Corporate Governance, CSR Reporting and Accountability: The Case of Nigeria

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Abstract

Recent global economic meltdown precipitated largely by banking scandal/fraud, financial impropriety and poor corporate social responsibility (CSR) reporting have necessitated studies directed towards interrogating the nature of corporate governance regulation for accountability. Correspondingly, these unpleasant developments have intensified debates on the workability of corporate governance framework as a check on the excesses of corporations in relation to reporting their CSR. Given the dynamics of CSR reporting dilemma that characterises Nigeria on the heels of institutional fracture and these ugly developments, a critical assessment of how CSR reporting can be better governed for corporate stewardship, accountability and transparency is not only vital but imperative. This study is a panoramic exploration of the interface of CSR reporting and corporate governance in Nigeria to tease out how accountable corporate reporting is. This is purely an exploratory study in which, literature reviewed on key issues will facilitate a deduction of conceptual framework that can enable a change of gear and practice in corporate governance for more accountable CSR reporting in Nigeria.

Keywords: CSR Reporting; Corporate Governance; Nigeria; Accountability; Regulation; Transparency; Corporate Responsibility

JEL Classification: M48

Introduction

Corporate governance is a subject of considerable interest both in the business and academic world because of major companies’ failures since the Cadbury Report of 1992. Primarily, these debates were mooted in the wake of major corporate and financial scandals such as Enron, WorldCom and Arthur Anderson, the accountancy Firm in 2001. The Northern Rock bank failure in the United Kingdom in 2008, recent investment bank failure of the United State and other issues globally, which analysts traced to misconduct and corporate malfeasance, all triggered this scholarship pattern. In Nigeria however, incessant bank failures, financial impropriety and failure of CSR reporting and practice to be inclusive and regulated have precipitated credibility gap in corporate governance culture by corporations (Nwagbara, 2014, 2013; Adegbite, Amaeshi & Nakajima, 2013; Emeseh & Songi, 2014). This loss of confidence or credibility gap resulted largely from lack transparency, equity, proper auditing and
accountability of CSR (reporting) by corporations. Consequently, disparate corporate failure in
different regions of the world led to the introduction of different governance code in order to
boast investors’ confidence, like the Sarbanes-Oxley Act (SOX) of the United States, Cadbury
Report of South Africa and the Code of Best Practice in Nigeria.

In the controversial and combustible Nigerian society with a darkly history of poor corporate
governance specifically regarding CSR (reporting) (Belal, 2008; Nwagbara, 2014) non-inclusive
corporate-stakeholder engagement (Idemudia, 2010; Obi, 2010) and inept corporate governance
mechanism (Adegbite, 2012) exploring how accountable CSR reporting is undercut by
corporate malfeasance and irresponsibility is crucial for better governing of CSR reporting in
the country. This research is anticipated to add to the body of knowledge on international
business management studies and corporate governance especially as it relates to Nigeria which
has a relatively dearth of literature on corporate governance and CSR reporting practice (Disu &
Gray, 1998; Belal & Momin, 2009).

Corporate governance is highly welcomed in business practices of today as well as CSR
reporting pattern in order to close the gaps of business malfunctioning and irregularities noticed
in the materiality of issues reported. Effective corporate governance and regulation cannot exist
in isolation from the world in which people – stakeholders – are ever demanding more
accountability from corporations as corporate culture has moved trenchantly from stakeholding
to shareholding (Freeman, 1984). The study looks at how corporate culture can be re-
conceptualised in future for better corporate governance as regards CSR reporting and corporate
regulation. This will also take cognisance of how businesses can adopt more accountable
corporate strategies in reporting their CSR commitment to other key stakeholders (the
communities, NGO’s, government and others) for transparency, accountability and stewardship.

