

THE NEXUS BETWEEN CORPORATE GOVERNANCE AND HUMAN RESOURCES MANAGEMENT PRACTICES

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Abstract

With a view to enhancing optimal performance and thus assuring attainment of goals, top executives in contemporary organizations are formulating/embracing policies and adopting measures that are considered most appropriate given the rather keen competition among firms. One such policy and or measure is the strengthening of corporate governance. However, governance becomes meaningful only to the extent it can enhance the performances of the key resources that must be engaged in a drive towards goal accomplishment. People are indispensable yet perhaps the most difficult to manage. A conscious effort must therefore be made by the top level management to challenge and stimulate the workforce to higher productivity; among other things, by setting the pace for and influencing the employees. Yet through effective Human Resources Management, the organization paves the way for the grooming of highly skilled and experienced people to occupy positions on the Board of Directors across organizations. In effect, there is a symbiotic relationship between corporate governance and Human Resources Management.

Key words: *Corporate Governance, Human*

Resources Management Practices, Nexus between.

Introduction

Corporate governance is one of the most talked about topics in business, indeed in society (Anonymous, 2006). It was towards the end of the twentieth century that the term, governance, gained the prominent attention of donor agencies, social scientists, philanthropists and civil society. The popularity, according to the United Nations (2006), stems from the fact that it can be applied to a wide range of issues, relationships and institutions involved in the process of managing public and private affairs.

The institution or adoption of corporate governance in its ideal form presupposes the striving for best practices in the key functional areas of the organization namely, finance, marketing, operation/production and human resources. Undoubtedly, human resources function is a prime mover of all other activities aimed at achieving corporate goal. In essence, all other resources and functions within an organization must cooperate with or work in consonance with the human resources in order to

achieve desired ends. While corporate governance might aim at transforming the human resources management practices, among others, in a bid to attaining corporate efficiency, the human resources management (on its part) is equally well placed to enhancing the effectiveness of corporate governance via its human capital development programmes especially at the executive level. Hence, our proposition in this paper is that while the institution of corporate governance can make a difference to effectiveness of the human resources management practices, the HRM in turn mentors/grooms individuals who are potential candidates for nomination to serve on corporate boards. The implication is that a linkage exists between corporate governance effectiveness and the enhancement of human resources management practices; they mutually benefit each other.

In Nigeria, the need to institute and or, embrace corporate governance started receiving the deserved attention at the manifestation of evidences of corporate instability consequent to sharp and unwholesome practices by top executives particularly in the banking sector. The crisis that engulfed the Nigerian banking system in 2009 thus brought to the fore the manipulation of corporate management for personal gains by top level executives.

This paper examines the concept of corporate governance and issues that are associated therewith namely, good governance and corruption, and what makes for effective corporate governance. Issues relating to human resources management practices are similarly x-rayed, stressing the factors that will enhance the effectiveness of human resources management practices. The linkage between corporate governance and human resources management practices is subsequently discussed. It was eventually concluded that a synthesis exists between these two key concepts, and that corporate governance can be strengthened through best practices in human resources management.

The Concept of Governance

The concept of governance means different things to different people although the actual meaning, according to Anonymous (Undated), depends on the level of governance we are talking about, the goals to be achieved and the approach being followed.

Simply put “**governance**” means: **the process of decision-making and the process by which decisions are implemented (or not implemented)**. The concept can be used in several contexts such as corporate governance, international governance, national governance and local governance (ESCAP, Undated). Governance, according to Pierre (2000), refers to sustaining coordination and coherence among a wide variety of actors with different purposes and objectives. Such actors may include political actors and institutions, interest groups, civil society, non-governmental and transnational organizations. Government, according to ESCAP (Undated), is one of the actors in governance. Other actors involved in governance vary depending on the level of government that is under discussion and may include influential landlords, associations of peasant farmers, cooperatives, NGOs, research institutes, religious leaders, finance institutions, political parties, the military, media, lobbyists, international donors, multi-national corporations, etc. who may play a role in decision-making or in influencing the decision-making process.

ESCAP (Undated) further elaborated that good governance has 8 major characteristics. *It is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law.* It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.

