

# Corporate Governance and Ethical Sensitivity of Directors of Listed Companies: Evidence from Nigeria

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## Abstract

*This study investigates the ethical sensitivity of Directors of listed companies on the corporate governance landscape of Nigeria. The study is motivated by the perceived lack of accountability by director (including Chief Executive Officers CEOs) of listed companies in Nigeria. The perception seems to have strong root in the Nigerian brand name both within and outside the shores of the country which has become so grossly debased that in the minds of many, the country (Nigeria) is synonymous with crookedness and fraud. Using a sample of directors of listed companies in Nigeria and survey instrument that contains ethically sensitive business scenarios, the results show that there is no significant difference in the ethical sensitivity of directors across listed companies in Nigeria, either in terms of religion or sex. The results are not in agreement with similar previous studies and thus have serious implications for corporate governance in Nigeria. The major limitation of the study is the small sample size. There is the need to enlarge the scope of future studies to include non-directors whose job roles and schedules also have ethical content and implications for corporate governance.*

**Key words** Corporate Governance, Ethical Sensitivity, Religiosity, Accountability, Listed Companies.

## 1.Introduction

The main issues usually discussed as having stunted the growth and progress of Nigeria are the lack of ethical conduct and accountability in the management of the country's resources. Thus, Emenyonu (2007) observed that Nigerian brand name both within and outside the shores of the country has become so grossly debased that in the minds of many, it is synonymous with "crookedness and fraud." This paper examines this assertion in the context of the ethical sensitivity of managers and directors of listed companies in Nigeria since they have prime responsibility for promoting ethical behaviour and accountability in the management of the resources of their companies.

The roles, duties and importance of the Company Directors are well spelt out in the Companies and Allied Matters Act 2004, CAP 20 LFN. The directors and managers represent the directing mind of the companies they represent. In order to further strengthen the position of the directors in the management of their various firms, the Code of Corporate Governance 2011 was enacted to replace the 2003 edition which had become obsolete. The 2011 Code clearly emphasized that the principal objective of the Board is to ensure that their companies are managed in line with good corporate governance practices.

In spite of the elaborate provisions in the various corporate governance enabling instruments, there are still cases of unethical conduct (real and perceived) among some directors and management of companies in Nigeria. Some of the unethical practice were pronounced in all the sectors of the Nigerian economy. The country had the failure of some Nigerian banks in the last decade, the case of lever Brothers (Now Unilever) in 1998 where overvaluation of stocks running into billions of Naira was discovered. Another was the case of the African Petroleum (AP) Plc in which the company's Board of directors concealed indebtedness to the tune of twenty two billion Naira in its year 2000 offer for sale. We had yet the case of Cadbury Plc as well as that of Evans Medicals Plc in which the company's record unsupported inventory balance of about five hundred and fifty million Naira in its year 2008 financial statements.

The unethical acts were perpetrated in a quest to maintain a “giant” corporate image to deceive the investing public. Though corruption and unethical practices are rampant in Nigerian organizations as discussed above, but the degree to which the practices are influenced by religious and gender are not well understood. Thus, the relevant question is: are unethical practices among company directors and managers religion and gender dependent? The question is relevant because it will enable a proper understanding of how directors who belong to any of the major two religious faiths in Nigeria (Christianity and Islam) respond to ethical issues. It is also important to determine whether gender influences ethical sensitivity in the context of Nigeria.

More specifically, two hypotheses will be tested: first, whether there are significant differences between Christians and Muslims in their acceptability of questionable business practices and second, whether there are significant differences between the acceptability of questionable business practices between male and female directors. The reminder of this paper is organized as follows. The next section reviews the extant literature and presents the hypotheses to be tested. This is followed by the methodology and results and a discussion of the findings. Finally, the last section presents the conclusions, limitations, and implications of the study.

