a Code of Best Practices for Public Companies SEC (2003). The Nigerian code of Corporate Governance is primarily aiming at eradicating the weaknesses in the system and ensuring that managers and investors of companies carry out their duties within a framework of accountability and transparency. This code should ensure that the interests of all stakeholders are recognized and protected as much as possible. It also seeks to guide Directors to increase their effectiveness. It outlines the main duties and responsibilities of the board and recommends the structure and composition of the board (Okike, 2007).

The code also recommends that the Board of Directors shall be composed of executive and non-executive directors under the leadership of a Chairman. The BS shall be between five and 15 persons in total. It mentions that the roles of the chairman and the CEO should be separate; where, however, the Chairman is also the chief Executive, it is important to have a "strong independent element" on the board. Finally, it suggests that boards should have at least three board committees – nomination, audit and remuneration committee and recommend. The Code of Best Practices for Public Companies in Nigeria is voluntary even though it is recommended that all Nigerian public companies comply with the code and expects public companies to

المنارة للاستشارات
www.mana

make statements about their compliance in their Annual Reports and Accounts, and give reasons for non-compliance.

Whilst these general principles apply, it would be foolhardy to suggest that the degree of application in Nigeria is exactly the same as in other developed countries (Okike, 1997). There is evidence; however, that the Nigerian capital market does not function as those in the developed world (Abdullahi, 1993; Wallace, 1987). Enforcing a voluntary code in Nigeria is difficult because of the characteristics of the corporate sector as earlier stated. More specifically, one of the fallouts of the recent reform in the Nigerian banking industry is the collapse of eleven banks arising mainly from corporate governance issues. This forced the Central Bank of Nigeria to issue new corporate governance guidelines to all banks operating in the country in February 2006 (CBN, 2006).

The need for good corporate governance in Nigeria is very important in view of the country's need to attract foreign direct investment (Okike, 2007). Seeing that Nigeria has been ranked as the second most corrupted nation in the world, after Bangladesh, (Global Corruption Report, 2003) it is reasonable to assume that prospective foreign investors would need to be assured that the systems of corporate governance are effective (Okike, 2007). Moreover, there is the need to move from a regime of compliance with legal and regulatory requirements to good corporate governance culture. This evolution could be achieved by the SEC encouraging companies to have their own code of ethics and company-level corporate governance code. The SEC can also ensure compliance by revising its listing requirements to include the provisions of the code. Not much is known about the corporate governance practices in Nigeria, which is Africa's most populous nation, and the world's sixth larger producer of oil (Okike, 2007).

Theory and hypotheses development

Board's involvement in organization's strategy process

Board involvement describes the level of participation of board members in making decisions that affect the long term performance of an organisation (Judge and Zeithaml, 1992, p. 771). Strategic decisions are those decisions that border on the long-term thrust and direction of any organization. Creating a vision, mission and values; developing corporate culture and climate; positioning in the dynamic market; setting corporate direction, reviewing and deciding key corporate resources; deciding implementation mode and processes etc are all part of the strategic activities or decisions that the board uses in driving or directing the thrust of an organization's future, (Garratt, 1996, 1984; Pearce and Zahra, 1992). It is the responsibility of the board to oversee every strategic issue and decision facing corporate organizations. The board of directors plays a crucial role in corporate policy formulation, its implementation and reviews (William, 2003). One key question is how active should the boards become in strategy development? The distinction between setting and monitoring strategic direction, and executing strategies on an operational level has become increasingly blurred (Ingley and Van der Walt, 2001) and boards run the risk of stepping into what should be management's responsibilities (Helmer, 1996). This issue is a particular concern relative to the board's role in developing strategy.

We seek to examine the relationship between BS, CEO's duality, board composition and the board's involvement in strategy. Our theoretical framework is based on a general research model of Finkelstein and Hambrick (1996, p. 211) and our three hypotheses are adopted from Ruigrok *et al.* (2006). Our framework is illustrated in

المنارة للاستشارات
www.mana

Figure 1, whereas the theorised relationships and research methodology are described in the following sections.