With a view to assuring the realization of objectives, major donors and international financial institutions are increasingly basing their

aid and loans on the condition that reforms that ensure "good governance" are undertaken by beneficiary agencies. For a better and clearer grasp of the subject matter that constitute the thrust for this paper, it is pertinent to attempt an answer to the question: "what is good governance?"

Good Governance

Good governance, according to Saiful (Undated), refers to the delivery of minimum public service including infrastructure for basic education and health, roads and other means of transport and communication, rule of law and accountability. Good governance is not only the absence of corruption, but also the establishment of institutional arrangements which help create an environment for sustainable economic development and for removal of abject poverty. Thus, good governance also includes an appropriate and effective legal framework for commerce, financial institutions, taxation, government expenditure, environment, business competition, and labour market.

According to the World Bank (1993), good governance entails sound public sector management (efficiency, effectiveness and economy), accountability, exchange and free flow of information (transparency), and a legal framework for development (justice, respect for human rights and liberties).

Lack of transparency and effective institutional controls is the main factor leading to poor governance. Hence, Yadav (2005) concluded that both corruption and bad governance can be contained if the formulation and implementation of projects and policies are transparent and involve community. Pillay (2004) argued that the rules and practices of governance shape the foundations of sustainable development and if these rules and practices are not effectively monitored and applied, the very basis of development is compromised.

Development is closely associated with democracy and state building. Democratization

makes the state more transparent and more responsive to social needs. This, in turn, strengthens the state by enhancing its legitimacy and by integrating different entities (Daddiah, 1999).

Good Governance and Corruption

Corruption, in the view of Camerer (1997), is especially harmful in developing countries because these countries tend to have fewer resources, and need to use these scarce resources in the most effective manner. Corruption is thus related to poor governance; lack of transparency and of effective institutional controls is the main factors leading to poor governance (Saiful, Undated).

Nye (1967) defined corruption as a behavior that deviates from the formal duties of a public role because of private (that is, personal, close family, private clique) status regarding pecuniary gains or that violates rules against the exercise of certain type of private skills regarding influence. This includes such behavior as bribery (use of reward to pervert the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason as inscriptive relationship than merit); and misappropriation (illegal appropriation of public resources for private-regarding uses). Corruption is an extralegal institution used by individuals or groups to gain influence over the action of the bureaucracy.

UNDP (1998) similarly defines corruption as the misuse of public power, office or authority for private benefit – through bribery, extortion, influence peddling, nepotism fraud, speed money or embezzlement. In essence, corruption is an antithesis and or negation of good governance, and should not in any way be associated with an establishment that professes adoption of corporate governance practices.

Causes And Consequences of Corruption

Corruption and corrupt practices/tendencies emanate from within organizations. In this regard, Pillay (2004) argues that the normal motivation of

public-sector employees to work productively has been undermined by many factors – including declining civil service salaries and promotion unconnected to performance. Staff members have also been demoralized by dysfunctional government budgets, inadequate supplies and equipment, delays in the release of budget funds, and a loss of organizational purpose. The motivation to remain honest has further been weakened as a result of senior officials and political leaders using public office for private gain. It was further highlighted that the major contributions to corruption were undesirable social controls, antiquated laws, excess demand, entrepreneurial politics, bureaucratization, excessive discretion, and defective administrative arrangements (including inadequate controls).

Corruption is not without associated consequences. In many developing countries, the general public, media and non-governmental organizations (NGOs) consider corruption as a single major cause of under-development and slow growth (Yadav, 2005). Pillay (2004) argues that corruption is one of the major impediments to effective development. Frisch (1994) was of the opinion that corruption would kill the development spirit. Previous research found that corruptions have contributed to lower levels of private investment and growth (Mauro, 1995; Wei, 2000), capital flows and currency crises (Wei and Wu, 2001), inferior resource allocation (Ades and di Tella, 1999), distorted government revenue (Tanzi and Davoodi, 1997), higher income inequality and poverty (Gupta, Davoodi and Alonso-Terme, 1998), inflation (Al-Marhubi, 2000) and lower standards in public life (Faria, 2001).