## 1. Literature Review

### *Unethical Practices and Corruption Scourge in Nigeria*

There is no doubt that corruption exists in every country of the world and thus, a universal human problem. However, there are countries where corruption is so pervasive that it makes impossible any effort at progress. Unfortunately, Nigeria is one such country. For instance, corporate misconduct has continued to destroy firm value as it shakes the market confidence and thus has continued to be a key concern for investors and regulators. Thus, the issue of corporate governance is being accorded serious attention by all sectors of the Nigerian economy. For instance, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies, the aim of which is to build credibility while ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. Notwithstanding these efforts at ensuring corporate governance, the survey conducted by the Securities and Exchange Commission (SEC: 2003) in Nigeria showed that corporate governance is at an elementary stage and thus corporate misconduct remains unabated.

The preceding assertion is supported by the evidence provided by Transparency International (TI) in its annual ranking of countries with regard to levels of corruption. It is curious to know that as from 1996 when TI started including Nigeria in those rankings, she has always emerged as one of the most perceived corrupt nations on the face of the earth as shown in the table below.

**Table 1: Corruption Perception Index Rankings (Nigeria)**

Year	Ranking
1996	54 out of 54
1997	52 out of 52
1998	81 out of 85
1999	98 out of 99
2000	90 out of 90
2001	90 out of 91
2002	101 out of 102
2003	132 out of 133
2004	144 out of 146
2005	152 out of 158
2006	150 out of 163
2007	143 out of 178
2008	143 out of 178
2009	143 out of 178
2010	143 out of 178

**Source:** Annual Corruption Perception Index prepared by Transparency International

Out of fifteen years, Nigeria ranked last three times (1996, 1997 and 2000). She has ranked second to the last four times (1999, 2001, 2002 and 2003). There is hardly any other country that has performed as bad so consistently.

The evidence presented above indicates that corruption has eaten so deep into the fabric of the Nigerian society that there is hardly any segment that is free from its effects. This is further evidenced from a World Bank

survey of the level of corruption in selected agencies and institutions in Nigeria. The above assertion is buttressed by the details of the corruption levels in selected institutions in Nigeria as shown in the table below

**Table 2 Assessment of Levels of Corruption in Some Nigerian Institutions**

Institution	Year	Year	Year	Year	Year	Year	Year
	2004	2005	2006	2007	2008	2009	2010
Political Parties	4.5	4.5	4.5	4.3	N/A	4.2	4.5
Legislature	4.2	4.1	4.1	3.8	N/A	3.8	4.2
Police	4.8	4.7	4.9	4.5	N/A	4.5	4.7
Judiciary	3.8	3.8	4.1	3.4	N/A	3.4	3.7
Public officials/civil servants	3.8	3.6	3.5	3.7	N/A	3.4	3.5
Military	3.9	3.8	3.7	3.3	N/A	3.5	3.1
Educational System	3.8	3.8	4.3	3.3	N/A	3.6	3.8
Business/Private Sector	3.4	3.2	3.7	3.2	N/A	3.3	2.9
Media	3.0	2.8	3.2	3.1	N/A	3.0	2.7
NGO's	2.7	2.5	3.0	2.9	N/A	3.0	2.4
Religious Bodies	2.4	2.3	3.0	3.5	N/A	2.9	2.2

**Source:** Compiled by the authors from World Bank Governance and Integrity Study (2004-2010)

The details in the table above show for instance that on a scale 1 to 5, with 5 representing extreme or total corruption and one signifying minimal or low level of corruption, government departments and agencies led by the Nigerian Police Force was ranked the most corrupt with a score of 4.9 in 2006. This is not surprising, noted Emenyonu (2007), especially since the Police degenerated to the extent of giving *change* to commercial vehicle drivers when they drivers don't have the customary passage bribe of N20.00

### **Individual characteristics and Ethical Sensitivity**

There are a number of individual factors which have implications for ethical decision making that have been studied in an attempt to understand why people make certain decisions. Loe, Ferrell and Mansfield, (2000); O'Fallon and Butterfield, (2005), Dean, Beggs and Keane, (2010) provide insight into some of those factors which include religion, gender and locus of control.