BS and strategic involvement

BS refers to the total number of directors on the board of any corporate organisation. While numerous researchers have recommended large BS (Judge and Zeithaml, 1992; Pennings, 1980; Pfeffer and Salancik, 1978), others believe that a small BS is more appropriate for any firm that wants to sustain improved performance (Golden and Zajac, 2001; Denis and Sarin, 1999; Goodstein *et al.*, 1994). A large board provides an increased pool of expertise and is capable of reducing the dominance of an overbearing CEO (Forbes and Milliken, 1999). These arguments imply that larger boards are better able to make significant contributions in strategy development. However, larger boards are more prone to conflict among directors (Amason and Sapienza, 1997), have less time during board meetings for individual directors to speak up (Golden and Zajac, 2001) and are difficult to co-ordinate, and are late in strategic decision-making processes (Forbes and Milliken, 1999). For these reasons, we suggest that larger boards are not able to capitalise on their diversity of perspectives and we hypothesise a negative impact of BS on strategic involvement (SI).

> *H1*. Board size is negatively related to the board's involvement in strategic decision-making.

Outside directors and board involvement

Board composition refers to the distinction between inside and outside directors and is traditionally operationalised as the percentage of outside directors on the board (Goergen and Renneboog, 2000). Although inside and outside directors have their respective merits and demerits, most researchers favour outside dominated boards (Pablo *et al.*, 2005). Outside directors provide superior performance benefits to the firm as a result of their independence from firm's management (Baysinger and Butler, 1985). They can bring to the board a wealth of knowledge and experience, which the company's own management may not possess and they can increase the element of independence and objectivity in board's strategic decision-making (Fama and Jensen, 1983). However, a board that is dominated by inside directors may be advantageous, as their vast industry experience can help improve firm's performance (Bhagat and Black, 1998). However, inside directors depend directly on the CEO for their career

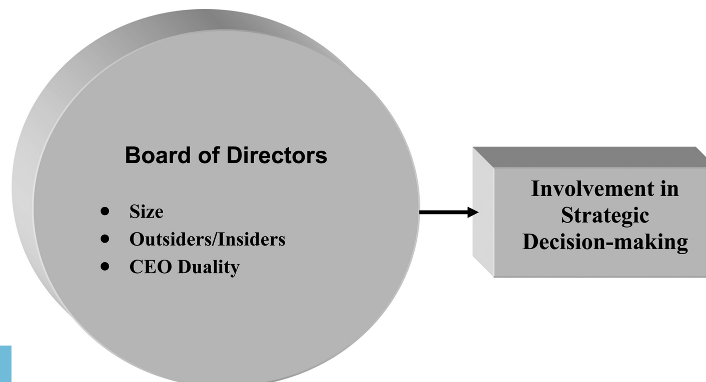


Figure 1.
The research framework

المنارة للاستشارات
www.mana

advancements and may thus, hesitate to oppose or challenge strategic proposals of the CEO. These observations imply that having insufficient inside knowledge on the board could limit the board's ability to contribute to strategy development process, and we arrive at our second hypothesis.

H2. The percentage of outside directors on the board is negatively related to the board's involvement in strategic decision-making.

CEO duality and board involvement

CEO duality (DU) exists when a firm's CEO also serves as the chairman of the board of directors. While some organisational scholars favour the fusion of both positions (Anderson and Anthony, 1986; Harrison *et al.*, 1988), others favour the separation of both positions (Lorsch and Maclver, 1989; Kesner and Johnson, 1990). The proponents of this duality role believe that the greater levels of information and knowledge possessed by a joint CEO/chairperson will enable him or her to better manage and direct the board's discussions and agenda (Lorsch and Maclver, 1989). Separation of the two roles may create a conflict or power struggles among corporate leaders as well as confusion about corporate objectives and expectations (Baglia *et al.*, 1996). The advantages of clear and strong leadership might be most valuable in situations of crisis, where fast decision-making and clear strategic direction are required (Davidson *et al.*, 1996; Mueller and Baker, 1997).

Moves aimed at separating the roles and functioning of these two positions have received some attention in the UK, USA and Australia (Lorsch and Maclver, 1989; Dobrzynski, 1991). Less consideration has been given to it in Japan, France and Germany, though (Dalton and Kesner, 1987). For a board to be effective, it is important to separate roles, as it avoids CEO entrenchment (Jensen, 1993). Too powerful, a CEO hinders outside directors to oppose and challenge strategic propositions from the CEO (Golden and Zajac, 2001). Thus, we argue that a strong CEO arising from the CEO DU will have a negative impact on strategic board involvement and we arrive at our third hypothesis.