Corporate Governance

The concept, corporate governance, has been variously defined. Wikipedia (2010) defines it as the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders

involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, the board of directors, employees, customers, creditors, suppliers, and the community at large. As Dignam and Lowry (2006) remarked, corporate governance is a multi-faceted subject, and their view, 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.

O'Donovan (2003) defines corporate governance as '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'. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes.

Crawford (2007) explains that bold, broad efforts to reform corporate governance have been driven in part, since the late 1970s by the needs and desires of shareowners to exercise their rights of corporate ownership and to increase the value of their shares and, therefore, wealth. Over the past three decades, corporate directors' duties have thus expanded greatly beyond their traditional legal responsibility of duty of loyalty to the corporation and its shareholders. There has however been renewed interest in the corporate governance practices of modern corporations since 2001, particularly due to the high profile collapses of a number of large U.S.A. firms such as Enron Corporation and MCI Inc. (formerly WorldCom). The need for and significance of corporate governance was amplified by the East Asian Financial Crisis of 1997 which saw the economies of Thailand, Indonesia, South Korea, Malaysia and The Philippines severely affected by the exit of foreign capital after property assets collapsed (Wikipedia, 2010). It was remarked that the lack of corporate governance mechanisms in these East Asian countries highlighted the weaknesses of the

institutions in their economies. Sapovadia (2007) stresses that the positive effect of corporate governance on different stakeholders ultimately is a strengthened economy, and hence good corporate governance is a tool for socio-economic development.

O'Donovan (2003) holds the view that 'the perceived quality of a company's corporate governance can influence its share price as well as the cost of raising capital. Quality is determined by the financial markets, legislation and other external market forces plus how policies and processes are implemented and how people are led. External forces are, to a large extent, outside the circle of control of any board. The internal environment, on the other hand, offers companies the opportunity to differentiate from competitors through their board culture'. He thus concludes that corporate governance is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs.

Parties to Corporate Governance

Wikipedia (2010) gives an insight of parties involved in corporate governance to include the regulatory body (e.g. the Chief Executive Officer, the Board of Directors, Management, Shareholders and Auditors). Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. In corporations, the shareholders delegates decision rights to the manager to act in the principal's best interests. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions. Partly as a result of this separation between the two parties, a system of corporate governance controls is implemented to assist in aligning the incentives of managers with those of shareholders. With the significant increase in equity holdings of investors, there has been an opportunity for a reversal of the separation of

ownership and control problems because ownership is not so diffuse.

All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization. Directors, workers and management receive salaries, benefits and reputation, while shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods and services. In return, these individuals provide value in the form of natural, human, social and other forms of capital.

A key factor in effecting corporate governance is an individual's decision to participate in an organization e.g. through providing financial capital and trust that they will receive a fair share of the organizational returns. However, if some parties are receiving more than their fair return, then other participants may choose to discontinue participating thus leading to organizational collapse.

Principles of Corporate Governance

Corporate governance is founded on some basic principles; its key elements include honesty, trust, integrity, openness, performance orientation, responsibility and accountability, mutual respect and commitment to the organization. As Wikipedia (2010a) stresses, of importance to corporate governance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

Thus, the commonly accepted principles of corporate governance include:

- a. Rights and equitable treatment of shareholders: Organizations should respect the rights of the shareholders and help to exercise those rights. They can help shareholders

exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

- b. **Interests of other Stakeholders:** Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.
- c. **Role and Responsibilities of the Board:** The board needs a 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. There are issues about the appropriate mix of executive and non-executive directors.
- d. **Integrity and Ethical Behaviour:** Ethical and responsible decision-making is not only important for public relations, it is also a necessary element in risk management and avoiding lawsuits. Organizations should therefore develop a code of conduct for their directors and executives that promotes ethical and responsible decision-making
- e. **Disclosure and Transparency:** Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear factual information (Wikipedia, 2010a; Coleman, 2010).