### **Religiosity in Nigeria**

There is enormous amount of details in the literature of the role of religion in affecting ethical behaviour. According to Conroy and Emerson (2004) there is significant positive correlation between religiosity and perception of ethical behaviour. Similarly, Lehman (2004) notes that key institutions such as religion play a "central role" in the formation of a civil society committed to the highest good in the form of honesty, trust and the cultivation of virtue. Given the above assertions, it can be inferred that religion has a role to play in the pre-disposition of human beings towards doing that which is adjudged 'right.' This can further be supported by Weaver and Angle (2002), who found that perceptions of ethical decision-making interact with important aspects of one's perception of self, in their case, religiousness. The motivation to behave ethically as noted by Spiceland, Sepe and Tomassini (2001) must come from "within oneself" and this is what religion ought to facilitate. The table below indicates the level of religiosity of Nigerians.

**Table 3 Religious Adherents In Nigeria, Ad 1900-2025**

	1900	1970	Mid-1990	Mid-1995	mid-2000	mid-2025
Christians	176,000	21,728,000	39,550,000	45,200,000	51,123,167	86,000,000
Muslims	4,200,000	21,750,000	38,199,700	43,435,000	48,999,663	82,107,000
Traditionalists	11,824,000	5,970,000	9,000,000	9,959,150	10,963,809	14,000,000
Non Religious	0	100,000	200,000	270,000	326,339	700,000
Atheists	0	20,000	32,500	34,000	39,000	100,000
Baha's	0	11,400	25,000	27,000	27,031	80,000
Buddhists	0	500	5,000	5,900	5,953	15,000
Chinese-Religion	0	0	3,000	3,300	3,291	7,000
Jews	0	0	800	850	803	2,000
Others	0	11,100	15,000	16,800	16,726	30,000
Country's population	16,200,000	49,591,293	87,031,000	98,951,865	111,506,000	183,041,000

**Source:** World Christian Encyclopedia (2000)

The table above indicates that Nigeria does not lack religious adherence either in the Muslim or the Christian faith and can be inferred that majority of directors and managers of firms in Nigeria belong to either of the two main religious denominations. Though we claim that we have a "religious" society, but have little spirituality hence, corruption persists in the country. In other words, despite the proliferation of mosques and churches, adherents still get involved in anti-social behaviour and corrupt practices. Moreover, the general move towards religious fundamentalism both among Christians and Muslims increases preaching of prosperity in Nigeria. Both phenomena occur and expand with the increasing frustration and despondency among the unemployed citizens, who have lost hope about their future. Thus, religion has become an industry for making fast money by the clergy, religious imposters and scholars.

Consequently, the tendency to move away from the values that were once found in religious experience have created an ethical vacuum which cannot be directly traceable to any of the major religious groups without empirical evidence. Thus, we propose the following null hypothesis of the effect of religion on the ethical sensitivity of directors towards acceptability of questionable business and accounting practices.

**H1: There are no significant differences between directors who are Christian or Muslim adherents concerning the acceptability of questionable business and accounting practices.**

### Gender

Besides religiosity, there are other individual characteristics that have been found to influence ethical behaviour and perceptions. One of these is gender. Males and females have been found to make moral judgments in quite different ways. A number of studies which include Eyon, Hill and Stevenson (1997), Borkowski and Ugras (1998), Conroy and Emerson, (2004), Emerson, Conroy and Stanley (2007) found that females exhibit stronger ethical sensitivity than their male counterparts. The import of this is that males are more comfortable accepting ethically questionable situations because males and females are believed (based on past work) to bring different sets of values to the workplace, thus causing them to respond differently to the same set of circumstances. According to Coate and Frey (2000), for instance, males view achievement as competition while females are more concerned with their own performance and with maintaining harmony in the workplace and thus, males are more likely to break rules to achieve competitive success than their female counterparts. In essence, females are less likely to break rules and are less tolerant of those who do break rules. Previous research appears to support these claims. In terms of moral development, for instance, women are deemed to be more idealistic and less relativistic than are men (Atakan, Burnaz and Topcu, 2008; Oumlil and Balloun, 2009; and Vermier and Van Kenhove (2008) found women to be less likely than men to use double standards when dealing with questionable conduct against business misconduct. No wonder therefore that the main "whistle blowers" at Enron, Sherron Watkins, and WorldCom, Cynthia Cooper, were women. Taken as a whole, these findings suggest that women are more ethically sensitive than men. But is this the situation in Nigeria where some woman in positions of trust have been found to compromise the integrity of their offices and callings? In the light of the preceding question, the following hypothesis is formulated.