H3. CEO duality has a negative impact on the board's involvement in strategic decision-making

Research methodology

Sample

Our sample frame is public companies listed on the first tier of the NSE in November 2004. At the time, the first tier consisted of 138 publicly quoted companies. Given the small number of the complete list of all the cases in the population, our sample size was equal to the actual size of the population i.e. 138 corporations.

Questionnaire administration and measures used

A structured questionnaire was sent by post to the Chairmen of all the 138 companies in the sample. Responses were received by post over a period of four months. At the end of January 2005, a first reminder was sent to companies that had not responded. At the end of February 2005, a second reminder was sent to those who still had not responded. At the end of March 2005, a total of 39 validly completed questionnaires were received. This response represented 28.3 per cent response rate, which is comparable to similar studies (Pearce and Zahra, 1992; Ruigrok *et al.*, 2006).

المنارة للاستشارات

www.mana

The first set of questions asked about the size of the board, its composition in terms of inside and outside directors, and the number of independent and affiliate directors. Using the Judge and Zeithaml (1992) survey measures, we also asked the chairmen to rate board involvement in strategic decision-making on a seven-point Likert scale over the following eight features of the strategic decision-making process:

(1) Determining the company's vision and mission to guide and set the strategic direction.
(2) Determining and reviewing strategic objectives.
(3) Determining and enforcing company policies.
(4) Reviewing and evaluating opportunities, threats and risks.
(5) Developing strategic options.
(6) Determining the business unit strategies and plans.
(7) Ensuring that organization structure and capabilities are appropriate.
(8) Evaluating implementation of strategy.

Dependent variable

Data on the "board's involvement in strategic decision-making" were obtained from the survey based on the rating of the chairmen on a seven-point scale. In our analysis, we have created the dependent variable "Strategic Involvement" from the average scores of the eight factors that were used to assess the involvement of the board on strategic decision-making.

Independent variables

Data on board composition and leadership structure were also collected from the survey. BS is the number of directors sitting on the board of the company. Directors who were full-time executives and members of the top management team were classified as insiders. The number of all the other directors divided by BS was taken as the percentage of outside directors. The variable CEO DU was constructed as a dummy variable, having the value 1, if the CEO and the chairman of the board were the same person and 2 if they were different entities.

Results/findings

The analysis of the responses was conducted in two phases. The first phase concerned a descriptive analysis, whereas the second examined correlations such as the degree of association between the various board characteristics and involvement of the board in strategic decision-making. Tables I and II present the descriptive results whereas Table III contains the correlations between variables. An analysis and discussion of the findings are discussed in the subsequent subsections.

Board size

The results show that the average size of the boards of public companies in Nigeria is within globally accepted norms for public companies. The average number of board members is 7.8 (Table II) with 38 per cent of the companies having less than eight directors, smaller boards. A BS of ten directors was the most popular with 20.5 per cent of the respondent companies. Our results for 2004 coincide with the annual reports of

المنارة للاستشارات
www.mana

Table I. Board of directors composition[a]

	Mean	SD	No. of directors 1	2	3	4	5	6	7	8	9	10	11	12
No. of board members	7.77	3	1 (2.6)	1 (2.6)	1 (2.6)	1 (2.6)	3 (7.7)	3 (7.7)	5 (12)	4 (10.3)	6 (15.4)	8 (20.5)	1 (2.6)	4 (10.3)
No. of inside/internal board members	3.25	1.99	8 (22.2)	6 (16.7)	7 (19.4)	9 (25.0)	2 (5.6)	1 (2.8)	1 (2.8)	1 (2.8)	1 (2.8)	–	–	–
No. of outside/external board members	5.3	2.24	1 (2.7)	1 (2.7)	1 (2.7)	9 (24.3)	4 (10.8)	7 (18.9)	8 (22.2)	5 (14.1)	–	1 (2.8)	–	–
Outside board members that are affiliate	1.46	1.77	8 (34.7)	6 (26.0)	5 (22.3)	1 (4.3)	1 (4.3)	1 (4.3)	1 (4.3)	–	–	–	–	–
Outside board members that are independent	4.28	2.81	3 (8.6)	6 (17.1)	4 (11.4)	4 (11.4)	2 (5.7)	6 (17.1)	5 (14.3)	4 (11.4)	–	–	1 (2.9)	–

