DIRECTORS, AUDITORS AND SECRETARIES ROLES AND CORPORATE GOVERNANCE SYSTEM: IDENTITY THEORY PERSPECTIVES

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Abstract

The interest in researching corporate governance in the broader context continues unabated. The research in this area continues to be dominated by test of agency theory in advanced capitalist economies. Few researches are seen in developing countries like Nigeria. Though there have been calls for new theories to be tested in the field of corporate governance, only few have been tested, predominantly stakeholder and resource dependence theories (Barkema and Gomez-Mejia, 1998). This paper departs from previous literature in two ways. First, it tests the identity theory. Second, it uses the case study drawing empirical data from Nigeria, an emerging economy from a developing capital market to provide insights into the corporate governance mechanisms. This study explores appropriate framework and principles governing the duties and obligations of directors, auditors and secretaries. This is crucial because there is increased reliance by the stakeholders on the three actors (directors, auditors and secretaries) as it concern corporate governance both regionally and internationally. Therefore, an exploratory case study was carried out to explore the level of development of corporate governance mechanism in developing economies like Nigeria. Despite the huge challenges, issues and bottlenecks hampering good corporate governance, the study finds growth in the number of directorships, auditors and secretaries of listed companies. Also, the study reveals the code governing the responsibilities of directors; auditors and secretaries have not produced the desired result pertaining to accountability, transparency and good corporate financial reporting. Thus this adds to the body of knowledge by contributing to the corporate governance system in developing countries.

Keywords: Corporate governance, the Security and Exchange Commission (SEC) code of corporate governance, directorships, auditors, secretaries, Nigeria

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1 Introduction

This paper discusses the role of directors, auditors and secretaries in the context of the development of corporate governance in Nigeria and determines whether the governance system is adequate and comprehensive in ensuring good corporate governance practices. Particularly in Nigeria where the recent scandals in financial sector in 2009 (where five banks were bailout with tax payers' money) and other parts of the world (such as the collapsed of Lehman brother in US in 2008) raised further concern for urgent reform in the corporate governance regulation, framework and practices.

Corporate collapses and bankruptcies are attributed to the poor corporate governance practices of companies mostly as a result of ineffective board (Monks and Minows, 2004; Okike, 2007). Ineffective board encourages insider trading, weak internal control mechanisms, opportunisms and corporate collapse whilst a strong board enhances board independence and good corporate performance (Webb, 2004). The board are directly accountable to the shareholders and each year the company holds an Annual General Meeting (AGM) at which the directors must provide a report (audited by auditors) to shareholders on the performance of the company. The report also contains the future plans and strategies of the firm including how the directors submit themselves for re-election to the board (Monks and Minows, 2008). Furthermore, company failures are linked to ineffective board. These issues can be traced to directors' poor performances caused by the lack of training, induction or irrelevant skills necessary for the smooth running of the board. This ineffectiveness of the board and directors and their poor performances are associated with the poor performance of the secretaries too (Hamer, 1992). The secretaries are not only involved in the smooth running of the board but are also charged with the administration of the board and company's governance procedures. On the whole, it can be said that the function of the directors, auditors and secretaries are inter-related and inter-connected. This

paper therefore discusses these important corporate governance actors that are actively associated with an active board in other to provide further insights into the corporate governance systems (Mallin, 2004).

The board's role includes creating policies that governed an organisation with the aim of satisfying stakeholders' interest (Baysinger and Hoskisson, 1990) and also ensuring that these stakeholders are independent and effective. The board is made up of both the executive and non-executive directors. In Nigeria, the directors ensures board's independence through compliance to the regulatory framework, the Company and Allied Matters Act (CAMA) of 1990 (Okike, 2007) and the Security and Exchange Commission code, known as the SEC code of 2011. Whilst, the CAMA provides the legal framework for corporate governance in Nigeria, the SEC code of 2011 provides recommendations for best practices (Adekoya, 2011), particularly as it concerns the directors, auditors and secretaries. These are three important actors in the corporate governance mechanism necessary for strong corporate governance system in the developing countries (Monks and Minows, 2008).

Essentially, the SEC code (2011) made recommendations aimed at ensuring best practices among listed companies. Part of its recommendations includes the board having minimum of two independent directors and equal numbers of Non-executive directors (NEDs) and executive directors in the board. Apart from the number of directors on the board, also mentioned by the code are the roles and responsibilities of the three actors. The directors formulate the policies that govern the company, while the company secretaries offer advice and information to the board of directors. As for the auditors, they ensure that credible financial reports are produced for the board and other stakeholders. These recommendations concerning their roles are contained in the SEC code of 2003 amended in 2011 which is structured and tailored along the UK Combined Code of Corporate Governance (2006).

Therefore, this paper explores the extent of good corporate practices in listed companies by focusing on the role of directors, auditors and secretaries in the development of corporate governance framework in Nigeria. The remainder of the paper is organized as follows: Section II describes the concepts and theories that support the directors, auditors and secretaries' voluntary compliance of the corporate governance codes. Section III presents the methodology. Section IV describes the empirical design and presents the data. Finally, section V offers the discussions and findings while section VI concludes.

2 Theoretical framework

Most studies have been focused on corporate governance variables and agency theory. This study offers insight from an identity-based dynamics of group think behavior within the organizations such as loyalty, commitment and satisfaction, particularly in relation to the roles of directors, auditors and secretaries as determined through board dynamics and organizational performance (Korte, 2007). Consequently, the study explores and provides insight into the development of corporate governance mechanism in Nigeria particularly how identity theory explains the role of the three actors.

