ENHANCING BUSINESS PROSPERITY IN NIGERIA THROUGH GOOD CORPORATE GOVERNANCE

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Abstract

The recent economic global meltdown and the current crisis in the banking sector have cast doubts on the ability of corporate executives to manage their organizations for the good of the stakeholders. The study was conducted to determine the role played by good corporate governance in corporate business prosperity in Nigeria. A review of literature revealed that corporate governance is essentially concerned with whose benefit businesses should be run. Structured questionnaires were used to collect responses from respondents who were investment expert members of the Nigerian Stock Exchange in Lagos. It was hypothesized and found that there is a relationship between good corporate governance and corporate business prosperity and market value. The researcher recommended a vigorous enforcement of the corporate governance code by the Security and Exchange Commission, active board of directors and the encouragement of shareholders activism to promote corporate governance among Nigerian corporate organizations.

Introduction

There is no gain saying the fact that the economic prosperity of a nation is directly influenced by the quality of management of its corporate organizations. Corporate organizations facilitate economic growth and development through the employment of a large percentage of a country’s labour force and by enhancing the citizens’ standards of living by providing valuable goods and services (Cole, 2004).

Unfortunately, the Nigerian economy has been characterized by incidence of crashing industries, failed banks, epileptic public utilities, declining standard of education and inefficient health delivery system. The causes of all these are corruption and managerial ineptitude (Ejiogu, 2005). Thus, promoting the tenets of corporate governance is one of the most effective means of curbing this social-economic ill (Anya, 2003).

However, it is imperative to note that the impact of the current economic meltdown and the present clamp down on the Nigerian banking sector might be indications that many firms in Nigeria are probably not inclined to carry out the germane practices of corporate governance. For instance, the banks with their fabulous profits were collapsing in their numbers, leaving a trail of woes for investors, shareholders, suppliers, depositors, employees and other stakeholders (Kajpla, 2008). Some banks’ chief executives and their boards have been accused of abandoning the key elements of good corporate governance: honesty, trust and integrity, openness, performance orientation, responsibility and accountability in running the affairs of their organizations (Chiejina, 2009). This has necessitated an inquiry into the roles of good corporate governance in fostering business prosperity in Nigeria. In view of this, the study set out to achieve the following objectives:

(a) To find out whether there is a relationship between good corporate governance and business prosperity.
(b) To ascertain whether good corporate governance culture influences the market value of corporate firms.

Based on the objectives of the study the following hypothesized relationships were tested:

$H_0_1$: There is no relationship between good corporate governance and business prosperity.
$H_0_2$: Good corporate governance culture does not influence the market value of corporate firms.
The significance of this study lies in the fact that it will provide an objective basis for assessing the role of corporate governance in business prosperity as well as serve as reference material for future researchers in this field of study.

The Concept of Corporate Governance

Corporate governance is a topical issue discussed not only by academics but national governments and the investing public at large. This is understandable, given the role corporate governance plays in the economic health of organizations and the society at large. Presently, corporate governance has become the preoccupation of all stakeholders in the life of the firm: investors, creditors, management, employees and other partners (Kamara, 2005).

To fully appreciate the concept of corporate governance, it is pertinent to first define the two terms in the compound word. The Collins (2001) Dictionary of advance learners defines ‘Corporate’ as relating to business corporations or to a particular business corporation while ‘Governance’ of a company or organization is the way in which it is managed. Corporate Governance has been variously defined by academics, scholars and institutions: According to the Organization for Economic Corporation and Development OECD (2004), corporate governance is the system by which, business corporations are directed and controlled.

Corporate Governance is the process by which managers provide leadership and direction, create enabling climate and connect systematized collaborative efforts of work groups. In other to perform this role effectively, managers must be capable of cultivating conceptual thinking, setting attainable objectives to be met as well as prioritizing activities and arriving at appropriate decisions (Ugoji and Isele., 2009).

Musa (2007) defined, corporate governance as the rules and practices that govern the relationship between managers and shareholders of companies as well as other stakeholders and it contributes not only to the growth and financial stability of corporate enterprise but also promote financial market integrity and economic efficiency.