Note: [a]Number in parenthesis indicate percentages

www.mana

Table II. Board's involvement in the strategy process

Your board	Mean	SD	1	2	3	4	5	6	7
Determines the company's vision and mission to guide and set pace for ———	5.54	0.57		1 (2.6)	6 (15.4)	2 (5.1)	8 (20.5)	6 (15.4)	16 (41.0)
Determines and reviews company's objectives to match the mission and value	5.38	1.53		2 (5.1)	4 (10.3)	5 (12.8)	5 (12.8)	12 (30.8)	11 (28.2)
Determines, supports and enforces company polices	4.77	1.74	2 (5.1)	3 (7.7)	5 (12.8)	5 (12.8)	6 (15.4)	13 (33.3)	5 (12.8)
Reviews and evaluates present and future opportunities, threats and risks	5.23	1.39		1 (2.6)	5 (12.8)	5 (12.8)	8 (20.5)	13 (33.3)	7 (17.9)
Determines corporate and financial strategic options	4.92	1.59		4 (10.3)	4 (10.3)	7 (17.9)	7 (17.9)	10 (25.6)	7 (17.9)
Determines the business unit strategies and plans designed to ———	4.59	1.62		5 (12.8)	5 (12.8)	10 (25.6)	6 (15.4)	7 (17.9)	6 (15.4)
Ensures that your company's organisation structure and capabilities are appropriate	4.62	1.65		5 (12.8)	7 (17.9)	5 (12.8)	9 (23.1)	7 (17.9)	6 (15.4)
Adapts performance measures to monitor the implementation of strategy	4.90	1.47		4 (10.3)	2 (5.1)	7 (17.9)	13 (33.3)	7 (17.9)	6 (15.4)

Notes: Numbers in parenthesis indicate percentages; 1 = not important, 7 = very important

Table III. Means, SD and pair-wise correlations

Variable	Mean	SD	1	2	3	4
1. Strategic development	5.07	1.39	1.00			
2. Board size	7.77	3.00	0.10	1.00		
3. CEO duality	1.77	0.43	0.23	0.02	1.00	
4. Outside directors (%)	66.82	19.46	−0.27	−0.19	0.12	1.00

listed companies in Nigeria (Okike, 2002) which reveal that the majority of the boards have between seven and ten members.

Board composition

The results show that most of the Nigerian listed companies have boards with a greater percentage of outside directors. The average number of inside (Executive) directors is 3.2 and the average of outside (non-executive) directors is 5.3. (90 per cent of corporations have at least four outside directors). Further analysis shows that the average number of the outside directors that are company affiliates is 1.5; the number of independents is 4.3. Our research shows that board independence (IND), expressed as a percentage of outside directors, does not appear to constrain directors' involvement in the strategy process. This results is similar to the findings of Ruigrok,

المنارة للاستشارات
www.mana

(2006) even though the average percentage of outside directors in our sample is lower than in the one reported by Ruigrok, (2006).

CEO duality

The Committee on Corporate Governance of Public companies in Nigeria recommends that the role of the chairman and the chief executive should be separate, and where the chairman is also the chief executive, it is important to have a "strong independent element" on the board. In our research, we found that 30 out of the 39 respondent companies, (i.e. 76.9 per cent) have chairmen that are not the CEO of their companies. This result is in line with global trend as this separation of the roles of chairman and CEO is widely recognized as a feature of "good" corporate governance structure/best practice. Moreover, it coincides with the annual reports of listed companies in Nigeria (Okike, 2002) which reveal that 80 per cent of corporations have separated the roles of the chairman and the CEO.

Involvement of the board of directors in company's strategic process

Eight measures were used in assessing the involvement of the board of directors with company's strategy development process. 77 per cent of the respondents consider that the most important role of the board in the strategy development process is to determine the company's vision and mission so as to guide and set the pace for its operation and future development. Setting the future direction of the company is found to be the second important role of the board. The board's role in determining and reviewing company's objectives is significant as 72 per cent of the respondents consider it to be important/very important. The third most important role of the board in the strategy development process is the review and evaluation of present and future opportunities, threats and risks in the external environment and current and future strengths, weaknesses and risks of the company. 72 per cent of the respondents consider it to be important/very important. This result implies that the directors must be aware of the external and internal circumstances of the company if they are to contribute effectively in the strategy process.