The identity theory was originally derived from the social identity theory most commonly used in the field of psychology, sociology, social sciences and humanities. However, the identity theory is rarely used in the field of management and corporate governance except in explaining the importance of board diversity and increasing the number of feminist directors and women as top managers (Post et al, 2011). The self identity theory states that women identity and by extension their behavioral characteristics are different as individuals compared to when they belong to a group such as the board.

By extension, Terjesen, Sealy and Singh (2009) noted that women directors' impact on the board can be explained using the identity theory. The rise of women to the top management cadre is hindered by them being perceive as the weaker sex group (Terjesen, Sealy and Singh, 2009). The identity theory explains that the self identity of women as weaker vessel compared to the male directors is salience hence the glass ceiling preventing rise of women as top managers. However, women are noted to posses some certain qualities that adapt them to function better than men as top managers. Several authors argue that women top managers are more assertive, persuasive, have a stronger motivation to get things done, more emphatic and flexible, more willing to take risk, having more interpersonal skills than men (Coffey and Wang, 1998; Williams, 2003; Bear et al, 2010). These qualities enable them to make robust decision that enhances board effectiveness and independence.

Consequently, there have been recent calls for enhanced board diversity through the inclusion of more women in the board. This is as a result of empirical studies establishing that diversity improves board effectiveness and organizational performance. Coffey and Wang (1998) advocated for board diversity by including women directors and arguing that board diversity reduces managerial control and improves board effectiveness in decision making by checking management excessiveness (Jensen and Meckling, 1976; Baysinger and Hoskisson, 1990). In a similar vein, Bear et al (2010) reiterate that board diversity enhances robust decision making, board effectiveness and independence. According to Williams (2003) board diversity encourages the board to be responsive to a wider group by satisfying the various stakeholders of the corporation. Post et al (2011) argue that female directors favour companies

to adopt social responsibility activities, only if they are more in numbers in the board.

The identity theory has been used to explain the rise of feminist directorships and board diversity. Though little is known concerning identity theory in auditors and sectaries, this study fills that gap. By attempting to add the role of auditors and secretaries, two important corporate governance actors, make this study unique inn management studies. This study attempts to extend the identity theory by focusing on the roles of these actors as it affects the board dynamics and corporate governance mechanism in general. The identity theory can be used to explain the rationale behind the roles of auditors and secretaries in corporate governance activities. Their behaviors are shaped by their experiences, skills and knowledge. These resource capabilities are derived through learning skills acquired both within and outside the organizations (Korte, 2007). According to the author social identities within a business organization determines board performance. These identities include individual thinking ability both individually and as a group within the organization which have a direct influence on their identities and self-belief. These behaviours influence their decision making ability thereby affecting board performance. Therefore, selecting the right individuals as directors, auditors and secretaries are essential to group cohesiveness and organisational performance. On the whole, the identity theory confers desirability and acceptability to a group because of their attitudes of cohesiveness and togetherness. By doing this, it shows that the directors, auditors and secretaries as individual and group entities are capable of affecting organizational performance through how they think, act and perform.

2.1 Identity theory

The identity theory is the portion of an individual's self-concept associated with individual behaviour and it is derived from perceived membership in a relevant social group (Cuhadar and Dayton, 2011). Social identity theory was introduced by the concept of identity as a way in which to explain intergroup behaviour. Social identity theory states that social behaviour varies along a continuum between interpersonal behaviour and intergroup behaviour (Cuhadar and Dayton, 2011). Therefore, whilst interpersonal behaviour is determined solely by the individual characteristics, interpersonal relationships exist between two or more people.

Social identity theory therefore predicts certain intergroup behaviours on the basis of perceived group status differences, legitimacy and stability of those status differences, and the perceived ability to move from one group to another. In contrasts identity theory refers to theorizing about human selves. A key assumption in identity theory is that individuals are intrinsically motivated to achieve positive distinctiveness through self identity. That is, individuals strive for a positive self-concept. As individuals they are defined and informed by their respective social identities (as per the interpersonal-intergroup continuum) it is further derived in social identity theory that individuals strive to achieve or to maintain positive social identity. Both the interpersonal-intergroup continuum and the assumption of positive distinctiveness motivation arose as outcomes of the findings of minimal group studies. In particular, it was found that under certain conditions individuals would endorse resource distributions that would maximize the positive distinctiveness of an in-group in contrast to an out-group at the expense of personal self-interest. What this means to the board as a group is that the identity theory explains the directors' role in the board from a behavioural perspectives viewing members of the board as inter-personal and inter-group continuum.

The self has been categorized into four groups namely, the social, material, spiritual and ego (Garratt, 2005). The self are an individual collection of personality traits. It is these identities of self that are common features of various interacting groups within organization such as the boards and its committees. However, it was observed that individual exhibit different self-identities or personality when operating independently or within a group. This signifies the self as having multiple identities. Groups exist at multiple levels (societal, cultural, industrial, organizational, functional, and professional) and are an important subject in the study of social and work behaviour (Ashforth and Mael, 1989). For most identity theorists, groups exhibit isomorphic characteristics of identity across different levels, although the strength of a specific identity is relative to the individual, the group, and the context (Turner, et al., 1987).