In essence, issues involving corporate governance principles as enumerated by Wikipedia (2010a:7) include the following:

- internal controls and internal auditors
- the independence of the organization's external auditors and the quality of their audits
- oversight and management risk
- oversight of the preparation of the organization's financial statements
- review of the compensation arrangements for the chief executive officer and other senior executives
- the resources made available to directors in carrying out their duties
- the way in which individuals are nominated for positions on the board
- dividend policy

In the view of Jones and Pollitt (2003), issues in corporate governance however, do not arise in a vacuum but rather from an identifiable process.

Internal Corporate Governance Controls

Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals (Wikipedia, 2010a:8). Examples include:

- Monitoring by the board of directors
- Internal control procedures and internal auditors
- Balance of power
- Remuneration

External Corporate Governance Controls

Similarly, external corporate governance controls encompass the controls that external stakeholders exercise over the organization; they include:

- Competition
- Debt covenants
- Demand for and assessment of performance information (especially, financial statements)
- Government regulations
- Managerial labour market
- Media pressure
- Takeovers

Systemic Problems of Corporate Governance

- a. Demand for information: 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.
- b. Monitoring costs: A barrier to shareholders using good information is the cost of processing it especially to a small shareholder.
- c. 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.

It should thus be appreciated that financial reporting is a crucial element necessary for the corporate governance system to function effectively.

Significance of Corporate Governance

Pillay (2010) declared that robust governance is a pre-requisite for a healthy enterprise. By ensuring that the right procedures and processes are in place, good governance helps to strengthen the labour productivity of an organization.

Leadership, as Pillay (2010) further stressed that leadership is also key in the strong governance of any organization. It is easier for good practices at the top to percolate all the way to the bottom, than for positive habits to move upstream. Board members must be seen to be independent, without having an "outside hand" influencing their viewpoints. While board directors and executives help set the tone, however, it is still crucial for vigilance to be applied at every level.

Human Resources Management Practices

Of all resources that organizations must employ to achieve goals, human resources are apparently the most indispensable. People are too central to organizational functioning and success; all other

resources only become handy when the right caliber of people are engaged to appropriately employ and apply them.

Human Resource Management (HRM) is the strategic and coherent approach to the management of an organization's most valued assets – the people working there, who individually and collectively contribute to the achievement of the objectives of the business (Armstrong, 2006). In simple words, HRM means employing people, developing their capacities, utilizing, maintaining and compensating their services in tune with the job and organizational requirement (Wikipedia, 2010b).

Miller, according to Wikipedia (2010b), suggests that 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".

Human resources management involves several processes. These processes can be performed in an HR department, but some tasks can also be outsourced or performed by line-managers or other departments, and they include the following:

1. Workforce planning
2. Recruitment (sometimes separated into attraction and selection)
3. Induction, Orientation and On-boarding
4. Skills management
5. Training and development
6. Personnel administration
7. Compensation in wage or salary
8. Time management
9. Travel management (sometimes assigned to accounting rather than HRM)
10. Payroll (sometimes assigned to accounting rather than HRM)
11. Employee benefits administration
12. Personnel cost planning
13. Performance appraisal
14. Labour relations

Human Resource Management (HRM) is a staff function; it is the management function through which managers recruit, select, train, and develop organization members. It is the Human Resource Management Department that decides whether a company needs more or fewer employees and managers from time to time. The HRM process is thus an ongoing procedure that tries to keep the organization supplied with the right people in the right positions, when they are needed (Stoner, Freeman and Gilbert, Jr., 2000)

The HRM process includes seven basic activities:

1. Human resource planning which is designed to ensure that personnel needs will be constantly and appropriately met.
2. Recruitment – concerned with developing a pool of job candidates in line with the human resource plan.
3. Selection which involves using application forms, resumes, interviews, employment and skill tests and reference checks to evaluate and screen job candidates for the managers who will ultimately select and hire a candidate.
4. Socialization (orientation) which is designed to help selected individuals fit smoothly into the organization.
5. Training and development aimed to increase employees' abilities to contribute to organizational effectiveness. Training is designed to improve skills in the present job while development programmes are designed to prepare employees for promotion.
6. Performance appraisal compares an individual's job performance to standards or objectives developed for the individual's position
7. Promotions, transfers, demotions, and separations which are reflections of an employee's value to the organization. High performers may be promoted or transferred to help them develop their skills, while low performers may be demoted, transferred to less important positions, or even separated. Any of these

options, will, in turn, affect human resource planning (Stoner, Freeman and Gilbert, Jr., 2000).