The boards also attach importance to the role of establishing corporate and financial strategic options, as well as to the determination, support and enforcement of company policies. Over 61 per cent of the respondents consider these two roles as important/very important. Regarding their involvement in ensuring that the company's organizational structure and capabilities are appropriate in executing the company's strategy, it was found that 56 per cent of the respondents consider it as important/very important. Finally, less involvement of Nigerian boards is evident in the determination of the business unit strategies and plans designed to implement the corporate strategy. Only 49 per cent of respondents consider it important. The implication is that the board is not actively involved in strategy implementation and that this is a role that top management can effectively perform.

Hypotheses testing

So far, we have argued that various board characteristics such as BS, CEO DU and board IND, are important in affecting the extent of board involvement in strategic decision-making. To test the effects of these characteristics, we establish the following general relationship that SI is a function of BS, CEO DU and board IND:

$$\mathrm{SI} = F(\mathrm{BS}, \mathrm{DU}, \mathrm{IND}).$$

المنارة للاستشارات

www.mana

Table III presents the correlation (Pearson's) matrix between the dependent and independent variables and reveals that no statistical significant relations have been detected. The correlation test using p-factor did not find that board size is negatively related to the board's involvement in strategic decision-making (*H1*). It also did not find that the percentage of outside directors on the board (*H2*) and the CEO DU (*H3*) are negatively related to the board's involvement in strategic decision-making.

Our results are similar to those of Ruigrok (2006) and his colleagues in their study of Swiss public companies as they also did not find any support to prove that board size and percentage of outside directors are negatively related to the board's SI. However, Ruigrok *et al.* (2006) were able to establish that CEO DU will have a negative relationship on board strategic decision-making. Yet, our findings are in contrast to earlier studies reporting a negative impact of board size on the board's SI (Goodstein *et al.*, 1994; Judge and Zeithaml, 1992).

Recommendations/implications

Implications for researchers

Our research involves publicly listed corporations and further research is necessary to include the unlisted companies. In comparison to the 500,000 companies registered in Nigeria, only a little over 200 companies have their shares listed on the NSE (Okike, 2007) as the majority of corporations are not publicly listed. In addition, we believe that future research should find out why the board characteristics (size, composition and CEO DU) do not have any effect on board SI.

Implications for practitioners

The general finding of the research is that Nigerian public companies have embraced some principles of the Code of Best Practices for Public Companies in Nigeria. The Nigerian code lists setting the strategic direction of the company as one of the roles of the board. The involvement of the board in a company's strategy process is very important for several reasons. First, most codes of corporate governance charge the board to be responsible for the success of the company. Directors are therefore expected to act with care to ensure the survival of the company while creating a future for it. Second, the board is usually made up of experienced and knowledgeable corporate leaders and as such their involvement in major corporate decisions will be of value to a company. Third, actively involved boards force executives to carefully evaluate and check their assumptions before advancing strategic proposals (Judge and Zeithaml, 1992). Fourth, some studies have found evidence of a positive and significant correlation between the board's involvement in strategic decision-making and corporate performance (Judge and Zeithaml, 1992; Pearce and Zahra, 1992). Fifth, the involvement of outside directors in strategic decision-making has the potential to enhance the quality of strategic decisions and thereby to improve the company's competitive position (Ruigrok *et al.*, 2006).

Limitations

Our study has the major limitation of sample size. The sample of 39 responding companies is small although it represents a 28 per cent response rate. Ruigrok *et al.* (2006) had the same response conducting a similar survey rate using a sample frame of 217 Swiss companies. Although we know, that the state receives between 70 and 80 per cent of its resources from the oil industry, (Zalik, 2004), we would like to look at unlisted corporations as well as to other industry sectors that influence the national

المنارة للاستشارات
www.mana

economy. However, we are unable to do so and we cannot generalise our findings regarding the state of, and the mechanism for corporate governance in Nigeria. Nonetheless, the sample is representative of the Nigerian first tier stock market and suggests that the listed companies have complied with the Code of Best Practices for Public Companies in Nigeria. Another concern is whether this Code provides the right assurance to prospective and existing shareholders and to which extent it reflects the peculiar socio-political and economic environment of the country (Olike, 2007).