For Dignam and Lowry (2006), corporate governance is a multi-faceted subject. An important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. Cadbury (2000) sees corporate governance as being concerned with holding the balance between economic and social goals and between individual and communal goals. According to Cole (2004), corporate governance is the process by which business enterprises regulate the way in which the directors are appointed, paid and rewarded. It includes measures to ensure that the company accounts are reported in a fair and transparent way. It also requires attention to the ethics of conducting a public business.

Drucker (2003) posited that the debate about the governance of corporation basically concern those who benefit from running business. It underlies the dramatic shift to the predominance of the shareholders' interest.

The parties involved in corporate governance are the regulatory agencies, the board of directors, management, shareholders, suppliers, creditors, employees, customers and the community at large. Also, the essence of corporate governance is to ensure the maximum satisfaction of stakeholders’ interests through the effective management of the corporation.

Principles of Corporate Governance

According to Oni (2006), implementing corporate governance is premised on four principles: namely fairness, transparency, responsibility and accountability. In his view, these four principles are equally relevant whether firms are publicly, privately or state owned, or are subject to a controlling shareholder. In a bid to ensure uniformity in the practice of corporate governance the world over, the Hampel Committee (1998) developed some basic principles of good governance and sets out a code
of best practices called the "combined code". According to the Hampel Committee, basic good corporate governance includes the following:

1. Every listed company should be headed by an effective board which should lead and control the company. The board should meet regularly and should have a formal schedule of matters reserved to it for decision; directors should bring an independent judgment to bear on issues of strategy, performance, resources and standards of conduct. Directors should receive appropriate training on first appointment, and as necessary thereafter.

2. There are two key tasks at the top of every public company - the running of the board (the Chairman's role and the executive responsibility for the operation of the company's business (chief executive role). There should be a clear division of responsibilities between the two roles, so as to ensure a balance of power and authority and thus, avoid a situation where one person has unfettered powers of decision.

3. The board should have a balance between executive and non-executive directors with at least 1/3 from the latter. The majority of non-executive should be independent of the management and free of business relationships that could interfere with their independence.

4. There should be a formal and transparent procedure for the appointment of directors and all directors should offer themselves for re-election every three years.

5. Levels of remunerations should be sufficient to attract and retain the directors needed to run the company successfully but should not be excessive. Part of the pay of executive Directors should be in the form of performance-related elements.

6. The board should use the Annual General Meeting (AGM) to communicate with the individual investors and encourage their participation.

Institutional Arrangements for Corporate Governance

In view of the significance attached to the institution of effective corporate governance., the Nigerian government via her various agencies have come up with various institutional arrangements to protect the investors from unscrupulous management of firms in the country. These institutional arrangements are provided in the ‘Code of Corporate Governance best practices’ issued in November 2003 (Kajola, 2008). According to SEC (2003), the corporate governance code in Nigeria deals with the role of board of directors, reporting and control, shareholders right and privileges and the audit committee:

**Board of Directors:** The board is responsible for formulating broad policies and making strategic decision. The board should be composed in such a way as to ensure diversity of experience without compromising compatibility, integrity, availability and independence. It emphasizes the need for the separation of the post of the chairman from that of the chief executive officer. These positions are to be held by separate individuals.

**Reporting and Control:** The code stresses the need for transparency in financial and non-financial reporting. It mandates the board to ensure that internal controls are in place and audit committee instituted, annual report properly prepared and circulated and provisions of CAMA 1990 complied with.

**Shareholders Rights and Privileges:** The code mandates companies to ensure that shareholders statutory and general rights are protected at all times. Such rights include election of directors, venue and notice of meetings, shareholders activism, etc. It also mandates shareholders holding more than 20 percent of the total issued capital of the company to have a representative at the board.

