

HUMAN RESOURCE MANAGEMENT AND CORPORATE GOVERNANCE: THE QUEST FOR BEST PRACTICE IN NIGERIA

B. A. Agbonifoh

Abstract

Cases of big corporate failures have been a common occurrence world-wide in the last two decades or so. Many of such failures have been attributed to poor corporate governance. Efforts have therefore been directed by key stakeholders in the business world towards mechanisms and other strategies aimed at enhancing effective corporate governance in business organisations. Within the context of these concerns, this paper examines the role of human resource practitioners in corporate governance and thus proposes some human resource management strategies for enhancing corporate governance in Nigeria. This paper proposes that human resource practitioners can promote good corporate governance: by implanting a culture and a value system which support and enhance responsible corporate governance; by ensuring that the values and principles of their business organisations are tied to national values and human values; through carefully planned communications programmes initiated by HRM either singly or in partnership with other relevant departments and units such as Public Relations or Corporate Affairs; by organising relevant training and management development courses for employees, managers and board members in the areas of ethics, social

responsibility and corporate governance; by employing the right calibre of persons in terms of their abilities, orientation, commitment and moral/ethical standing; and by formulating and enforcing an appropriate codes of ethics for the organisation.

Key Words: *Corporate governance, Human resource management, Ethics, Internal corporate governance mechanisms, External corporate governance mechanisms, Corporate failure.*

Introduction

Since the emergence of the concept of joint stock companies which enabled thousands and even millions of widely dispersed persons to jointly own a business, corporate organisations have become more and more complex by the day. While it is impossible for a paper of this length to capture the complexity in its totality, the complexity manifests itself in various forms such as the share size of such business organisations (measured in terms of number of employees, total assets, and turnover), market scope, range of products and customers, number of stakeholders, the usually conflicting demands and expectations of a wide range of stakeholders, applications of information

technology, a web of regulatory authorities, cut-throat competition, an ever-changing flux-filled environment and growing expectations of a very discerning but whimsical set of customers and potential customers. It has, therefore, become increasingly difficult for the owners and other stakeholders in these public companies to keep track and ensure that their shareholding and other interests in these companies are protected and promoted by directors, management and employees.

Given the separation of ownership and control of public companies, shareholders and other investors depend largely upon published information about their companies to know how their company is performing. Although shareholders are invited to Annual General Meetings in which reports on the activities and performance of the company are reviewed and new directions are communicated to them, most shareholders are quite docile; not only do they not attend such meetings but they also neither seek nor read information concerning even the companies in which they have financial interests.

Against the above background, it is not surprising that some big corporate bodies have survived on manipulation of information, deceit and even lies in order to give the false impression that their organisations were healthy until the bubble finally burst. Perhaps, the most notable world-wide cases are those of the Maxwell Corporation (1991), Enron (2001), Parmalat (2003) and Worldcom. While concerns about corporate governance provisions have always existed since the emergence of the joint stock company as a form of business ownership, these corporate bursts have brought to the fore and to the public domain the need for improved measures to ensure that these companies are managed, controlled and supervised in ways which better ensure and enhance the protection and preservation of their value for the benefit of shareholders and other stakeholders.

These concerns have excited all stakeholders

including human resource practitioners. What roles do and can human resource practitioners play in enhancing practices in the area of corporate governance. This is subject of this paper. In addressing this issue, this paper is divided into seven sections. The first which has been the focus so far is 'introduction' which is followed in the second and third sections by a discussion of the concept of corporate governance and governance as an issue in Nigeria. Thereafter, we shall examine the nature of human resource management and the role of its practitioners in corporate governance. The paper ends with some thoughts on strategies for enhancing corporate governance in Nigeria and conclusion.

The Concept of Corporate Governance

The objective of this section to establish a common frame of reference for the discussion that follows, first by presenting some definitions of the concept of corporate governance, outlining its philosophical and theoretical underpinnings and its various dimensions.

Consider therefore the following definitions:

Corporate governance describes the framework by which companies are directed and controlled, i.e. the setting of corporate objectives and the monitoring of performance against these objectives....