Conclusion

This paper examined how corporate governance is institutionalised in Nigeria. We analysed the relationship between board size, CEO's duality, board composition and board's involvement in strategy. Our theoretical framework is based on the general research model of Finkelstein and Hambrick (1996, p. 211) and our hypotheses are adopted from similar research for Swiss Companies (Ruigrok *et al.*, 2006). It can be deduced from our results that the boards of public companies in Nigeria are involved in their company's strategy process and the most important role of the board in this strategy development process is determining the company's vision and mission in order to guide and set the pace for its operation and future development. In addition, whilst the boards attach much importance to their visionary and strategic roles, they leave the management team to handle operational issues. The high level of board involvement in the strategy process could be the result of the low incidence of CEO DU amongst the public companies in Nigeria. The chairmen of public companies in Nigeria see boards playing the important roles of shaping the long-term strategy of their companies and ensuring the implementation in order to achieve their strategic goals.

In conclusion, our findings from secondary and primary data suggest that some steps have been taken to initiate a system of corporate governance in listed corporations, which can play an important role in the economic development and might strengthen investor's confidence in the country's capital market. This paper extends our understanding about corporate governance practices in developing countries and adds to the emerging empirical literature on the efficacy of board characteristics, structures and relationship to board process.

Note

1. Source: www.cia.gov/library/publications/the-world-factbook/geos/ni.html retrieved on 25 November 2007.

References

Abdullahi, N.A. (1993), "The operations and development of the Nigerian stock market: an empirical study of the perceptions and understanding of private investors and stockbrokers", doctoral thesis, University of Exeter, Exeter.

Ahunwan, B. (2002), "Corporate governance in Nigeria", *Journal of Business Ethics*, Vol. 37, pp. 269-87.

Amason, A.C. and Sapienza, H.J. (1997), "The effects of top management team size and interaction norms on cognitive and affective conflict", *Journal of Management*, Vol. 23 No. 4, pp. 495-516.

Anderson, C.A. and Anthony, R.N. (1986), *The New Corporate Directors*, John Wiley, New York, NY.

Armstrong, P. (2003), *Status Report on Corporate Governance Reform in Africa*, Pan-African Consultative Forum on Corporate Governance, Johannesburg.

المنارة للاستشارات

www.mana

Baglia, B.R., Moyer, C.R. and Rao, R.S. (1996), "CEO duality and firm performance: what's the fuss?", *Strategic Management Journal*, Vol. 17 No. 1, pp. 41-53.

Baysinger, B.D. and Butler, H.N. (1985), "Corporate governance and the board of directors: Performance effects of changes in board composition", *Journal of Law, Economics, and Organization*, Vol. 1, pp. 101-24.

Bhagat, S. and Black, B. (1998), "Independence and long-term performance", WP No. 143, Center for Law and Economics Studies, Columbia Law School, New York, NY.

Central Bank of Nigeria (CBN) (2006), *Code of Corporate Governance for Banks in Nigeria Post Consolidation*.

Country of Malawi (2001), *Corporate Governance Task Force*.

Dalton, D.R. and Kesner, I.F. (1987), "Composition and CEO duality in boards of directors: an international perspective", *Journal of International Business Studies*, Vol. 18 No. 3, pp. 33-42.

Davidson, W.N., Nemec, C. and Worell, D. (1996), "The influence of the board of directors and financial performance on the incidence of executive plurality", *Corporate Governance*, Vol. 4 No. 1, pp. 11-20.

Denis, D.J. and Sarin, A. (1999), "Ownership and board structures in publicly traded corporations", *Journal of Financial Economics*, Vol. 52, pp. 187-223.

Dobrzynski, J.H. (1991), "Chairman and CEO: one hat too many", *Business Week*, 18 November, p. 124.

Fama. E.F. and Jensen, M.C. (1983), "Separation of ownership and control", *Journal of Law and Economics*, Vol. 26, pp. 301-25.

Finkelstein, S. and Hambrick, D. (1996), *Strategic Leadership: Top Executives and Their Effects on Organisations*, West Publishing, St Paul, MN and New York, NY.