**H2: There are no significant differences between male and females directors concerning the acceptability of questionable business and accounting practices.**

## 2. Research Method

A number of characteristics such as age, race, sex and religion have been shown in prior research in ethics as good predictors of ethical attitude (Emerson and Conroy, 2004 and Eyon, Hill, and Stevens, 1997). Two of the characteristics (religion and sex) were considered in this study. The study employed a survey instrument which consists of four scenarios. Each of the scenarios describes a brief situation involving ethical dilemma in the context of accounting and business settings and the decision taken by a relevant officer. The scenarios aptly replicates some common business situations and actions prevalent in Nigeria. The four scenarios include the material misstatement of net income to evade tax liability, the payment of illegal fees to secure a huge contract job; the reclassification of loans to avoid penalty from regulatory authorities and the falsification of age to secure a well paid job.

The respondents were asked four questions; two of which measured the attitude of the respondents. The other two questions measured the intention of the respondents towards taking the actions described in the scenarios. In both cases, the respondents were asked to rate their responses based on a Likert type scale of the range 1–7. The attitude questions relate to the seriousness (high score suggest seriousness) and ethicality of the actions (low score suggest action unethical). The behavioural questions relate to whether respondents or their peer would undertake similar actions. Low scores in each case suggest that neither the respondents nor their peers would undertake the action.

The study adopted a quantitative research methodology using an ex post facto design. This design is useful in studies in which questions about people's past experiences are asked (Krishnaswami, 2003; Kibanja and Munene, 2009). The design was considered suitable for this study because respondents were asked questions about their past experiences as directors of listed companies and thus avoid social desirability bias. A sample of 320 respondents (non-executive and executive directors) who had been on the board of companies for at least three years and whose tenure expired by December, 2010 were included in the survey. Of the total number of three hundred and twenty (320) questionnaires administered, eighty one (81) responses could not be used due to incomplete information. The structure of the respondents is shown in Table 4 below:

**Table 4 Demographic Information of Respondents**

	<b>Christians</b>	<b>Muslims</b>	<b>Total</b>
Total Number of respondents	117	112	229
Gender Male	62	60	122
Female	65	62	107

## Results and discussion

Estimation results for each of the four scenarios and for each of the four questions are presented in Tables 5 (a and b). Table 5 shows the results of the One way ANOVA test for statistical differences between Christian and Muslim company directors concerning the acceptability of questionable accounting and business practices. There are marginal differences in the mean scores between the directors of the Christians faith and those of the Muslim faith. Overall, only three of the 16 questions have statistically significant differences. This implies that there are no marked differences between Christian and Muslim directors concerning the acceptability of questionable accounting and business practices. These results give credence to hypothesis 1. Therefore, hypothesis 1 is not rejected. The implication of this result is that the various religious faith which the directors profess do not influence them positively when it comes to business transactions.

Table 5b shows the results of the ANOVA test for statistical differences between male and female directors concerning the acceptability of questionable accounting and business practices. The likelihood that the respondent would take similar action in respect of scenarios 2 and 4 is lower for male than females. The likelihood that a peer would take similar action in scenario 4 is lower for male than female. Similarly, the males also consider the action in scenario 2 less ethical than the females.