Literature Review

Corporate Governance is an area that has been growing steadily in importance in the last two
decades or more. According to Rezaee (2008) corporate governance is a relatively new term
often used to describe the “way a company is managed, monitored, and held accountable”. The
Cadbury report of 1992 on the financial aspect of corporate governance has laid foundations of
corporate governance in most countries all over the world, which have incorporated its main
principles into their own Corporate Governance Codes. According Nwanji and Howell (2004)

The aim of corporate governance is to ensure that the boards of directors do
t heir jobs properly. It also protects shareholders’ right, enhances disclosure
and transparency, facilitates effective functioning of the board and provides an
effective legal and regulatory enforcement framework. It addresses the agency
problem through a mix of the company law, stock exchange listing rules and
self-regulatory Codes (p.1).

Therefore, corporate governance is the procedure by which shareholders pursue and ensure that
their companies are run according to their objectives for accountability. It comprises processes
of goal definition, monitoring, management, control and sanctioning. In a strict sense, it
includes shareholders and management of a corporation as key actors; in a broader sense, it
contains all actors (stakeholders) who contribute to the achievement of stakeholders’ goals
inside and outside the company.

In taking this perspective further, corporate governance adumbrates inclusiveness both in
corporate governance and CSR reporting. For Dalton et al (2003, p. 371) it can be defined as:
“the determination of the broad uses to which organisational resources will be deployed and the
resolution of conflicts among the myriad participants in organisations” for accountability.
Further, corporate governance gives guidelines on how the board of directors and management –
through the best way possible – can utilise companies’ assets to increase returns on shareholders’ wealth including ensuring external stakeholders’ interest are taking into account. Beyond this, corporate governance deals with the broad church of systems by which businesses are directed and controlled; it also deals with how board of directors are responsible for governance of their companies (Okike, 1994).

Similarly, the OECD – Organisation for Economic Corporation and Development (1999, para 14) defines corporate governance as the arrangement of relationships and analogous responsibilities among a core group consisting of shareholders, board members and managers designed to best foster the competitive performance required to achieve the corporation’s primary objective as well as to act accountable and responsibly. The OECD definition attempts to describe corporate governance in the broadest terms in order to embrace as many different forms of corporate governance facets as possible. The principles and Code of governance have had a substantial impact on Nigeria as they form reference point for self-assessment and for developing Nigeria’s Codes of best practice on corporate governance. The concept of corporate governance seems to suggest that it has the mechanism to address weaknesses in CSR reporting. In addition, it has attracted international applicability and respectability (OECD, 1999), and most interestingly some links have been established with its effectiveness in relation to protection of stakeholders’ interests, public interest accounting and accountable CSR reporting (Nwagbara, 2014).

The nature of CSR reporting in Nigeria has been described as poorly governed (Nwagbara, 2014; Belal, 2008; Hassan & Kouhy, 2013). In addition, researches in this direction both empirical and conceptual researches are at their incipient stage (Adelopo, 2011) given relatively dearth of research in the area (Disu & Gray, 1998). Above all (as argued in this paper), the processes and procedures in which CSR reporting is governed needs scholarly effort to bring insights to bear on how it can be re-conceptualised for better practice particularly in Nigeria. Given that most global and significant reporting/accounting standards such as GRI, AA1000 and SA8000 are rather voluntary in application (Belal, 2008), which makes companies to report CSR as they like (Bebbington, Gray & Owen, 1999), there is need to expand research on corporate governance system in Nigeria for better practice and insights. Correspondingly, the voluntary dynamics of these benchmarks rather redoubles the complexity and difficulty to engender accountability in CSR reporting practice globally. However, despite the fact that these standards are voluntary in application (Nielsen & Thomsen, 2006), companies derive a lot of legitimacy and social sanction by applying them in their operationalisation (Nwagbara, 2014; Deegan, 2002) as they help to foreground corporate responsibility, ethical practice and good corporate citizenship (Frynas, 2009).