Forbes, D.P. and Milliken, F. (1999), "Cognition and corporate governance: understanding board of directors as strategic decision making group", *Academy of Management Review*, Vol. 3, pp. 489-505.

Garratt, B. (1996), *The Fish Rots from the Head: The Crisis in Our Boardrooms: Developing the Crucial Skills of the Competent Directors*. Harper Collins Business, London.

Goodstein, J., Gautam, K. and Boeker, W. (1994), "The effects of board size and diversity on strategic change", *Strategic Management Journal*, Vol. 15, pp. 241-250.

Goergen, M. and Renneboog, L. (2000), "Insider control by large investor groups and managerial disciplining in listed belgian companies", *Managerial Finance*, Vol. 26, pp. 22-41.

Golden, B.R. and Zajac, E.J. (2001), "When will boards influence strategy? Inclination × power = strategic change", *Strategic Management Journal*, Vol. 22, pp. 1087-111.

Harrison, J.R., David, L.T. and Kukalis, S. (1988), "The changing of guard: turnover and structural change in top-management positions", *Administrative Science Quarterly*, Vol. 33, pp. 211-32.

Helmer, H.W. (1996), "A director's role in strategy", *Directors and Boards*, Vol. 20, pp. 22-5.

IFC, Carl Bro Intelligent Solutions and AMSCO (2000), *Manual on Corporate Governance in Ghana*.

Ingley, C.B. and Van der Walt, N.T. (2001), "The strategic board: the changing role of directors in developing and maintaining corporate capability", *Corporate Governance*, Vol. 9, pp. 174-80.

Institute of Directors in Southern Africa (1994/2002), *King Report*.

Jensen, M.C. (1993), "The modern industrial revolution: exit and failure of internal control systems", *Journal of Finance*, Vol. 48 No. 3, pp. 831-80.

المنارة للاستشارات

www.mana

Judge, W.Q. Jr and Zeithaml, C.P. (1992), "Institutional and strategic choice perspectives on board involvement in the strategic decision process", *Academy of Management Journal*, Vol. 35 No. 4, pp. 766-94.

Kesner, I.F. and Johnson, R.B. (1990), "An investigation of the relationship between board composition and stockholder suits", *Strategic Management Journal*, Vol. 11, pp. 327-36.

Lorsch, J.W. and MacIver, E. (1989), *Pawns or Potentates: The Reality of America's Corporate Boards*, Harvard University Graduate School of Business Administration, Boston, MA.

Mallin, C. and Jelic, R. (2000), "Developments in corporate governance in central and eastern Europe", *Corporate Governance*, Vol. 8 No. 1, pp. 43-51.

Mueller, G.C. and Baker, V.L. III (1997), "Upper echelons and board characteristics of turnaround and no turnaround declining firms", *Journal of Business Research*, Vol. 39, pp. 119-34.

Nigerian Security and Exchange Commission (SEC) (2003), *Nigerian Code for Corporate Governance*.

OECD Publications (2004), *OECD Principles of Corporate Governance*, OECD Publication Services, Paris.

Okike, E.N.M. (1994), "Curious Auditing regulations in Nigeria: a case study of cultural/political influences on auditing practices", *The International Journal of Accounting*, Vol. 29, pp 78-91.

Okike, E.N.M. (2000), "The state of corporate governance in Nigeria", paper presented at the Annual Conference of the Commonwealth Association for Corporate Governance (CACG), Nairobi, Kenya, 31 October-2 November.

Okike, E.N.M. (2002), "Influences on the corporate governance framework and reporting on listed companies in a developping economy: a Nigerian case study", paper presented at the 3rd International Conference for the British Accounting Association Special Interest Group in Corporate Governance, at the Queen's University, Belfast, 16 December.

Okike, E.N.M. (2007), "Corporate governance in Nigeria: the status quo", *Corporate Governance*, Vol. 15 No. 2, pp. 173-93.

Pablo, de Andres, A., Valentine, A.P. and Felix, L. (2005), "Corporate boards in OECD Countries: Size, Composition, Functioning and Effectiveness", *Corporate Governance*, Vol. 13 No. 2, pp. 197-210

Pearce, J.A. II and Zahra, S.A. (1992), Board composition from a strategic contingency perspective, *Journal of Management Studies*, Vol. 29 No. 4, pp. 411-38.