Corporate governance encompasses the combination of laws, regulations, listing rules and voluntary private sector practices that enable the company to attract capital, perform efficiently, generate profit and meet other legal obligations and general societal expectations. (Maier (2005:2)

Omar (2001) defines corporate governance as "the private and public institutions, including laws, regulations and accepted business practices, which in the market economy, govern the relations

between corporate managers and entrepreneurs (corporate insiders) on the one hand, and those who invest resources in corporations, on the other.”

According to O'Donovan (2003), corporate governance is “an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity”

The Report of the SEBI Committee (India) on corporate governance defines corporate governance as “the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company” (Wikipedia, 2010).

Finally, Okeaholam and Akinbode (2003) define corporate governance as the “manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission.”

We have laboured to present these several definitions for two reasons; first to reveal the several differences in the understanding of the concept and second, to show the several dimensions of the concept. Usually, the definition of a concept which refers to a process in management exposes its content and purpose. With regard to the definitions presented, only the one by Okeaholam and Akinbode made a definite pronouncement on the purpose of corporate governance.

Taken together, the following additional observations are noteworthy:

- The purpose of corporate governance is to promote and protect all stakeholders in the corporation, particularly shareholders against those who may be tempted to use their privileged position to serve their self-interest at the expense of other stakeholders.
- While Omar's definition suggests that corporate governance is essentially an external matter pertaining to the laws, regulations and accepted business practices, others suggest that it refers to, or includes, an internal system and how power is exercised in the corporation.
- Whereas laws that are external impinge on corporate governance by providing the context within which it takes place, corporate governance is essentially internal. Maier captures this essence when she says that “Corporate governance defines a set of relationships between a company's management, its board, its shareholders and other stakeholders. It is the process by which directors and auditors manage their responsibilities towards shareholders and wider company stakeholders.”
- Corporate governance is about ethical business conduct, transparency, integrity in running a business and about making a distinction between personal and corporate funds in the management of a company.

Corporate Governance Mechanisms and Controls

According to a notable authority, “corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazards and adverse selection.” (Wikipedia: 2010) They refer to the various internal and external measures put in place to encourage, enhance, enforce and promote transparency, responsible

leadership and stewardship in the use of an organisation's resources.

The mechanisms and controls are of two types -- internal corporate governance controls and external corporate governance controls. Both are outlined below.

Internal Corporate Governance Mechanisms and Controls

These internal mechanisms and controls refer to measures taken within the organisation by the owners and managers of the enterprise aimed at monitoring the activities of organisational players with a view to detecting sources of inefficiencies and taking corrective actions to accomplish organisational goals. These factors relate to the board of directors, the management system and code of ethics. We shall discuss below, specific measures relating to each of the areas.

(i) Board Structure and Performance

The key issues in board structure which have implications for the quality of corporate governance open to a firm are as follows:

- Whether there is a two-tier or one-tier structure; in conglomerates, there may be a two-tier board with one board at the divisional (SBU) level and another at the corporate level;
- The size and composition of the board;
- The diversity of board membership;
- Separation of the position of Chairman and Chief Executive Officer (CEO);
- The presence and role of independent non-executive directors;
- The independence or otherwise of the Audit Committees (The main responsibility of the audit committee is to monitor and review the integrity of the company's financial statements, its internal financial controls, the external auditor's independence and objectivity and the effectiveness of the audit process as a whole) (Maier

2005: 10)

(ii) Management System

The issues of interest here which impinge on the quality of corporate governance include the existence and quality of:

- Internal control systems and procedures, including the internal auditing system;
- Employee training;
- Compliance monitoring;
- Whistle-blowing procedures and an effective whistle-blowing system;
- Reporting practices (which should include details of breaches and enforcements);
- Corporate culture;
- A regular review of code (Maier: 2005); and
- Remuneration disclosure in order to ensure that remuneration is tied to performance/contribution

(iii) Code of Ethics

Internal mechanisms and controls may include the existence of ethical codes of conduct that cover any combination of the following issues:

- Obeying Laws and regulations
- Prohibition of giving and receiving of bribes
- Restrictions on giving and receiving gifts
- Prohibition of facilitation payments
- Prohibition of donations to political parties
- Conflicts of interest
- Ethical competition
- Anti-competitive practices
- Use of company resources

External Corporate Governance Mechanisms and Controls

External corporate governance mechanisms and controls refer to "controls which external stakeholders exercise over the organisation." Some of these are:

- Government regulations including those imposed by regulatory agencies;
- Competition
- Media pressure
- Criteria for listing companies on the Stock Exchange;
- Strong regulatory legislations that promote good governance; and
- Shareholders activism

Principles of Corporate Governance

With growing attention to corporate governance issues throughout the world, principles are beginning to emerge and converge to guide regulators and business operators. In this regard, the Organisation for Economic Cooperation and Development (OECD) published a set of principles in 1999. They were revised in 2004. Though non-binding, they are aimed at informing corporate governance debate and are used as standards or benchmarks by regulators and corporate decision-makers alike. The April 2004 edition of the principles covers the following areas:

- (a) Ensuring the basis for an effective corporate governance framework (that promote transparency, efficient markets, rule of law and division of labour among different supervisory, regulatory and enforcement authorities).
- (b) The rights of shareholders and key ownership functions (that protect and facilitate the exercise of shareholders' rights).
- (c) The equitable treatment of shareholders;
- (d) The role of stakeholders in corporate governance;
- (e) Disclosure and transparency; and
- (f) The responsibilities of the board.

These principles include but are not limited to the following (Okafor, 2009:444-445):

- (i) Selflessness on the part of employees, management and board members in taking decisions;
- (ii) Integrity, that is, employees, management and board members should not place themselves in situations that will compromise them in taking decisions;
- (iii) Accountability of employees, management and board members for actions taken by them on behalf of the company; and
- (iv) Honesty, that is employees, management and board members should be transparent when, for example, they find themselves in situations of conflict of interest.

Corporate Governance in Nigeria

The quest for best practice in corporate governance in Nigeria must begin with an understanding of where the country currently stands in this regard. We present below, therefore, the verdict of notable authorities on the subject matter regarding the quality of corporate governance practices in Nigeria in the last ten years.

Evaluating the standard of corporate governance in Nigeria using OECD's scoring instrument, Oyejide and Soyibo (2001:32), report that "largely, the institutions and the legal framework for effective corporate governance appear to be in existence. However, compliance and/or enforcement appear to be weak or non-existent."

An SEC survey in 2003 concluded that corporate governance was at a rudimentary stage, as only 40% of quoted companies, including banks had recognised codes of corporate governance in place (CBN: 2006) and "poor governance was identified in the survey as one of the major factors in virtually all known instances of a financial institution's distress in the country" (Ahmad, 2008:18)

The Director-General of the National Pension Commission, Ahmad (2008) opines that although

the concept of corporate governance is not new in Nigeria, it is only of recent that cases of gross abuses are reported. He points out that there are a number of corporate governance provisions in the Companies and Allied Matters Act, 1990, the Banks and other Financial Institutions Act, 1991 (as amended), the Investment and Securities Act, 1999 (as amended) and the Securities and Exchange Commission 1988 (SECA) (as amended) and that these laws reflect OECD principles. Even the corporate governance of some of the Acts have been improved upon and released in 2003 as the Code of Best Practices on Corporate Governance in Nigeria for publicly quoted companies. In spite of this elaborate institutional and legal framework, Ahmad concludes that "a lot more needs to be done by all agencies charged with the responsibility of ensuring good corporate governance in Nigeria."

Pontificating on the matter, the Group Managing Director of UAC of Nigeria Plc, Mr Larry Ettah (2008) is of the view that rather than adopt a resolution strategy in handling corporate governance frauds uncovered in the banking sector, Nigeria settled for a quick closure by dismissing erring chief executive officers. He concludes that:

It is vivid for all to see that institutions such as securities regulators, stock exchange, the judiciary, institutional investors, equity analysts, accountants and a probing media are still relatively weak or lack critical mass.

In his opinion, in view of the regulatory failure, boards of directors must reposition themselves to display a high sense of business astuteness and professional dexterity to enhance corporate governance.

From the vantage point of Governor of the Central Bank of Nigeria, Joseph Sanusi (2003) had this to say:

As a regulator and supervisor of the financial services industry in Nigeria, the Central Bank has come across some unwholesome practices by top management and, sometimes with the active collusion and connivance of the board that are detrimental to the interest of other stakeholders in the organisation. A good example of this is the large scale insider loans to management staff, directors, major shareholders and their relations and companies, which eventually become non-performing and, thereby impair the operations of these institutions.