CSR reporting means corporate reporting (disclosure) on its CSR activities that are not regulated by law (Visser, 2013). It is corporate attempt to let stakeholder know their level of commitment to corporate social responsibility (CSR), business ethics and legitimacy (Gray, Kouhy & Lavers, 1995). It is thus a

“deliberate, timely, and formal release of voluntary or required information ... the informal reporting practices that have increased in recent years such as press releases outlining various social initiatives or the production of sustainability reports” (Williams, 2008, p. 234)

To this end, CSR reporting can be considered as a tool that allows corporations to respond to stakeholders who constantly claim transparency and accountability from them so as to determine if they are responsible and trustworthy in their corporate dealings.
Conceptual Framework

Good corporate governance is an essential key to a successful business operation and expansion, as it directs corporate actions or actions of managers to rethink management from the prism of both internal and external pressures for accountability and transparency (Visser, 2013; Nwagbara, 2014). This is ever true in view of stakeholders’ perceived unaccountable ways that companies report CSR (Bebbington, Gray & Owen, 1999). Extant literature suggests that poor or unaccountable CSR reporting diminishes companies’ credibility, which goes a long way in creating credibility gap and loss in ROI. Thus, as we argue in this paper, CSR reporting needs to be reconceptualised in Nigeria via creating an enabling and sustainable environment in which better corporate governance culture can thrive and regulated. This envisioned reworking of CSR reporting practice mediated by more accountable corporate governance and regulation has great potential to bring sense of responsibility and accountability to bear in Nigeria. This idea finds correspondence in what Reynolds & Yuthas (2008, p. 48) referred to as “[T]he current re-energised focus” (p. 48) of CSR (reporting) that takes into account ethical, accountable and legitimate reporting by companies.

CSR Reporting Governance Problems and the Quest for Accountability

The Cadbury Report issued in the UK in 1992 laid the foundations of corporate governance, not just in the UK, but in the world in general. Nigeria followed suit on the heels of its 2003 Code of Best Practice. The current situation in Nigeria is that corporate governance codes are not laws and hence are not enforceable. As a consequence, corporate bodies have the choice to abide or not to abide by the standards/principles. However, Nigerian listed companies are obliged to state corporate governance compliance in their Annual Report – and by extension their CSR report – and in situations of non-compliance these companies should identify and outline reasons. As variously reported (Okike, 1994, Bakre, 2007) most of the companies tend to ignore these principles as well as ignoring their knock-on effects on ROI and licence to operate (Deegan, 2002).

In addition, in the view of Disu & Gray (1998) Nigeria has two key types of (CSR) reporting operated by its listed companies, which include mandatory and voluntary reporting. Mandatory reporting under the Nigerian Company and Allied Act (1990) deals with matters that are familiar to British researchers, which include employment data, charitable pensions, donations, consultations with employees and more. On the other hand, voluntary reporting was much rarer. Voluntary disclosure is central to environmental/social reporting, which was introduced in Nigeria in about two decades ago, and has progressively gained prominence with little impact on shaping corporate culture in Nigeria (Nwagbara, 2014). Given this corporate reporting landscape, reporting CSR in Nigeria is fraught with problems of lack of stakeholder engagement and transparency as well as poor corporate governance, weak regulation culture and accountability, for the foremost part (Nwagbara, 2014). Another explanation of this reporting dilemma is blamed on Nigeria’s unique form of institutional, regulatory and reporting governance, which is a fallout of her inept political leadership (Frynas, 2009). Corporate managers’ romance with the powers that be (Obi, 2010) limits accountability in CSR reporting including precluding wholesome regulation of their activities.

Due to the growing need for close monitoring of companies’ conduct and affairs as well as stakeholders’ view that the way in which these affairs are run is closely linked to Nigeria’s under-development and socio-economic malaise, the Securities and Exchange Commission and the Corporate Affairs Commission – two major regulatory bodies in Nigeria – have geared efforts towards generating codes for corporate governance. The Code of Best Practices for
Corporate Governance has been adopted by the boards of Securities and Exchange Commission (SEC) (the regulatory authority for the capital market) and the Corporate Affairs Commission (CAC) (the regulatory authority for companies). These codes are subsequently recommended for use by all private and public companies. The codes are directed mainly at boards of directors; it also assigns responsibilities to other stakeholders (e.g., shareholders). The rationale for preparing the codes is to enhance corporate transparency, discipline and accountability within Nigerian companies.

