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Research article

CORPORATE GOVERNANCE AS AN IMPERATIVE FOR BUSINESS SUSTAINABILITY: NIGERIAN EXPERIENCE

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ABSTRACT

The rapid development and sustainability of any organization in today hypercompetitive environment to a large extent is dependent on the quantum of strategic relationships which would further enhance performance. An important strategic planning step for an organization going through business sustainability is to understand and institute the concept and principles of corporate governance. This study examines the extent to which corporate governance affects business sustainability. Data were collected using questionnaire from six private organizations in Nigeria. Data obtained were analysed using correlation analysis at 0.05 level of significance for empirical testing of the hypothesis that guided the study. The findings revealed that corporate governance significantly affects business sustainability. The paper recommends that the boundary between business and government should be demarcated; establishment of a special corporate affairs tribunal; enhancing business ethics through moral education and facilitating rural development through employment generation.

Keywords: Corporate Governance Reforms, Agency and Stewardship Theories, Business Sustainability

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1. INTRODUCTION

In this era of privatization of government enterprises, organizations need to look broader on their idea of corporate governance to incorporate their economic interests, with social and environmental stakeholders' interest for business sustainability.

The global economy appears to be back on the road to recovery after suffering its worst recession in the post-war era. Emerging markets in Asia and Latin America continue to experience growth whilst the United Statesof America where the crisis originated is also recording some recovery, largely due to aggressive fiscal and momentary stimulus package implemented by the US government. It is expected that commodity rich economics will benefit from the recovery as demand for commodities increases and prices continue to trend upward (Olusanya and Oluwasanya, 2014).

The year 2010 saw continued concern over the impact of the global crisis on the domestic challenging economy, leading to capital flight by foreign investors. Weak oil prices caused a contraction of government revenue and a reduction in external reserves.

The poor operating precinct hampered the performance of many companies. Rising unemployment weakened purchasing power and weakened investor confidence exerted downward presence on asset prices. The challenge of management in a rapidly changing world and challenging economies is therefore to prepare the leaders in governance and the citizens to cope with unforeseen change and to manage planned change in such a way that it enhances performances and sharpens the countries and organizations growth and development.

Economically, politically and socially, the world around us has been changing so fast that corporate landscapes of industrialized economies here equally changed drastically. As a result of this, countries and corporate have been more or less forced to cut out wasteful and unproductive activities and concentrate resources in their areas of core-competence in order to achieve business sustainability. On the other hand, worldwide, recession has affected company structure and practices while global management has brought companies face to face with complex cross-cultural issues and competitions.

To survive this unprecedented turmoil, most organizations embarked on corporate governance. The aim is to solve today's business and high-end corporate problem by improving business processes so as to engender companiessustainability and enhanced strategic performance (Olusanya and Oluwasanya, 2014). Corporate Governance means the establishment of an appropriate legal, economic and institution environment that allows organizations to thrive as institutions for advancing long-term shareholders value and maximum human centered development while remaining conscious of their other responsibilities to other stakeholders,the environment and the society in general. Corporate governance, as a concept, can be viewed from at least two perspectives; a narrow one in which it is viewed merely as being concerned with the structures within which a corporate entity receives its basic orientation and direction (Rwegasira, 2000) and a broad perspective in which it is regarded as being the heart of both a market economy and democratic society (Sullivan, 2000). The narrow view perceives corporate governance in terms of issues relating to shareholders protection, management control and popular principal- agency problems of economic theory. In contrast, Sullivan (2000) a proponent of the broader perspective uses the examples of the resultant problems of the privatization crusade that has been sweeping through developing countries since the 1980's, that issues of institution legal and capacity building as well as the rule of law, are at the very heart of corporate governance.

However with modernization, growth and expansion of business both in size and technical knowhow, it has become difficult and almost impossible for business owners in Nigeria to personally manage these trends alone. Appointment of mangers has become imperative as business owners will like their enterprise to continue and such appointment is that the continuity and management will be done on their behalf. Sanusi (2003) asserts that there is no one single factor that contributes to institutional problems than the lack of effective governance, widespread corporate scandals and failures in Nigeria had their root in dishonest management decisions and, in some cases, outright cover ups of illicit activities.