In a major study aimed at identifying barriers to effective corporate governance in Nigeria, Okpara (undated) reports as follows:

Constraints identified in this study that hinder the implementation of corporate governance in Nigeria include weak or non-existent law enforcement mechanisms, abuse of shareholders' rights, lack of commitment on the part of boards of directors to their responsibilities, lack of adherence to the regulatory framework, weak enforcement and monitoring systems, and lack of transparency and disclosure. Nigeria has ample laws that are designed to protect shareholders' rights and ensure good corporate governance, but effective enforcement of existing laws and regulations constitute a major challenge for the development and implementation of corporate governance.

Oyebode (2009) is vehement on this issue. He questions whether there is corporate governance in Nigeria at all. Given what he sees as the impotence and moribund nature of regulatory agencies such as CBN, SEC, NDIC, and Nigeria Insurance Commission, he suspects that "some functionaries of the regulatory bodies actually run with the hares and hunt with the hounds". Other reasons for what he sees as the failure of corporate governance in Nigeria include:

- (i) At times nonexecutive directors are spineless because they were indeed nominated by managing directors themselves.
- (ii) Often, persons lacking in skills, expertise and experience such as retired civil servants, senior military officers or traditional rulers are drafted into boards as chairmen.
- (iii) Cronies of managing directors/CEOs get appointed or elected into boards although they may hardly be in a position to understand financial statements.
- (iv) Many members of audit committees lack the requisite skills.
- (v) At times, there is a deliberate move to discourage shareholders from attending AGMs by choosing distant and obscure locations as venues for such meetings.
- (vi) At times, "corruption ... goes on in pre-AGM forums in order to compromise shareholders" and
- (vii) Board chairmen deliberately recognise "settled" shareholders to speak at meetings to chorus and celebrate the success of the board when the annual report is being discussed at AGM".

Our foregoing random review of the verdicts of a few key observers, which included regulators/supervisors of compliance with corporate governance laws rules and regulations, shows unanimously that although the legal and regulatory framework is somewhat adequate, implementation and enforcement have been less than satisfactory. It has been suggested that enforcement agencies, board members, management, employees and even shareholders have not discharged their corporate governance responsibilities creditably.

Against this background, what role can and should human resource management practitioners play in redressing the situation?

The Role of HRM Practitioners in Corporate Governance

Perhaps, the best point to start in attempting to determine the role of HRM practitioners in corporate governance is to understand the role of HRM in the modern organisation. According to Miller (1987), HRM relates to "those decisions and actions which concern the management of employees at all levels in the business and which are related to the implementation of strategies directed towards creating and sustaining competitive advantage." It deals with people-related issues such as hiring, compensation, performance management, organisation development, safety, wellness, benefits, employee motivation, communication, administration and training (Igbinomwanhia, 2010:2). The basic philosophies of HRM are (i) that employees are individuals with varying goals and needs, and as such should not be thought of as basic inanimate resources (Wikipedia, 2010) and (ii) to get the best out of the people the organisation employs (Igbinomwanhia, 2010:3).

According to Ulrich (1996), the role of HRM may be defined in terms of four fields:

- Strategic business partner;
- Change management;
- Employee champion; and

- Administration

It has been suggested that, however, many HRM functions are still struggling to get beyond the roles of administration and employee champion and are seen as reactive rather than strategically proactive partners of the top management (Wikipedia, 2010).

In view of these acknowledge roles of HRM, what can it do to promote and enhance good corporate governance in Nigeria?

First, it should be acknowledged that achieving good corporate governance should not be left in the hands of one profession; it is the responsibility of all stakeholders in the business organisation including shareholders, directors, management, employees, regulatory agencies of government, workers' unions, creditors and so forth. But who should take responsibility for promoting and motivating good corporate governance? Corporate governance practices in an organisation are intricately connected to the corporate culture of the organisation. It is the responsibility of HRM practitioners to partner with the CEO and other members of top management to help evolve and propagate a supportive and appropriate culture for the organisation. It stands to reason, therefore, to propose or support the view that HRM practitioners should be, not only the champions of good corporate governance, but should in fact take ownership of programmes whose focus or purpose is good corporate governance.