This paper argues that identity is a moderating factor influencing individual (directors, auditors and secretaries) behaviour in their roles and how they perform their duties (i.e. in the board and committees) and therefore is a critical factor influencing learning in organizations and their performances. These multiple identities of directors can send different signals concerning their roles and duties. According to Garratt (2005: 30) 'most board of directors never function properly in their directorial, as distinct from executive role. They seem especially ineffective at thinking strategically. Whilst accepting the title - board (statutory) director, they have rarely any induction or development process to explain that directing is very different from managing and takes them into a wider world of which many are uncomfortable. This means that their self identity influences director in policy making. This can change their perception, judgement and performance'.

It can be observed according to Garratt (2005) that not only are directors confused and ineffective about their duties, the secretaries also are liable too

because according to Mitchell (1992) their function includes inducting and providing advice to the directors to enable them to perform their duties smoothly or else they will be found wanting. By extension this makes them culpable. Likewise auditors who by share of connivance with the board becomes ineffective in exercising good judgement and control when performing their duties, a case in point is Enron in US. Their auditors were Arthur Anderson that connives with the directors of Enron to falsify accounting data. This eventually contributed to the demise of the energy company. The paper argues therefore that identity theory can be used to explain the behaviours of the actors and by implication their roles in ensuring good or bad governance practices. One way of solving these governance problems is through the diversity of the board, auditors and secretaries (Monks and Minows, 2008). This paper argues that since employees and managers associate and identifies with high status group such as the board and its committees (audit). It is therefore important to note that these motives to belong to a group over-shadowed the actors' interest in ensuring independence and good corporate performance due to peer pressures from their colleagues not to comply.

2.2 Literature review

The criticisms of the board have increased in early 1990s and 2000s following the collapse of big corporations such as Enron, WorldCom and Baring Brothers (Malin, 2004). The mismanagement of company's resources by the corporate actors led to questionable decisions by the boards. These decisions have been attributed as causes of serious redundancies, bankruptcies, environmental degradation and accounting scandals. The reasons for the corporate collapse ranged from accounting scandals in Enron in the US to questionable practices by board, ethical failings in corporations like Chevron Nigeria, insider information, harmful products produced by corporations, bad waste management practices like dumping of toxic substances in waters and land, environmental hazards and degradations caused by corporation's operations. By doing this, fines and litigation are on the rise thereby adding to their cost and expenses. Such litigations have collapsed financially sound corporation into bankruptcy like Texaco in 1987 (Ibrahim, Howard and Angelidis, 2003).

Researchers have shown that an ineffective board hamper performances. Kesner, Victor and Lamont (1988) argue that the composition of the board can restrict board independence and affect its monitoring role. This is as a result of the male dominated board by friends and former colleagues popularly referred to as old boys' network. Corporations employ NEDs to strengthen the board and improve the corporate governance structure of the corporation by serving in committees (Baysinger and Hoskisson, 1990). Pass (2003) emphasised that NEDs serve in ethical, environmental and health and safety committees. As for the auditors, they are there to certify the work of management by ensuring accountability and transparency while the secretaries assist members of the board in their duties aimed at making them to be more efficient and effective.

The importance of effective corporate governance to corporate and economic performances of the firm cannot be over-emphasised in today's global market place. In Nigeria, companies that adopt international standards of corporate governance and disclosures are more likely to attract international investors than those whose practices are seen to be below international standards (SEC code, 2011). This is because the earlier SEC code is tailored along the international code of corporate governance as practised in Europe and UK (Okike, 2004; 2007; Okpara, 2010).

Furthermore, Okike (2007) argues that despite the fact that the code of best practice in Nigeria is structured to adhere to international standards. It is important for the Nigeria code of best practise to reflect the diversity of the board, social, political, cultural and economic environment of the country so as to boast shareholder's confidence. Also, in other to boost foreign direct investment, the code should ensure accountability and transparency among listed companies. Therefore this study intends to investigate the extent of the corporate governance practices in Nigeria with particular reference to the three corporate governance actors.

2.3 Historical development of the corporate sector and corporate governance in Nigeria

The poor corporate governance in Nigeria started from the lessons learned from malpractices and collapsed of banks in the 1990s (SEC code, 2003; Okike, 2007). In the late 1980 and early 1990s as a result of the absence of corporate governance mechanisms, the Nigeria economy witnessed a near collapse of the financial sector through failed banks and other financial institutions. This bank collapses was caused by insider abuses, asset stripping, poor risk management and bad ethical practices. In certain cases this abuses was perpetuated in active supports from the board (SEC code, 2011). Moreover, the reason for the collapse of companies in Nigeria was traced to poor auditing through the falsification of financial reports, non-disclosure of some material contents in annual reports by PLCs as witnessed by the Nigerian capital market (Ahunwan, 2002; Okike, 2007; Amao and Amaeshi, 2008; SEC code, 2011). This led to the government promulgation of Failed Banks (Recovery of Debt) and Financial Malpractice in Banks Act decree of No. 18 to punish failed banks and to help recover the debt owed to them (Gregory, 2000). Also, the auditors have been accused of

conniving with directors and board members to falsify reports (Monks and Minows, 2008). Poor auditing has also resulted in poor governance and corporate failures. Notably, in Nigeria there were poor internal control measures (Sec code, 2011). Most companies lack good reporting ethics, while the directors lack good knowledge of company's' operations, for instance, the appointment of CEO's sons and relatives into the board were very prevalent in the defunct Oceanic Bank Plc (Sahara Reporter, 2010).