The Nigerian secretary and Exchange Commission (SEC) inaugurated a code of best practices in corporate governance in 2003 (SEC, 2003), three year later the CBN established another Nigeria post consolidation in 2006. (CBN, 2006). These codes were invoked to supplement the company and Allied matters Decree (now an Act) of 1990 promulgated by a military administration to regulate all corporate affairs in Nigeria. Whilst both codes were aimed at promoting the tenetsof good corporate governance which include transparency,

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accountability, responsibility, integrity, independence and discipline in the private sector corporations (Modlane, 2008). The Act remains the main law which regulates all corporate affairs in Nigeria.

Despite all these legal and regulatory frameworks, there have been shocking scandals in Nigerian organized private sector since the Mid-1990's ranging from the failed and distress banks crisis of the late 1990s through the falsification of financial statements by Cadbury Nigeria PLC directors (Olusa, 2007; Amao and Amaeshi, 2008) to the more recent sacking of the board of directors of eight banks for gross insider abuse and mismanagement of their banks' funds (Economic Confidential, 2009). The focus of this paper is assessing the Nigerian experiences on corporate Governance and Business sustainability.

2. CONCEPTAUL REVIEW

The Organization for Economic Co-operation and Development (OECD) (1999) opines that corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structures through which the organizations objectives and the means of attaining those objectives and monitoring performance.

The development of corporate governance is a reaction to unethical business practices in corporate organizations such as tempering with financial statements to give false impression of the financial health of these organizations to the recipients of these reports.

Corporate governance mechanisms are the processes and systems by which a country's company laws and corporate governance codes are enforced. The mechanisms incorporate the means for monitoring compliance by corporations (Reed, 2002).

Corporate governance environment considers the impacts of the political, economic and social cultural factors that enhance good corporate governance or prevent unethical conduct (Li and Nair,2009). The corporate governance environment determines the context for evaluating corporation's performances, decisions, strategic choices and actions.

United Kingdom Shareholders Association (1992) defines corporate governance as the system by which companies are directed and controlled, and boards of directors are made responsible for the governance of their companies.

Ultimate Business Dictionary (2003) defines corporate governance functionally as "the managerial or directional control of an incorporated organization, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business objectivity and integrity. He posits that sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board policies and processes.

3. THEORETICAL AND LEGAL FRAMEWORK

This study is anchored on Agency and Stewardship theories. Agency theory emerges from classical thesis by Berle and Means (1932). This theory presents governance as a contract between directors and shareholders. The directors and management seeking to maximize their personal utility, take actions that are advantageous to themselves but at the expense of the shareholders. Consequently, the transaction costs of appropriate checks and balances such as ensuring adequate disclosures to shareholders, using independent directors and auditors. Organizations are run by professional managers (agents) who cannot be held accountableby dispersed shareholders. There is then need to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. Managers being humans more often than not act opportunistically. The agency theory thus stipulates ways of addressing such opportunistic behavior from managers include:

- **Composition of Board of Directors**
  The board is made up of more non-executive directors to ensure board's independence in monitoring and passing fair and unbiased judgment on management.

- **CEO Duality:**

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The job of CEO and chairperson must be made distinct so as to reduce concentration of power on one individual, ensuring reduction of undue influence of particular management and board members. Stewardship theory, the alternative perspective takes a broader frame of reference based on the original and legal definition of companies in which director have a fiduciary duty to the shareholders to act in the best interest of the company at all times not in their own sectional interest (Companies and Allied Matters Act (CAMA) Section 282 (FGN,2004). Corporate governance framework entails the establishment of necessary structure to ensure that the principles and concept of corporate governance are instituted and practiced. The structures required to adequately implement corporate governance are board of directors, audits, compensation, corporate governance and nomination, the code of personal and business conduct and ethics committee. FGN (2004) provides that every company shall have directors. Though the size of the board for effective corporate governance varies depending on the need. The common size is between seven (7) and fifteen (15). Majority of these are expected to be independent. Independence means that the directors are not employees of the company and do not depend on the company for their livelihood. These non-employee directors are expected to bring independent perspectives in their discussions at board meetings and provide a wide range of experience to the CEO in particular, the central Bank of Nigeria (CNB 2006) expects that the number of non-executive directors should exceed that of executive directors. To ensure that one person does not dominate at board meetings, corporate governance principles expect that the positions of the chairman of the board and CEO are occupied by two different persons. Section 279 to283 of CAMA (2004) specify the duties of directors which include the duty of care and skill in the best interest of the company. To carry out their duties effectively, the board creates four committees; audit, compensation, corporate governance and nomination, and code of personal and business conduct end ethics. The purpose of the audit committee, which CAMA 2004 section 359(3) requires all publicly quoted companies to establish, is to assist the board in its function of oversight of the integrity of the organizations' financial statements, external auditors' qualification and independence, the performance of internal audit function and external auditors and compliance with legal and regulatory requirements. Section 359 (6) of CAMA 2004 specifies the duty of audit committee. The committee has authority to conduct any investigation appropriate to fulfilling its responsibility. The purpose of compensation policy that encourages high performance, promote accountability and align employees' interest with that of the shareholders. The code of personal and business conduct and ethics is to ensure that an organization conducts its business in accordance with the highest ethical standards and maintain complete confidence and trust of customers and the general public.