**Audit Committee:** The code directs all affected companies to establish audit committees, with the key objective of raising standards of corporate governance. It provides also for the composition, qualification and experience of members and of reference of the committee.
Benefits of Corporate Governance

The following are a number of benefits accruing to firms with strict observance of good corporate governance. (Alo, 2003):

a. Good corporate governance is necessary to build market and investor's confidence. Market discipline and transparency can result from good corporate governance (Armstrong, 2003).

b. Good corporate governance project helps to encourage more stable long term international investment flow into a country. It can enhance corporate responsibility and improve the reputation of firms, which in turn can attract local and foreign investors (Rossouw, 2005).

c. Better corporate governance practices are now seen as a way to improve economic dynamism, international competitiveness and overall economics performance.

d. At the company level, strong corporate governance makes for judicious use of resource, enables an organization to maximize the opportunities available to it, manage its risks better and boast its chances of succeeding in the market place.

e. It is seen as a deterrent to corruption and unethical business practices that damage Africa’s business image (Rossouw, 2005).

Problems of Corporate Governance

The underlisted problems can hinder the implementation of good corporate governance code (Alo, 2003; Rossouw, 2005)

i. Supply of Accounting Information: Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause imperfections in the effectiveness of corporate governance.

ii. Demand for Information: A barrier to shareholder using good information is the cost of processing it especially to a small shareholder.

iii. Monitoring Costs: In order to influence the directors, the shareholders must combine with others to form a significant voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting. In Nigeria, the specific problems include.

iv. Non Enforcement of the Code: Lack of effective regulatory and institutional frameworks that can guarantee the enforcement of the standards of good corporate governance (Rossouw, 2005). The Securities and Exchange Commission only admonished firms to comply without a provision for its strict enforcement.

v. Partiality of Board Members: Contrary to standard practice, most board members are contractors or suppliers to the firm and as such incapable of objectively carrying out their over sight functions.

Methodology

Population Sample and Data collection Procedures

The population of study comprises stock brokers of the Nigerian capital market. A sample size of 50 respondents was selected using random sampling technique. A structured open-ended questionnaire was used to elicit responses on corporate governance and its impact on organizational prosperity. The choice of respondents was informed by the unwillingness of managerial employees of most companies to provide information on the extent of the applicability of corporate governance by their firms. The questionnaires were personally administered to respondents. The respondents were guaranteed complete anonymity. Sixty (60) questionnaires were administered but 50 were correctly completed and returned. This indicates 83% response rate. The respondents' average age was 37 years. The average years of work experience was 7 years, and 75% of the respondents were males.

Method of Analysis

The questions were analyzed using simple percentages while the hypotheses were tested with the chi square ($X^2$) at 0.05 significant level.

Measures

Good Corporate governance was operationalized with four subconstructs; transparency in accounting reports, shareholders activism, the enlighten Board of Directors and ethical behaviour of top management while business prosperity was operationalized with, market value of shares, profit
after tax and investor’s preference. The responses were measured along a modified Likert type five-point scale of Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree. These were later collapsed into a three-point scale of Agree (AG), Undecided (UD) and Disagree (DA) for ease of analysis.

**Hypotheses and Results**

**Hypothesis One**  
\( H_{01} \): There is no relationship between good corporate governance and business prosperity.

<table>
<thead>
<tr>
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<th>AG</th>
<th>UD</th>
<th>DA</th>
<th>Total</th>
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<tr>
<td>Market Values of Share</td>
<td>35</td>
<td>10</td>
<td>5</td>
<td>50</td>
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<tr>
<td>Investors Preference</td>
<td>25</td>
<td>20</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>28</td>
<td>12</td>
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<tr>
<td>Total</td>
<td>88</td>
<td>42</td>
<td>20</td>
<td>150</td>
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</table>

\[
e = \frac{RT \times CT}{GT}
\]

\[
X^2 = \sum_{e}^{n}(O-e)^2
\]

<table>
<thead>
<tr>
<th>O</th>
<th>e</th>
<th>(O-e)</th>
<th>(O-e)^2</th>
<th>E</th>
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</thead>
<tbody>
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<td>18.33</td>
<td>335.9</td>
<td>20.16</td>
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<td>-66</td>
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<td>-11.67</td>
<td>136.19</td>
<td>8.17</td>
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</tr>
<tr>
<td>Cal X^2</td>
<td></td>
<td></td>
<td></td>
<td>55.61</td>
</tr>
</tbody>
</table>

Table value of \( X^2 = 9.48 \)

**Decision Rule:** Accept \( H_{01} \) if calculated \( x^2 \) is less than table \( x^2 \) at 95% confidence level. Otherwise, reject.