CSR Reporting and Corporate Regulation Environment in Nigeria

Corporate governance regulation is sturdily hinged on the larger regulatory environments within which companies operate. These environments comprise legislative and institutional environment such as shareholder protection laws (Adegbite, 2012), the effectiveness, efficiency and application of judicial powers/independence and general environmental business support (Udayasankar and Das, 2007). In taking this position further, Udayasankar and Das (2007) have contended that the panoply of regulations constitute what can be characterised as corporate governance regulation. Further to this, both in case law and judicial parlance, companies are essentially subjected to statutes and case laws of a given social space or environment – in this instance Nigeria (Adegbite, Amaeshi, & Nakajima, 2013). This is because companies’ attitude towards regulation is usually appraised by their environment as well as other ways or benchmarks in which corporate operationalisation is conceived globally (Klapper and Love, 2002; La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). Consequently, regulators, Nigeria’s CAC, SEC and other bodies are structured and primed to regulate Nigeria’s business environment for good governance based on the prevailing regulatory environment in the country, which is a function of various prevailing laws and judicial precedents.

In Africa specifically in Nigeria, issue of corporate regulation is usually conceived and taken into consideration on the dynamics of Nigeria’s peculiar institutional, leadership, regulatory and legal functioning (Nwagbara, 2014), which is rather corrupt as well as has weak regulatory mechanisms. This landscape imperils accountability and wholesome regulation that cumulatively impinges on the capacity of Nigeria to effectively regulate corporate governance culture and business environment. For a better corporate behaviour, capital markets regulations as well as checks and balances on corporate behaviour could be conceived as a gateway to better regulation (Mensah, Aboagye, Addo, and Buatsi, 2003; Morrison, 2004). Thus the interface of (political) leadership and corporate social performance (CSP) is a litmus test for understanding corporate behaviour and for the foremost part how business environments are regulated. It is also a cardinal way of apprehending corporate social responsibility reporting and governance (Albareda, Tencati, Lozano & Perrini, 2006). So, it can be said that an institutional approach to CSR (reporting), will help to illuminate how CSR issues are reported, regulated and governed. In Table 1 (Timeline of Nigeria’s political leadership), a graphic attempt is made to highlight Nigeria’s military dictatorship as well as corrupt dispensations. These regimes have framed Nigeria’s peculiar political leadership trajectory, which impacts negatively on its business environment. Deductively, this is a path of thunder for regulating CSR reporting and corporate governance.
Table 1. Timeline of Nigeria’s political leadership

<table>
<thead>
<tr>
<th>Period of Rule</th>
<th>Head of State</th>
<th>Type of Government</th>
<th>How Rule Started</th>
<th>How Rule Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-66</td>
<td>Balewa</td>
<td>Civilian</td>
<td>Election</td>
<td>Attempted Coup/Assassination</td>
</tr>
<tr>
<td>1966</td>
<td>Ironsi</td>
<td>Military</td>
<td>Coup/Assassination</td>
<td>Coup/Assassination</td>
</tr>
<tr>
<td>1966-75</td>
<td>Gowon</td>
<td>Military</td>
<td>Coup/Assassination</td>
<td>Coup</td>
</tr>
<tr>
<td>1975-76</td>
<td>Mohammad</td>
<td>Military</td>
<td>Coup/Assassination</td>
<td>Attempted Coup/Assassination</td>
</tr>
<tr>
<td>1976-79</td>
<td>Obasanjo</td>
<td>Military</td>
<td>Coup/Assassination</td>
<td>Elections</td>
</tr>
<tr>
<td>1979-83</td>
<td>Shagari</td>
<td>Civilian</td>
<td>Election</td>
<td>Coup</td>
</tr>
<tr>
<td>1984-85</td>
<td>Buhari</td>
<td>Military</td>
<td>Coup</td>
<td>Coup</td>
</tr>
<tr>
<td>1985-93</td>
<td>Babaginda</td>
<td>Military</td>
<td>Coup/Assassination</td>
<td>Annulling of Election Results &amp; Stepping Down</td>
</tr>
<tr>
<td>1993</td>
<td>Shonekan</td>
<td>Civilian</td>
<td>Handover</td>
<td>Palace Coup</td>
</tr>
<tr>
<td>1993-98</td>
<td>Abacha</td>
<td>Military</td>
<td>Coup/Assassination</td>
<td>Death</td>
</tr>
<tr>
<td>1998-99</td>
<td>Abubakar</td>
<td>Military</td>
<td>Handover</td>
<td>Elections</td>
</tr>
<tr>
<td>2007-10</td>
<td>Yar’Adua</td>
<td>Civilian</td>
<td>Elections</td>
<td>Death</td>
</tr>
<tr>
<td>Feb 2010-May 2010</td>
<td>Jonathan</td>
<td>Civilian</td>
<td>Handover</td>
<td>Elections</td>
</tr>
<tr>
<td>2010-Present</td>
<td>Jonathan</td>
<td>Civilian</td>
<td>Elections</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