4. REVIEW OF RELATED LITERATURE

Ugoji and Isele (2009) posit that corporate governance has a leadership dimension, because it provides directional leadership to organizations by setting objectives and achieving corporate goals. The triple bottom line reporting introduced by Elkington (1997) and adopted by the Kings reports requires modern corporations to disclose their economic, social and environment performance instead for better decision making.

Corporations are vital part of the society and as corporate citizens, they are expected to contribute actively to the development of society and protect the natural environment (West, 2006; King, 2006).

Armstrong, 2003;Konfopoulous, 2006; Okhehalam and Akinboabe, 2003 acknowledgethat good corporate governance helps most developing countries and emerging markets to attract domestic and foreign direct investments, build their markets competiveness, restore investor confidence, promotes economic growth and boostNational development.

Verschoor(1998) in a study of 500 public corporations found that those that mentioned their commitment to interest and codes of conduct in their annual reports (more than 100 firms) reported superior financial performance to those that did not. SAM (2011) also affirmed that adhering to corporate governance principles enhances business sustainability. Aras and Crowther (2008) posit that sustainability is also fundamental to continuingoperation of any corporation.

5.CHALLENGIES TO CORPORATE GOVERNANCE REORMS IN NIGERIA

There are socio-political, economic and cultural factors which create the dismal corporate governance environment in Nigeria.

They are stated below:

- **InstitutionalizedCorruption**

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The ignoble alliance between the political and business class has created a system where corruption is institutionalized and further entrenched through a network of family owned and controlled companies. 80 percent of the registered companies in Nigeria are small and medium scale enterprises (SMES) which are family owned and controlled (Oyejide and Soyibo, 2001; Ahunwan, 2002).

The corruption is so pervasive such that the CAC cannot effectively monitor SMES. Even when the CAC wants to do so, the politicians and business owners who have been appointed to the CAC Board members often frustrate such laudable efforts. Thus the SEMs are inclined to doing business with the politicians in the "Nigerian way". In a bid to stop this institutional corruption, the civilian government had to set up two special anti-corruption agencies, the Independent Corrupt Practices Corruption (ICPC) and the Economic and Financial Crime Commission (EFCC) but the effectiveness of these agencies in fighting corruption is being influenced by the ruling politicians.

- **Weak Regulatory Framework**

The Corporate governance mechanism in Nigeria will always remain weak as long as the politicians and business owners are closely linked and are mutually dependent on each other for bribes and patronage. The politicians need the corporations and business professionals to launder their ill gotten wealth and to consolidate their hold on power (Bakre, 2007). And the business class needsthe politician for government contracts and patronage. The politicians need the corporations and business professionals to launder their ill gotten wealth and to consolidate their hold on power (Bakre, 2007). And the business class needs the politician for government contracts and patronage.

- **Wide Spread Poverty caused by High Unemployment**

Over 70 percent of Nigerian population lives below the absolute poverty line of less than one US dollars per day and the country's unemployment rate is approximately 50 percent of the population (World Bank, 2009). Thus, the incentives for doing business transparently, accountablyand maintaining high ethical standards are non-existent.

- **Collapse of Moral Values**

While Nigerians are seen to be very religious, with 90 percent of the population subscribing to one form of religion or the other (Yinusa and Adeoye, 2006), the lack of transparency and accountability especially amongst the religious leaders have made the religious institutions to become accomplices to the widespread corruption (Bello-Imam, 2004). The country is often described as a nation with no moral values or has lost its moral compass such that the religious institutions are more interested in material things rather than the spiritual development of the believers.