Gregory (2000) argues that despite the significance of corporate governance to capital formation and firm performance, companies in Nigeria continues to witness low compliance to code of corporate governance in Nigeria. There is also the recognition that competitions, efficient resource allocation and distribution are hindered by the following: weak or absence of corporate governance systems, presence of corruption, pro-ethnicity, undue favouritism and nepotism (Gregory, 2000). In order to counter these poor corporate governance practices, the Nigeria government in the late nineties adopted measures to attract foreign investor to Nigeria (Okike, 2007). Great emphasis was placed on strict adherence to international standards of corporate governance, the use of external auditors to improve financial reporting, confidence and credibility of corporate disclosures. This builds confidence in the market and help to attract foreign direct investment.

The main focus of these studies has been the relationship between the three actors, directors, auditors and secretaries in providing strong corporate governance practices. Supporting evidence of strong financial performance, board independence, strong corporate governance system abounds in developed capital markets and economy while few research studies are conducted in less developed economies with evolving capital markets. This study enables investigation into the effectiveness of corporate governance mechanisms as a regulatory framework for PLCs. This study focuses on directors, auditors and secretaries roles which reflect as a measure of the effectiveness of corporate governance in Nigeria.

On the whole, the training and development of directors, internal auditors and secretaries are key components of a strong corporate governance system (Korte, 2007). According to the author the individuals through their behaviour influence organisational outcome. First, this article review the theoretical underpinnings of social identity and its explication as found in social identity theory. The simple question of why people do the things they do is quite complex. One way to examine this question may be in the assumption that individuals do what they do because of whom they believe they are – their identity. Furthermore, individuals are comprised of multiple selves or identities (Ashforth and Mael, 1989; Fiske and Taylor, 1991; Hogg et al., 1995; James, 1891; Goodwin and Seow, 2002; Jenkins, 2004; Miner, 2002; Korte, 2007).

The significance of the 3 actors in corporate governance can viewed from the following:

1) Financial reporting: Goodwin and Seow (2002) noted that the auditors and directors help to strengthen the quality of auditing and financial reporting through the formation of audit committee, internal audit department and code of conduct. These variables they argue help to enhance monitoring and control of the company operations with the aim of reducing risk. The overall impact of good financial reporting is to increase investors' confidence and integrity of security markets (Goodwin and Seow, 2002). Good governance can identify misstatements, fraud and doctored financial figures and report it to constituted authority.

2) The directors, auditors and secretaries experiences' should influence the level of accountability and transparency of corporate reporting. They should also use their experiences to monitor managers and held them to account for their conducts or misconducts. Directors should be able to direct the company through policy formulation. Auditors should be able to improve the internal control mechanisms through appropriate checks and balances. Secretaries should be able to facilitate the smooth running of the board and also provide valuable information and resources to the directors and audit committees enabling them to function properly.

3) However, in Nigeria the failure of many banks and their poor financial health has raised the question of poor corporate governance practices such as insider trading, cronyism and corruption. This has lead to criticism of the audit profession, role of directors and secretaries and their capacity to enhance monitoring and control checks and balances towards policy implementation. Other areas that the three actors have failed are in earnings management and bonuses. In order to curb the problems of corporate failures a strong system of corporate governance concerning the board structure, internal controls, audit committees and strengthening the role of secretary are very essential and should be put in place by the board. Therefore, understanding and identifying these three actors should enhance our thoughtful insights into the level of corporate governance activities in Nigeria. Interestingly, the study leads to a further understanding of the significance of corporate governance mechanisms in developing countries as a whole.

2.4 The role of directors and corporate governance

The boards are made of both the executive directors and NEDs as mentioned earlier (Malin, 2004). The executive directors are responsible for the day to day operation of the company whilst the NEDs are responsible for the oversight function of the board aimed at ensuring board independence and

effectiveness (Monks and Minow, 2008). The NEDs monitor the executive directors particularly the chief executive officer (CEO) and ensures that they carry out the policies that protects the shareholder's interest (Baysinger and Hoskisson, 1990; Monks and Minow, 2004). One of the ways of protecting the shareholder's interest is to ensure constant communication between management and shareholders through Annual General Meeting (AGM) and also ensures that the policies and strategies are put in place for good employee welfare scheme (Goodijk, 2000), protects shareholders' interest and enhance corporate performance (Ehikohia, 2009); and social responsibility and reputation of the firm (Coffey and Wang, 1998; Brammer et al, 2008).

2.5 The role of auditors and corporate governance

In the case of auditors, their role in corporate governance is also very significant. Auditors examine company's account and produce a report that reflects the true performance of the company. In other words, auditors are given power to examine accounts and detect misconducts, discrepancies and anomalies in financial statements of companies. However, the case of Enron reinforces the urge to tighten the role of auditors, financial reporting and corporate disclosures with the aim of restoring credibility and confidence in the corporate sector. As a result, the role of auditors in financial reporting cannot be overemphasized because the audit report produced by them confers credibility for stakeholders such as the investors who provide the capital resources to firm (Holm and Laursen, 2007). For good corporate reporting to be achieved, the risk and control measures within the organisation must be put in place and also remain strong. These internal control measures put in place by the board for check and balances are preform through the audit committee, who appoints the auditors. The auditors ensure that the financial statements are a true reflection of the financial health and operations of the company (Baysinger and Hoskisson, 1990). Essentially, the monitoring role of the board is supported by agency theory (Berle and Means, 1932; Jensen and Meckling, 1976) with board main responsibility linked to the reduction of agency cost by monitoring management (Fama and Jensen, 1983), evaluating performance and assessing management initiatives (Dulewicz and Herbert, 2004).