Pennings, J.M. (1980), *Interlocking Directorates*, Jossey-Bass, San Franscisco, CA.

Pfeffer, J. and Salancik, G.R. (1977), *The External Control of Organizations*, Harper and Row, New York, NY.

Ravasi, D. and Zattoni, A. (2006), "Exploring the political side of board involvement in Strategy: a study of mixed-ownership institutions", *Journal of Management Studies*, Vol. 43 No. 8, pp. 1671-702.

Republic of Mauritius (2003), *Report on Corporate Governance for Mauritius*.

Rossouw, G.J. (2005), "Business ethics and corporate governance in Africa", *Business and Society*, Vol. 44 No. 1, pp. 94-106.

Ruigrok, W., Peck, S.I. and Keller, H. (2006), "Board characteristics and involvement in strategic decision-making: evidence from swiss companies", *Journal of Management Studies*, Vol. 43 No. 5, pp. 1201-26.

Wallace, R.S.O. (1987), "Disclosure of accounting information in developing countries; a case study of Nigeria", doctoral thesis, University of Exeter, Exeter.

Westphal, J.D. and Fredrickson, J.W. (2001), Who directs strategic change? director experience, the selection of new CEOs, and change in corporate strategy", *Strategic Management Journal*, Vol. 22, pp. 1113-61.

المنارة للاستشارات

www.mana

William, H.D. (2003), "Corporate governance: what has happened and where we need to go", *The Journal of the National Association for Business Economics*, Vol. 38, No. 3.

Yakasai, A.G.A. (2001), "Corporate governance in a third world country with particular reference to Nigeria", *Corporate Governance*, Vol. 9 No. 3, pp. 238-53.

Yerokun, O. (1992), "The changing investment climate trough law and policy in Nigeria", in Okonkwo, C.O. (Ed.), *Contemporary Issues in Nigerian Law*, Taiwo Fakoyede, Lagos, p. 219.

Zalik, A. (2004), "The Niger delta: 'petro violence' and partnership development'", *Review of African Political Economy*, Vol. 31 No. 101, pp. 401-24.

Further reading

Cadbury Report (1992), *Report of the Committee on the Financial Aspect of Corporate Governance*, London.

Combined Code (2003), *The Combined Code of Corporate Governance*, Financial Reporting Council, London.

Finkelstein, S. and Donald, H.C. (1989), "Chief executive compensation: a study of the intersection of markets and political processes", *Strategic Management Journal*, Vol. 10, pp. 121-34.

Herman, E.S. (1981), *Corporate Control, Corporate Power*, Cambridge University Press, Cambridge.

Mace, M.L. (1971), *Directors, Myth and Reality*, Harvard Business School Press, Boston, MA.

About the authors

Chris Ogbechie holds a First Class Honours Bachelor's degree in Mechanical Engineering from Manchester University and a Master's Degree in Business Administration (MBA) from Manchester Business School. He is currently a Doctoral student in the Brunel Business School. His main research interests are on upper echelons theory, executive demography, CEO succession, board of directors and corporate governance. Chris Ogbechie is the corresponding author and can be contacted at: cogbechie@lbs.edu.ng

Dimitrios N. Koufopoulos (BSc, MBA, PhD MCMI, FIMC) is Senior Lecturer in the Brunel Business School. His work has appeared in the *European Marketing Academy Conference, British Academy of Management and Strategic Management Society Proceedings* and in various journals such as: *Long Range Planning Journal, Journal of Strategic Change*, *Journal of Financial Services Marketing, Corporate Ownership and Control* and *Corporate Board.* His research interests are on strategic planning systems, top management teams, corporate governance and corporate strategies.

Maria Argyropoulou is a doctoral candidate at Brunel University/London. She received her BS and MS in Kapodistriako University of Athens/Greece and Athens University of Economics and Business/Greece respectively. She also holds an MBA from Strathclyde University/Scotland where she works as an associate lecturer. She has worked for Greek and international companies for more than 10 years specializing in operations management and ERP systems implementation. Her work has appeared in journals and conference proceedings. Her research interests focus on corporate governance and IT systems implementation and evaluation.

To purchase reprints of this article please e-mail: **reprints@emeraldinsight.com**
Or visit our web site for further details: **www.emeraldinsight.com/reprints**

المنارة للاستشارات

www.mana

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

www.manaraa.com