**Table 5 Results and Discussion (Analysis of Variance)**

Individual Scenarios	a				b			
	Christians mean	Muslims mean	F-ratio	P-v	Christians mean	Muslims mean	F-ratio	P-v
<b>Seriousness of the action</b>								
Scenario 1	5.39	2.37	2.55	0.032**	4.93	5.71	1.04	0.483
Scenario 2	4.68	3.63	2.13	0.069*	4.84	4.87	0.66	0.422
Scenario 2 0.816	5.70	2.49	0.89	0.52	4.74	4.50	0.43	
Scenario 2 0.526	5.90	4.53	0.48	0.85	5.48	5.34	0.82	
<b>Respondents would take similar action</b>								
Scenario 1	1.47	1.69	1.25	0.286	1.42	1.66	1.07	0.488
Scenario 2	3.47	3.87	2.26	0.047**	3.65	3.92	4.41	0.001***
Scenario 3	2.35	2.22	1.34	0.242	2.29	2.41	1.85	0.215
Scenario 4	2.18	3.27	0.33	0.988	2.02	2.55	2.38	0.033**
<b>A peer would take similar action</b>								
Scenario 1	3.84	3.22	1.07	0.384	3.11	3.30	0.95	
Scenario 2	4.27	3.24	0.80	0.540	4.36	4.56	0.83	
Scenario 3	3.35	4.07	0.42	0.819	3.74	3.73	0.84	
Scenario 4	3.10	4.77	0.83	0.533	3.56	4.40	2.86	
<b>Ethicality of the action</b>								
Scenario 1	2.19	2.36	0.46	0.852	2.09	2.45	0.35	
Scenario 2	3.37	3.77	0.47	0.856	2.25	2.84	2.12	
Scenario 3	2.58	2.62	1.11	0.393	2.46	3.79	1.63	
Scenario 4	1.69	1.93	0.37	0.848	1.92	1.83	1781	

Notes: \*significant at the 10% level, \*\*significant at the 5% level, \*\*\*significant at the 1% level



## 4. Conclusions and implications

This study provides evidence of the ethical sensitivity of directors of some listed companies in Nigeria in terms of religion and sex. Based on the empirical evidence, we conclude that there are no significant differences between Christian and Muslims directors of companies concerning acceptability of questionable accounting and business practices. We also found no significant differences between male and female directors in respect of acceptability of the ethical issues presented in the various scenarios.

For policy implication however, the results of this study cannot be generalized because it is constrained by the small sample size of the sample and a number of other factors not controlled for. It would therefore be inappropriate to draw inferences that could have implications for policy under the circumstance. However, to enable policy implications to be drawn, we encourage future research that could expand the sample size and comparison groups to include atheists, humanists, freethinkers and more industry segments.

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## Appendix

### Scenario 1

Okoro Ltd. employs the firm of Green and Co. as auditors for the year ended 31st December, 2010. Green and Co. discovered that the client materially misstated net income on the previous year's tax return. The client is advised to prepare amended tax returns.

**Action:** The client failed to take appropriate action.

### **Scenario 2**

The Minister of a foreign country where extra ordinary payments to influence the decision making process are common, asks you as a company Director for a fee of N5million to secure a contract of N100million that would yield after tax profit of N25million. If the contract is not secured, a fair share of the market would be lost.

**Action:** *The fee is paid to secure the contract.*

### **Scenario 3**

A commercial bank, XYZ Ltd has just offered its share for public subscription following the increase in capital base of Nigerian banks. Against banking laws, XYZ Ltd granted loans to its customers to buy the shares to ensure full subscription. The Managing Director (whose job is predicated on the full subscription of the shares) asks the Finance Director to reclassify the loan as “Agricultural credit loan” to beat sanctions from regulatory authorities.

**Action:** *The finance director reclassified the loans.*

### **Scenario 4**

A young man with a good university degree and has been unemployed for several years suddenly found an opportunity of a good job, but failed to meet the age requirement. Friends asked him to understate his age by five years. If he is caught, he could be charged for forgery and could go to jail for ten years.

**Action:** *He understates his age and secured the job.*