The code of corporate governance 2011 highlighted the need for companies to develop internal control measures. This is done by enhancing the effectiveness of the audit department in the interest of stakeholders. One of the expectations of the code is for auditors to be independent. According to Krishnan (2008) auditors are able to report the true financial position of company. This is done by removing biasness and ensuring that good governance principles and standards are followed and adopted. This ensures that the legal position is in line with international regulations and also within the framework of acceptable standards and best practices of corporate governance (Fan and Wong, 2005). Therefore it is important to evaluate if the corporate governance is adequate enough to guarantee that auditors play an effective role in auditing company's account and ensuring good financial reporting (Asare, Davidson and Gramling, 2008).

2.6 The role of secretaries and corporate governance

As for the secretaries, the SEC code 2011 reveals the significance of secretaries in the governance of PLCs in Nigeria. The secretary assists the boards in developing good corporate governance practices through the induction of new directors, compilation of board papers and ensuring that board decisions are clearly communicated to stakeholders (SEC code, 2011). The company secretary is charged with the responsibility of administration of board through the chairman. In fact, the secretarial function is available to all board members such as the NEDs who receive advice and information from the secretaries. Also, the secretary ensures that the board of directors complies with its legal obligation (SEC code, 2011).

The question therefore is to what extent is the corporate sector in Nigeria developed in ensuring good corporate practices? Also, how has the listed companies complied with the SEC code 2003 and 2011, particularly in terms of growth of good corporate governance practices. This paper discusses the role of directors, auditors and secretaries in the development of corporate governance framework in Nigeria and fills the research gap concerning the extent of corporate governance practices in Nigeria.

3 Methodology

The case study approach was adopted for this study because it provides an in-depth understanding of the unit of analyses concerning the extent of development of corporate governance practices by listed firms. Information from the annual reports of 128 companies and Nigeria Stock Exchange (NSE) fact book were employed for this study. Also, interview data were used because it provides depth and meaning. Analytical and descriptive data are presented explaining the growth of directorships, auditors and secretaries of listed companies.

The documentary data includes the annual reports and company websites of PLCs. In addition, the company interviews results were used in this case study when necessary to support and explain the role of directors, auditors and secretaries in the development of corporate governance in Nigeria. The interview data are derived from the top management team, board such as the Chief Executive Officer

(CEO) and managers. The case study approach is adopted to understand the perception and behavioural perspectives concerning what influences the directors, auditors and secretaries to engage in making policies that satisfy stakeholders. In other words, the reasons behind their strategic decisions arise from their behaviours through self-identification and group formation. These provide an in-depth understanding between the various actors' directors, auditors and secretaries' role in enhancing corporate performance (Petersen and Vredenburg, 2009a). The case study method combines information from the in-depth interviews and documentary evidences. These multiple data (Eisenhardt, 1989; Ritchie and Lewis, 2003; Yin, 2005) are to ensure triangulation, reliability, construct replicability, research questions validation and diversity of opinions (Yin, 2005). In order to answer the research questions concerning the extent of the level of corporate practices in Nigeria, the three actors' directors, auditors and secretaries' role in ensuring good corporate governance ethics were considered.

The interview took place in 2010 whilst the annual reports of 128 listed companies were analyzed because the period witnessed the introduction and development of the SEC code of corporate governance (2003) and CBN code of Bank Consolidation (2006). These codes provide information and recommendations to comply by the listed companies and their directors, auditors and secretaries' in policy formulation that enhances the ethical and corporate governance practices of PLCs.

Data analysis in this research included comparing the field notes and interview to match the theories and concepts relevant to this study. The questions in the interview provided a broad parameter for assessment and comparison (Yin, 2005). The coded and transcribed interviews are categorised under themes (as derived from the literatures on directors, auditors and secretaries) to see if the questions are addressed in line with the research aims and objectives. The transcribed and coded interviews are analysed and categorised.

4 Findings and analyses

The findings are discussed under the following risk reduction, growth of directorships, auditors and secretaries, and finally board independence. This study finds presence of risk reduction, board independence, growth of directorships, and growth in the number of auditors and secretaries. The NEDs are interested in the long term commitments that encourage companies to undertake strategies and practices that reduce risks (Kesner and Johnson, 1990). These long term commitments of NEDs are supported by the stakeholder theory which encourages the board to implement policies that benefit all stakeholders (Freeman, 1984; Jensen, 2001).

4.1 Risk reduction

The documentary analyses of Zenith Bank Annual Reports (2010) reveal that the directors support the company corporate strategy towards risk reduction. The risk reduction is noted in the areas of minimising fraud, insider trading and managerial opportunism

….the board is responsible for reviewing and providing guidance for the Bank's corporate strategy, major plans of action and risk policy....monitoring the effectiveness of the corporate governance practices under which the Bank operates and making appropriate changes as necessary (*Zenith Bank Annual Reports, 2010*).

This is in direct response to the question of whether the directors particularly the NEDs support the implementation and evaluation of policies and programs that reduces risk and costs. The CEO of Zenith Bank (Z4) responds:

Our NEDs are members of several committees including the risk management committees that are charged with monitoring risky and failed projects and inside trading. Also, the NEDs, who are part of the board request for reports concerning certain activities, for instance, Corporate Social Responsibility (CSR) activities and projects are reviewed and monitored (*The CEO of Zenith Bank*).