Source: adapted from Nwagbara (2013)

Prospecting for Change: Towards Accountable CSR Reporting Practice in Nigeria

There is no gainsaying the fact that weak corporate governance has been responsible for most contemporary corporate malfunction and failure in Nigeria. In strengthening corporate governance, in September 2008, the Securities and Exchange Commission, inaugurated a National Committee chaired by Mr. M. B. Mahmoud for the Review of the 2003 Code of Corporate Governance in order for Public Companies in Nigeria to address their weaknesses and to improve the mechanism via poor corporate governance can be monitored and regulated (Nwagbara, 2014). Specifically, the Committee was given the mandate to identify weaknesses in, and restrictions to, good corporate governance, and to scan corporate governance environment and make recommendations. It is hoped this move would engender better enforcement as well as greater compliance in corporate behaviour and practice. This also includes advising the government on ways of promoting good corporate governance culture/practice by public companies in including aligning the envisioned best practices with international best practices.

On the strength of the above, The Nigeria’s Security and Exchange Commission (SEC) figured out that this new code of corporate governance will ensure the highest standards in corporate accountability in CSR reporting and good corporate governance, without unduly impeding entrepreneurial culture, creativity and innovation. Whilst the Codes are limited to public companies, the Commission encourages other firms not covered by the Code to use the principles set out in the Code, where necessary, to precipitate a culture of good corporate practice and accountability. Deductively, this move suggests that corporate governance has made an impact on corporate behaviour in Nigeria particularly in disclosing CSR. Thus, good
governance has gone beyond protection of minority interests, financial transparency to factor in having the interest of the environment and the people at heart, which resonates with Elkingtonian "triple bottom line" ratiocination (Elkington, 1987) for corporate sustainability and accountability beyond the ballpark of mere economic benefits for companies.

Conclusion

To conclude, attempt has been made in this paper to detail and explain logically and coherently that for better CSR reporting practice in Nigeria, its corporate governance culture needs to be reworked. Reworking Nigeria’s corporate governance landscape is not only necessary to envision change of gear in CSR (reporting), it is crucial on the heels of so many false dawns in corporate malfeasance, impropriety and failure that have characterised the past few decades as materialised in Worldcom, Enron, Ahold, Parmalat and other globally recognised business accountability and irresponsibility issues. Thus, CSR reporting and accountability can be reconceptualised for better management of corporations’ internal and external stakeholders (Clarkson, 1995) if its corporate governance mechanisms are geared towards representing interests of key stakeholders beyond the narrow confines of few powerful people – minority shareholders. Thus, beyond broadening scholarhip on CSR (reporting), this paper broaches discussion on how stakeholders’ interests in CSR reporting – precipitated by good corporate governance principles and codes/standards – can engender corporate accountability, legitimacy and transparency in corporate practice in Nigeria.

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