Decision: Since calculated \( x^2 \) (55.61) as shown in table 1 is greater than table \( x^2 \) (9.48), the null hypothesis (\( H_{01} \)) of no relationship is rejected. Therefore, there is a relationship between good corporate governance and business prosperity.

**Hypothesis Two**  
\( H_{02} \): Good corporate governance culture does not influence the market value of firms.
Table 2

<table>
<thead>
<tr>
<th>SA</th>
<th>A</th>
<th>UD</th>
<th>DA</th>
<th>SDA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>50</td>
</tr>
</tbody>
</table>

\[ X^2 = \sum \frac{(o-e)^2}{e} \]
\[ e = \sum o_i \]
\[ n \]

<table>
<thead>
<tr>
<th>O</th>
<th>e</th>
<th>(O-e)</th>
<th>(O-e)^2</th>
<th>(O-e)^2</th>
<th>Cal X^2</th>
</tr>
</thead>
<tbody>
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<td>20</td>
<td>10</td>
<td>10</td>
<td>100</td>
<td>10</td>
<td></td>
</tr>
<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
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<tr>
<td>5</td>
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<td>25</td>
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<tr>
<td>0</td>
<td>10</td>
<td>-10</td>
<td>100</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Cal X^2 = 25

Table value of X^2 = 9.49

Note
- e = Expected
- o = Observed
- RT = Row total
- CT = Column total
- GT = Grand total

Sig. level = 0.05

**Decision Rule:** Accept H_{02} if calculated \( X^2 \) is less than table \( X^2 \) at 95% confidence level. Otherwise, reject.

**Decision:** Since calculated \( X^2 \) (25) as shown in table 2 is greater than table \( X^2 \) (9.49), the null hypothesis (H_{02}) of no relationship is rejected. Therefore, good corporate governance culture influences the market value of firms.

**Conclusion and Recommendations**

The findings of the study reveal that there is a relationship between good corporate governance and business prosperity. It also shows that good corporate governance culture influences the market value of firms. Good corporate governance is an essential ingredient in corporate success and sustainable economic growth. Good corporate governance systems will allow organizations to realize their maximum productivity, improve efficiency, minimize corruption and abuse of power, and provide a system of managerial accountability. This will invariably lead to sustainable business prosperity.

There is no gainsaying the fact that corporate entities that adhere strictly to the tenets of corporate governance will be more profitable than their non-compliant mates. Higher profits will provide additional funds for expansion and higher dividend for shareholders. In addition, they will attract qualified employees who will be satisfied and give their best for the success of the organization. The sad news however, is that most corporate companies in Nigeria are likely paying lip service to the corporate governance code. To this end, the following recommendations are made:

i. There should be strict enforcement of the corporate governance code. Stiff penalties should be prescribed for offenders.
ii. Enlighten Board Of Directors- The composition of the board of directors should be such that members possess a broad range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties.

iii. Simplification of Accounting Information: there is the need for accounting information to be provided in understandable language.

iv. Shareholders Activism - Most shareholders are ignorant of the enormous power they possess through their voting rights. Many of them hardly attend annual general meetings. There is the need for education to enhance shareholders’ activism.

v. The audit committees of corporate organizations should be composed of qualified and fearless individuals bold enough to carry out their oversight responsibilities.

Suggestions for Further Studies
The following suggestions for further studies are highlighted:

The study only covered stock brokers in the Nigerian capital market. It is suggested that future research should extend to cover manufacturing industry and other service firms. This might make the generalisation of the findings to be well justified.

Future studies on why most Nigerians are unethical in carrying out their official duties and responsibilities should be carried out. The role of independent auditors in examining the financial books of firms in relation to compliance with code of corporate governance should also be investigated.

References


Musa, A. (2008), Corporate Governance, *http: 11 www.Sec.Gov.ng/ Papers governance, htm*