Furthermore, IGI4, the deputy managing director said:

Perception, profit and risk reduction are the driving and motivating factors that influence the NEDs in supporting the company's policies and programs. The company strategies and policies are recommended to the board for implementation. For example, if NEDs perceive that certain programs reduce risk as they do in our company, then they support the board to invest in such programs. Examples are environmental and waste reduction schemes (*Deputy Manager Director*).

In sum the three actors, directors, auditors and secretaries all strive to implement activities and policies that reduces risk, lower cost and enhance company performance. Most specifically the auditors are involved in formulating internal control measures aim at minimising risk and at the same time making sure that they are adhered to by the company. Another indicator for the growth of the corporate sector is the growth of directorship.

4.2 Growth of directorships

Undoubtedly, the study through the data from 128 PLCs reveal an increase in the number of directorships in Nigeria's corporate sector. The addition of directors increases the board size which is attributed to the compliance of companies to the SEC code 2003. The annual report of companies and documentary analyses reveal increase in directorships as illustrated in Table 1. Table 1 illustrates the directorships holdings of PLCs from 2008 to 2010.

The total number of directors increased from 2008 to 2009 by 7.7%; while in 2009 and 2010 they increased by 16.1%. Also, the reasons for the rise in the number of directors are due to the effects of CBN bank consolidation policy aimed at strengthening the financial institutions' and raising investors' confidence (Kiki, 2007). The other reason is the compliance to the recommendations of the SEC code 2003 which recommends that the number of NEDs in the BODs should be increased that is, the board size of PLCs should be between five (5) - fifteen (15) directors. Also, independent NEDs should be part of the board as a way of improving board independence, by stipulating a minimum of two independent directors in the board (SEC code 2011). In most cases the NED should be the chairman of the board committees, for instance, the audit that appoints the auditors (Ofo, 2010). However, Oyejide and Soyibo (2001) found that independent NEDs in their practices are not really independence because of political interference in developing country such as Nigeria. This is evident in their weak monitoring and enforcement of management operations and abuse of shareholder rights (Okpara, 2011).

Nevertheless, Okike (2007) points out that lack of compliance and weaknesses in the SEC code 2003 motivated the CBN to develop the CBN code of corporate governance for the banking sector in 2006.

Table 1. Directorships of PLC from 2008 to 2010

Directorships	2010	2009	2008
Number of quoted company	176	136	120
Total Number of directorship	765	659	612
Average number of directorship per company	4.34	4.55	5.1
% of directors holding only 1 directorship	91.5	88	73
Number of directors holding 2 or more directorships	30	32	122
% of directorships holding 2 or more directorships	3.9	4.9	20

Source: Data compiled using Nigeria Stock Exchange Fact book (2008-2010)

The SEC 2011 further recommends that the position of chairman and Chief executive officer (CEO) to be separated (SEC code, 2011). According to Okike (2007) the board of directors (BODs) in Nigeria should form audit, nomination and remuneration committees. The remuneration committee members should be wholly NEDs while the nomination committees should have both executive directors and NEDs. However, one of the recommendations from the code is that the NEDs members should be more in numbers.

The responses from the interview data were mixed. In responding to the question concerning the role of directors and the factors behind their rise in the corporate sector? The Non executive director (E2) said:

In compliance to the code, firms increase the presence of directors in the board, most especially the NEDs. The NEDs are more honest during policy formulation compared to executive directors because they run the operations of the company. I think the main objective of NEDs is to provide sustainable development to relevant stakeholders and supports implementation of projects that are cost effective and at the same time satisfy the shareholders (*Non-executive director*).

In addition, the respondent W4, the finance director said:

The rise of directorships is due to the significant role that the NEDs perform. They are members of various committees such as the risk, nomination and audit committees. The NEDs' are very powerful directors in the board and they support the implementation of projects in our company that enhances corporate values, performances and reputation of the company. The NEDs ensures that the vision and values of our company matches our corporate actions (*Finance director*).

In responding to the question concerning the role of directors and the reasons for their rise, an executive Director (Z3) responds:

It is the role played by directors in the board that is responsible for the rapid rise and acceptability. Our NEDs ensure that the company sets the corporate governance standards. The NEDs are always developing good policies that make the company to be profitable including formation of committees. This is part of the NEDs responsibility because of their experience to guarantee that the board complies in setting the corporate governance standards of the company (*Director of Operations*).

The majority of respondents agree that an increase in board size supports formation of governance structure to enhance company's strategy. This is because of the introduction of NEDs into the board, formation of committees to provide oversight function in risk reduction and good reporting and control. In responding to the role of directors in Company's strategy; B4 said:

I think the increase directors are essential and vital to that the members of the committees implement the company's strategy at all times such as the compliance to the code of corporate governance (*The executive director, production*).

The documentary analyses of the data of 128 Plcs highlights the function of the NEDs as being part

of the board was to enhance board independence and it effectiveness as stated as follows:

The board discharges its oversight functions through various committees. Membership of the committees of the board is intended to make the best use of the skills and experience of Non-executive directors (*Wema Bank Annual Report, 2010*).