Second, related to the issue of corporate culture is the question of shared corporate values. Corporate values are accepted standards of behaviour in an organisation. Those who symbolise those standards are seen as heroes or role models while those who are unable to uphold them in their behaviour at work are villains who should be shown the way out. Unfortunately, many organisations in Nigeria do not have, and have not committed themselves to, a carefully articulated set of shared values. In such organisations, managers and employees invent and commit

themselves to what they imagine to be the organisation's set of values. It is our contention that if an organisation commits itself to a set of values, it is more difficult for a new board or a new CEO to work outside of those values. This is why every HRM professional should take ownership of the process that will lead to the development such shared values. Once developed, it is also the responsibility of HRM to propagate and implement those values. The values so espoused should be such that will support and promote good corporate governance.

Third, in developing a set of values or principles for the organisation, HRM should ensure that such values are tied to national values and human values. That is the only way to ensure that they make sense to those who are supposed to uphold them and are taken seriously. A good example is a Japanese company called *Matsushita*, whose seven spiritual values or principles promote hard work, excellence, service, sacrifice and good citizenship, among others. Such values which transcend corporate boundaries promote good governance.

Board members have a vital role to play in corporate governance. It has been suggested that many board members fail in this responsibility for a variety of reasons including inexperience, lack of knowledge of the business of the board and committees of the board, poor attendance at meetings and others acts capable of eroding their authority and independence. Most of these deficiencies can be cured through carefully designed seminars and workshops for directors.

We believe that shareholders can be reached also through carefully planned communications programmes initiated by HRM either singly or in partnership with other relevant departments and units such as Public Relations or Corporate Affairs.

We believe also that the overall moral and ethical tone in a business organisation has implications for managerial behaviour and performance and even for the behaviour and performance of various

stakeholders especially in their relationship with the company. If this thesis is accepted, it follows therefore that good corporate governance can be encouraged and enhanced by training and management development courses for employees, managers and board members in the areas of ethics, social responsibility and corporate governance. There is perhaps no need to emphasise that it is the responsibility of HRM to design and implement such programmes.

Quite often, we forget that the Managing Directors/CEOs and other management staff of today on whose shoulders rests the responsibility for ensuring good corporate governance were perhaps recruited and employed by HRM personnel yesterday. Therefore, the quality of persons employed by HRM staff today in terms of their abilities, orientation, commitment and moral/ethical standing will, to some extent, determine the company's performance in the area of corporate governance tomorrow.

Finally, we believe it is the responsibility of human resource management practitioners to participate in producing and enforcing a code of ethics for the organisation. This offers yet another opportunity for HRM to contribute to good corporate governance.

Having outlined the various ways in which HRM practitioners can impact positively on corporate governance performance, the point needs to be made that their contributions will not amount to much in a society where rule of law is virtually dead, corruption is rife, and the value system rewards dishonesty, disregard for truth, merit and patriotism. That is the case in Nigeria today.

This brings us to the current efforts at rebranding. Rebranding is a process where an entity embarks on a coordinated programme aimed at redefining and improving on its image among relevant publics. It should be obvious from this definition that there is a dire need to rebrand Nigeria so that its image as a corrupt nation characterised by advance fee fraud, robbery, stealing, brigandage,

kidnapping, violence and infrastructural decay can be changed. What is wrong is the current approach which sees rebranding in terms of telling the world half-truths and denying the prevailing situation in our country today. It is our view that the major obstacle to achieving good corporate governance in Nigeria today is the institutionalisation of corruption in all its destructive guises in our society. If and when we deal with this problem through honest and patriotic leadership, the problem of poor corporate governance would have been solved.

Conclusion

There is a dire need for better corporate governance in Nigeria today. Although, the legal, regulatory and legislative provisions are in our books and elaborate institutional arrangements have been provided, the available evidence is that there is poor corporate governance in Nigeria and it has wrecked havoc and untold hardship on shareholders, customers and employees of affected companies and the Nigeria economy.

All stakeholders but especially industry regulators and supervisors as well as directors, CEOs and members of senior management are to blame for the situation. They should all wake up to their responsibilities and bring some measure of commitment and patriotism to bear on them. At the macro level, government and its agencies should strive to deal with the problem of corruption which has over the years become endemic and seemingly intractable in our body-politic. We must all acknowledge that there can be good corporate governance in a society characterised by poor and inept public governance.

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