The link between the practice of HRM and organizational performance is evidenced in improved employee commitment, lower levels of absenteeism and turnover, higher levels of skills and therefore higher productivity, enhanced quality and efficiency (Golding, 2010). In effect, the notion of best practice – sometimes called 'high commitment' HRM – proposes that the adoption of certain best practices in HRM will result in better organizational performance. Pfeffer (1994) argued that there were seven best practices for achieving competitive advantage through people and 'building profits by putting people first'. These practices included – providing employment security, selective hiring, extensive training, sharing information, self-managed teams, high pay based on company performance and the reduction of status differentials.

Evaluating Human Resources Effectiveness

To evaluate the effectiveness of the HRM process within an organization, the Harvard researchers have proposed a "four C's" model: *competence, commitment, congruence, and cost effectiveness* (Stoner, Freeman and Gilbert, Jr., 2000). Examples of questions related to each of the four C's and some methods for measuring them, are given below:

- a. **Competence:** How competent are employees in their work? Do they need additional training? Performance evaluations by managers can help a company determine what talent it has available. To what extent do HRM policies attract, keep, and develop employees with skills and knowledge needed now and in the future?
- b. **Commitment:** How committed are employees to their work and organization? Surveys can be conducted through interviews and questionnaires to find

answers to this question. Additional information can be gained from personal records about voluntary separation, absenteeism, and grievances. To what extent do HRM policies enhance the commitment of employees to their work and organization?

- c. **Congruence:** Is there congruence, or agreement, between the basic philosophy and goals of the company and its employees? Is there trust and common purpose between managers and employees? Incongruence can be detected in the frequency of strikes, conflicts between managers and subordinates, and grievances. A low level of congruence results in low levels of trust and common purpose; tension and stress between employees and managers may increase. What levels of congruence between management and employees do HRM policies and practice enhance or retain?
- d. **Cost effectiveness:** Are HRM policies cost-effective in terms of wages, benefits, turnover, absenteeism, strikes, and similar factors?

By shaping HRM policies to enhance commitment, competence, congruence, and cost effectiveness, an organization increases its capacity to adapt to changes in its environment. High commitment, for example, means better communication between employees and managers. Mutual trust is enhanced, and all stakeholders are responsive to one another's needs and concerns whenever changes in environmental demands occur. High competence means that employees are versatile in their skills and can take on new roles and jobs as needed. They are better able to respond to changes in environmental demands. Cost effectiveness means that human resource costs, such as wages, benefits, and strikes, are kept equal to or less than those of competitors. Finally, higher congruence means that all stakeholders share a common purpose and collaborate in solving problems brought about by changes in environmental demands. This capacity

to collaborate is crucial to organizational survival and growth in an ever changing environment.

As Wehrich and Koontz (1994) stressed, it is obvious that while enterprise objectives may differ somewhat in various organizations, the individuals involved also have needs and objectives that are especially important to them. Through the function of leading, managers help people see that they can satisfy their own needs and utilize their potential and at the same time contribute to the aims of an enterprise. Managers should thus have an understanding of the roles assumed by people, the individuality of people, and the personalities of people.

Capacity development is the process by which individuals, organizations, institutions and societies develop abilities to perform functions, solve problems and set and achieve objectives. Capacity development needs to be addressed at three inter-related levels: individual, institutional and societal (United Nations, 2006).

It is very important that corporate governance appreciate the prominent position that labour occupies in organizations; they are partners in progress. It is a simple fact that when business realizes its utter dependence on its employees and treats them well, it builds up employee loyalty and that always improves their productivity as well as the quality of work. It is just human nature to respond well to being treated well.