4.3 Growth of internal and external auditors

There has been growth of auditors serving the corporate sector in Nigeria. One noticeable trend in the corporate governance in Nigeria was the concentration of foreign auditors serving corporate organisations and this trend has been on the rise since the introduction of the SEC code in 2003 (Okike, 2007) as illustrated in Table 2. The result show that PriceWaterhouse Coopers served 24 companies, followed by KPMG serving 17 PLCs, Ernst and Young - 8 PLCs and PKF - 6 companies in 2010.

Moreover, one noticeable trend reveal during the documentary analyses of data was that some companies have two auditors. As a result some PLCs had two combined auditors at the same time from 2008 to 2010. Also revealed in this study was that among the PLCs the indigenous auditors were higher in numbers than international auditors by 142 companies. 12 companies out of the lot had combined auditors in 2008, while it reduced to 3 companies in 2010. This shows a gradual rise of indigenous auditors in the Nigerian corporate sector. This is attributed to the adoption and implementation of the recommendations in the code of corporate governance.

Nevertheless, Akintola Williams Deloitte an indigenous accounting firm was very popular serving 55 companies in 2010 as against 51 in 2008 as shown in Table 2. This represents a growth of 7.3%. According to Okike (2007) presence of international auditors reduced as compared to indigenous auditor. However, Okike (2004) argues that international auditors are more transparent in their reporting of financial statement and annual reports than indigenous auditors. Critics have argued that auditors worked in concert with companies to skew financial reports in favour of their clients (Monks and Minow, 2008). To avert these trends in the banking sector, the CBN recently, reduced the tenure of auditors to ten (10) years (www.cenbank.com). As a result, there was a cap or limit to the tenure of auditors. Therefore, all banks were given directives until 31/12/2010 to change their auditors that have served them for more than ten years. In the same way as external auditors, companies were encouraged by the SEC code to introduce audit committees that ensure proper internal control measures such as checks and balances are put in place. This led to the rise of internal auditors and audit committees in corporate companies.

Table 2. Concentration of auditing of corporate sector for 2008 to 2010

Name of the audit firm	No of firms 2010	No of firms 2009	No of firms 2008
International auditor firms			
KPMG	17	14	9
PriceWaterhouse Coopers	24	23	21
Ernst &Young	6	5	4
PKF - Pannell Kerr Forster	8	8	7
Nigerian auditor firms			
Akintola Williams Deloitte	55	53	51
Horwath Dafinone	4	4	4
Oyelami Soetan Adeleke & Co.	4	4	4
BDO Oyediran Faleye Oke & Co.	6	6	7
Nnamdi Onyeka &Co.	3	3	3
Abayomi-Dosumu & Co.	2	2	1
Balogun Badejo & Co.	4	2	4
Other Nigerian auditor having one firm	1	1	1
Spiropoulos, adiele, Okpara & Co.	4	3	3
Morison, Odede &Co.	11		1
Other Nigerian auditor firm having one firm	42	43	36
Combined Auditors (Two Nigerian auditors)	2	3	9
Combined Auditors (One Nigerian and One foreign auditors)	1	2	3
Total number of firms	197	176	173

Source: Data compiled using Nigeria Stock Exchange Fact book

The interview responses support the fact that the code encouraged the rise of auditors both internally and externally, including the audit committees which members are the NEDs appointed because of their independence and skills (Okike, 2007). However, Okike further noted the problem of information asymmetry resulting in conflict between shareholders and BODs as common in Nigeria companies.

The findings reveal that the deputy sales manager of a paint industry in response to the question of auditor independence; B3 said:

The external auditors are independent and help to ensure that independence reporting free from biases is provided at all time. They do this by making sure that they remain transparent when complying with international accounting standards (*Deputy Sales Manager*).

In responding to the question on the role of auditors, the deputy director (IGI3) responds:

Some auditors are good and they do want the company to succeed. The auditors provide excellent services in line with international accounting standards and criteria to ensure good financial reporting (*Deputy Director*).

In responding to the role of auditors; IGI2 the financial controller said:

Definitely, the auditors are necessary for maintaining checks and balances in the company. They provide internal control mechanisms and ensure that budgetary allocation is spent judiciously. Recommendations are made to companies that do not have internal control mechanisms to make sure they establish it (*financial controller*).

IGI2 respond:

The NEDs ensure the audit committee perform their oversight function in line with good corporate practices and international standards.

....the NEDs look at the sectors, some sectors like the financial sector and other sectors they have worked and have experience and offer profitable advice based on such policies thereby raising the stake (*Public Relations Manager*).

The evidences from both the interview comments and documentary data analyses reveal that the influences of the auditors on the corporate governance practices are paramount. In responding to the question on the role of the auditors in performing their duties, the CEO of ExxonMobil (E5) said:

….As head of the executive management team I make sure that we have the best auditing team that delivers top class services for company aimed at maintaining accountability and transparency at all time (*The CEO*).

4.4 Growth in the number of company secretaries

The study reveals the significance and growth of company secretaries in the PLCs. Table 3 illustrates three different groups performing secretarial function for PLCs. These groups are the big companies performing secretarial functions. Part of the findings reveals slight increase in the number of companies performing secretarial functions from 35 to 36 companies in 2008 to 2009. The 2009 to 2010 period showed an increase of two (2) companies only. The second group of companies are those companies performing both legal and accounting services. These are all indigenous companies serving as secretaries. Some companies served between 2 to 11companies. Among these groups of companies is the DTT Services Limited that served eleven (11) companies from 2008 to 2010 as shown in Table 3. Other indigenous companies involved in the same services are Equity Services Limited, COSEC Services Limited, Genasec Nominees Limited and Cautious Services Limited that served two (2) companies each.