- **Falling Standard of Education**

The educational institutions which are supposed to inculcate the moral value of honesty; integrity and rectitude in young minds are bogged down by strikes, inefficient leadership, insufficient funding, low staff morale and rampant closures. Only few graduates are able to find employment and those who get employed do so through nepotism, the political patronage or business connections referred to above and they start their training in political intrigues and high stake corruption very early in their career due to poor business ethics in the public and private sectors(El-Rufai, 2003).

6.METHODOLOGY

The study is limited to six private organizations each selected from the six geo-political zones of the country. The organizations are PokobrosNigeria Limited, Life Breweries Nigeria Ltd, First Bank of Nigeria PLC, Boltton White Hotel, Zenith Bank PLC and Rabiu Food and Beverage Industry.

The research design used for this study is the descriptive survey involving the questionnaire administration. Data for the study were sourced from the geo-political zones in Nigeria. Questionnaire was administered to 560 respondents selected from each of the six organizations using random sampling technique. The sample size is 100 which were determined using Taro Yamane model technique. Data were analyzed using Pearson Product Moment Correlation. The hypothesis is to ascertain if there is a significant relationship between corporate governance and business sustainability.

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Hypothesis Testing

Table1: Pearson Product Moment Correlation Coefficient between Mean Responses of Corporate Governance and Business Sustainability

	X	DF	Standard Error	r-Cal	R-Cr	Decision
Corporate Governance	4.7	3	0.1	1.171	0.865	Reject H_o
Business Sustainability	4.0					

The decision rejected the null hypothesis which states that there is no significant relationship between corporate governance and business sustainability.

7. Findings

The study revealed that there is significant relationship between corporate governance and business sustainability. This is supported by SAM(2011) that adhering to corporate governance principles enhances business sustainability. This finding also affirms Aras and Crowther (2008) Position that sustainability is also fundamental to continuing operation of any corporation.

8.Conclusion

Nigeria's corporate laws and corporate governance codes are sufficient for promoting good corporate governance. And corporate governance is very strategic for sustenanceof Nigerian businesses.

9.Recommendations

Based on the findings, the following recommendations are made:

1. Demarcating the Boundary between Business and Government

This means clearly separating the corporations from the government agencies that patronize them. The office of public procurement should prevent all political interferences in selecting clear distinction between the political elites and the business owners. The existing policies that forbid political office holders and public servants from being directors in private sector corporations should be enforced by the CAC and other relevant government agencies. If enforced properly the inherent conflict of interests which leads to unethical decisions by corrupt government officials would be checked and this will make contract bidding more competitive. Unless these laws are enforced properly and equally to all without prejudice to personalities or political positions, Nigeria cannot have a good corporate governance environment and the present efforts at corporate governance reforms will surely come to naught.

2. Establishment of a Special Corporate Affairs Tribunal

Government should establish a special corporate affairs tribunal where violators of the CAMA are tried promptly and speedily. The proposed corporate affairs tribunal should be a specialized court within the country's judicial system independent of the executive arm of government so that political influence are reduced to the barest minimum.

3. Promoting the Culture of Whistle Blowing

The CAC should set up a hot line where complaints can be lodged by employees or stakeholders who are aware of any violations. A culture of whistle blowing is encouraged when the signed complaints or anonymous petition are properly investigated without disclosing the petitioners identity. The EFCC and the ICPC here adopted this strategy to discourage corruption but the practice has not been extended to the private sector where most corporate law violations occur.

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4. Enhancing Business Ethics through Moral Education

A nationwideprogramme where the citizens are inculcated with sound moral values and training at schools, universities, churches, mosques and cultural organizations are required. The essence of this moral education is to train the citizens that crime does not add value to a person's career and "the fear of God" is the beginning of wisdom". (Holy Bible, Proverbs 9; 10). This step requires more transparency and accountability from our religious institutions for them to inspire, maintain and sustain a culture of moral discipline and rectitude among our citizens. The efforts of non- governmental organizations (NGOs) such as the zero corruption coalition should be encouraged and intensified.

5. Facilitating Rural Development through Employment Generation

This centralization of resource and amenities in the cities breeds corruption and creates a poor corporate governance environment. A political solution to both menaces is to decentralize resources and promote employment generation at the local level through fiscal federalism such that development is resource driven and grassroots oriented.

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