Corporate governance should, in effect, be inclined to maintaining an engaged workforce which can lead to increased production, innovation and good word of mouth advertising for the company as an employer. Board of directors should therefore embrace corporate social responsibility practices in human resource management to include valuing human capital, providing safe and healthy workplaces and a work/life balance; embracing diversity in human resources and continual skills development for all employees. The benefits of undertaking ethical human resource management, as Lloyd (2009)

acknowledged include greater engagement of employees which may lead to decreased staff turnover, opportunities for greater innovation as employees feel valued, and the potential to be considered an employer of choice.

Corporate Governance Linkage with Human Resources Management Practices

The stakeholders of a corporation are employees, customers, creditors and owners. Corporate governance describes how a corporation meets the interests of each of the stakeholders without compromising the overall interest of the company or neglecting obligations to other stakeholders (Coleman, 2010).

The owners are called shareholders. They are primary stakeholders in a company. Shareholders do not play a role in the company's operations and development. The "disconnect" between the owners of a corporation and the company itself is one of the most critical aspects of corporate governance. Good corporate governance includes a healthy, transparent relationship between the owners, the board and the company's operations.

Similarly, Fremond (2000) explains that the board of directors in a corporation serves as the central body in the corporate governance structure. Board members oversee the budget and operation of a company. They are duty-bound to analyze and report this information to shareholders honestly and accurately. The board appoints high level management officials for the corporation. These officials have a great deal of authority and responsibility, and can ultimately determine the success or failure of a company. The board is the primary conductor of corporate governance. They are the bridge between the owners and employees of a company. They make the long term decisions that shape a corporation's structure and integrity.

Stakeholders and shareholders alike are searching for methods of ensuring the long term health and prosperity of the company. Stakeholders include employers, shareholders, management, creditors, trade unions, customers, suppliers, the local

community, and future generations.

Future generations: Sustainable development is at the centre of the stakeholder debate and this suggests a responsibility to future generations – those who will one day be reliant upon the physical environment – as a stakeholder group.

The common ground however, is that stakeholders and shareholders agree that effective corporate governance requires the following principles:

Transparency: Full disclosure of financial and non-financial information.

Accountability: Ensuring that management is effectively overseen (and where necessary, replaced) by appointing an independent and competent governing body.

Fairness: Equitable treatment of investors.

Responsibility: Ensuring the corporation fulfills its proper role in society.

Employee Participation in Corporate Governance

The specific areas of employee participation identified by Fremond (2000) are:

- a. *Right to Consultation:* Employees must be consulted on certain management decisions. This right increases transparency of management decisions and allows employee opinion to ameliorate the asymmetry of information between management and the market.
- b. Duties of board members to consider stakeholders' interests including the employees. This right reinforces accountability by protecting stakeholders.
- c. Right to nominate/vote for supervisory board members. In many cases, employee participation on the board is mandated. This right creates a check and balance system between management and the supervisory board, which in turn creates the perception of greater fairness.
- d. Compensation/privatization programmes that make employees shareholders,

thereby empowering them (the employees) to elect the supervisory board, which in turn, holds management responsible.

Barriers to Employees' Role

Though employee shareholders may have the interest and incentives to play a full role in corporate governance, Fremond (2000) points out that there are barriers in rules and in the institutional capacity to enforce those rules, namely:

- i. Voting: In many companies, employees cannot in practical terms vote their shares, for example; they may have their shares voted en bloc by management.
- ii. Access to information: If employees have the right to vote, they often have insufficient information on which to rely.
- iii. Access to independent advice: Without access to independent advice, employees are often guided to voting in a manner consistent with management's inclination.
- iv. Fragmented voting bloc: Employee voting needs coordination. The fragmented voting bloc creates the free rider problem and makes it hard to have influence.
- v. Retribution: Some employees may fear retribution if they vote against management or otherwise attempting to increase the voice of employees within the corporation.

Conclusion

The foregoing suggests that the adoption and or strengthening of governance in corporate establishments would undoubtedly not only bring about some stability in the affected institutions but would equally enhance their growth and development. However, it is pertinent to appreciate that implementation of best practices in corporate governance as instituted by top level

executives would certainly require the involvement and cooperation of employees at all levels within the organization. The implication is that employee participation in corporate governance is not just inevitable but crucial.

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