Also, the third group are those companies involved only in legal services (legal firms only). These are the G.M.E. Osadebe and Co. serving two (2) companies while the other seventeen (17) companies served only one (1) each in the year 2009. Likewise eleven (11) legal firms served only one (1) each in 2007, an increase of 54.5% in 2 years. Similarly, individual company performing secretarial function rose by 15.5% from 103 persons to 119 persons in 2 years (*i.e.* 2008 to 2010).

Finally, some companies do employ individual persons as secretaries. Some of these individuals act as secretaries to more than one firm at the same time. These are Temidayo Olaofe serving 3 companies in 2008, Sade Adebayo serving 2 companies in 2009 and 2010. However, majority of individual secretaries that serve one (1) firm each increased from 2008 to 2010 by 11.4%.

The increase in the number of firms performing secretarial functions has illustrated the significance of the SEC code 2003 that emphasized the importance of secretaries in the overall functions of the board and the company as a whole.

The interview response for secretaries' role, according to W3, a NED of Wema bank, responding to the question on the role of the secretaries and the reasons for their continued rise said:

The secretaries are the eye of the board as they provide guidance and assistance to the members of the board in discharging their services efficiently. It is their general acceptability that has caused their rise in the business sector (*The Non Executive Director*).

Z2, executive director of marketing further responded:

….Personally, the secretaries are like personal assistant to the directors and offer advice to the directors. They can be very influential at times since some of the directors do sought their advice concerning the activities within the company (*the executive director, marketing*).

Table 3. Number of secretarial function

Number of Secretarial firms	No. of secretarial firms 2010	No. of secretarial firms 2009	No. of secretarial firms 2008
DTT Table Services Limited	11	11	11
Marina nominees Limited	4	4	4
Lennap Services Limited	3	3	3
Equity Services Limited	2	2	2
COSEC Services Limited	2	2	2
Genasec nominees Limited	2	2	2
Cautious Services Limited	2	2	2
Others (serving only 1 firm)	12	10	9
Law firms performing secretarial duties			
G.M.E. Osadebe	2	2	2
Serving only 1 firm	17	18	11
Individuals as secretaries			
Temidayo Olaofe			3
I.A. Onaleye			2
Sade Adebayo	2	2	
Others (serving 1 firm)	117	115	103
Total	176	173	156

Source: Data compiled using Nigeria Stock Exchange Factbook

The evidence available from the interviews and documentary data reveals that the directors, auditors and secretariess work to support and enhance board independence, transparency and accountability. The directors enhances board independence and its effectiveness while the auditors ensures good reporting of financial statements and reports and finally the secretaries guide and support the directors and board members in the discharge of their duties.

5 Discussion and conclusion

This research study show how the directors, auditors and secretaries have performed in ensuring good corporate governance practices using qualitative approach. This serves as an indicator for the development and growth of corporate governance mechanism in Nigeria. In expounding on the ascription of identity for encouraging responsibility and reducing poor performance, an insight into the extent to which companies are prepared to hire these actors in satisfying stakeholder expectations was highlighted.

A key assumption in identity theory is that individuals are intrinsically motivated to achieve positive distinctiveness through self identity. That is, individuals strive for a positive self-concept. As individuals they are defined and informed by their respective social identities (as per the interpersonal-intergroup continuum) it is further derived in social identity theory that individuals strive to achieve or to maintain positive social identity. Therefore, this study offers an explanation from identity based dynamics of group think behaviour within the organisations such as loyalty, commitment and satisfaction.

Our analysis unveiled a presence of mixed and heterogeneity in the corporate governance developments. Growth of development of the three actors, directorships, auditors and secretaries were revealed. Also revealed were strategies aimed at risk reduction and enhanced board effectiveness. The discussion on identity theory featured self identification and group formation as key to expressing good behaviours that leads to enhanced performances. For instance, some of the strategies used by the directors particularly the NED are what inform them to be thorough in their approach thereby enhancing board effectiveness. However, directors are under obligation to develop policies that protect shareholders' interest, while at the same time, auditors have a duty to be fair and transparent providing the audited company's accounts.

The analysis revealed that indigenous auditors and use of two auditors were on the rise in the corporate sectors. This shows that indigenous auditors are beginning to have the skills, confidence and acceptability that ensure their gradual rise among Plcs. Finally, the company secretaries work with the board through the chairman by offering advice to the directors. Nevertheless, if the duties and obligations of directors, auditors and secretaries are minimal, the use of company resources will be misused resulting in bankruptcies in most cases. Therefore their roles are very salience to organisational survival.

Finally, the satisfaction of stakeholders can be achieved through compliance to the code of best practices. The code of best practice ensures that the board becomes more responsible and accountable. Companies are required to strengthen their board to be more effective and independent by enhancing their monitoring and accountability to stakeholders. This is done by employing independent directors and raising

the number of NEDs to equal executive directors. Similarly both internal and external auditors of companies has increased with some companies employing more than one auditors at the same time to provide transparent and reliable financial information that reflects the true nature and position of companies' performance. However, companies are encouraged by the Central Bank of Niegria to change their auditors that have served them for more ten years. As for the secretarial services, professional secretaries are being employed more in companies to provide quality services to the board. If these actors, the directors, auditors and secretaries perform their functions effectively and efficiently, not only will good corporate governance practices be maintained but the stakeholders will be satisfied as well.

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