

THE STRATEGIC ROLE OF CORPORATE GOVERNANCE IN NATIONAL DEVELOPMENT

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Abstract

This paper focuses on the strategic role of corporate governance in National development and seeks to examine current best practices, the challenges, the failure and offered policy recommendations as panaceas for efficient implementation of empirically validated international corporate governance best practice in Nigeria. This paper identified the underdeveloped nature of the Nigerian economy as a major obstacle to efficient functioning of corporate governance. Legally binding shareholders' rights are undermined, members of board of directors are randomly handpicked from a pool of cronies and there is complete lack of transparency and disclosure in the system. Corporate governance is a process, not a state. The field is continually evolving, its initial focus was on the way in which individual corporations are directed and controlled. This led to the introduction of national codes of best practice. As the wider economic and social significance of corporate governance became apparent, international guidelines were published to advance its cause more broadly. These guidelines reflected the part which good governance can play in promoting economic growth and business integrity.

Introduction

Corporate governance, a phrase that not long ago meant little to all but a handful of scholars and shareholders, has now become a mainstream concern a staple of discussion in corporate boardrooms, academic meetings, and policy circles around the globe. Two events are responsible for the heightened interest in corporate governance. During the wave of financial crises in 1998 in Russia, Asia, and Brazil, the behavior of the corporate sector affected entire economies, and deficiencies in corporate governance endangered the stability of the global financial system. Just three years later confidence in the corporate sector was sapped by corporate governance scandals in the United States and Europe that triggered some of the largest insolvencies in history. In the aftermath, not only has the phrase corporate governance become nearly a household term, but economists, the corporate world, and policymakers everywhere began to recognize the potential

macroeconomic consequences of weak corporate governance systems. The scandals and crises, however, are just manifestations of a number of structural reasons why corporate governance has become more important for economic development and well-being (Becht, Bolton, and Röell 2003).

The lack of effective corporate governance in Nigeria has worked to the detriment of shareholders and created a class of stakeholders who have lost interest in the system. The corporate governance culture in Nigeria has consistently failed to be responsible to the stakeholders, accountable to the shareholders and has no deep-rooted mechanism to maintain a balance among the major players (board of directors, shareholders, and management) in corporate governance.

The experience of advance countries has demonstrated a positive marriage of convenience between well coordinated wealth management and economic development. Lack of framework to manage wealth continues to plague and plunge less developed countries like Nigeria into the vicious circle of poverty. Nigeria has a lot of resources being the 7th largest oil producer in the world but lack the ability to manage wealth by effectively developing and encouraging indigenous and foreign investments. This inability has a direct relationship with the need for efficient corporate governance strategy in Nigeria for sustainable development (Quadri, 2010).

Objectives

The objectives of the paper are to review the conceptual framework of corporate governance in Nigeria, examine the challenges and failure of corporate governance in Nigeria while offering recommendations of policy framework as panaceas for effective implementation of corporate governance best practice in the overall interest of National Development in Nigeria.

Literature Review

Corporate governance is relatively a new concept in Nigeria. Scientific research on the subject-matter is scant. A few academic and corporate researches

conducted on corporate governance in Nigeria have identified institutional, legal and capacity development as pivotal to the development of corporate governance in Nigeria. Anglo-American system of corporate governance, a common law practice in the US and the UK, is adopted in Nigeria. In Anglo-American system, the executive and independent non-executive board members are elected by the shareholders and board members place higher premium on the shareholders to encourage flow of investments.

However, research studies confirm that in the Nigerian context, handpicked board members (executive or non-executive) are not independent and are not necessarily bound (legally or by default) to place higher value on shareholders interests nor protect the business interests, let alone the interests of stakeholders (Oyejide and Soyibo, 2001). It is reported that too much power is concentrated on the Chief Executive Officer (CEO), and the CEOs, more often than not, are also the Chairmen of the boards of directors. This lack of check and balance compromise the ability to make independent decisions on behalf of the shareholders.

Research confirms that there is lack of law enforcement capacity to implement the corporate governance codes of conduct in Nigeria, and so is lack of thorough selection, evaluation and replacement of CEOs. It is also confirmed that retired or replaced CEOs are graduated to the membership of the board which creates not only lots of conflicts and tension with the new CEOs, but also, present an opportunity for continuous cover-up to perpetuate corporate mischief.

The ongoing global financial crisis that started in late 2007 and the recent corporate scandals that led to the demise of corporate giants like Arthur Andersen, Enron, WorldCom, etc; has brought out the importance of effective corporate governance the world over. Lapses in the senior management team of corporations and the lackadaisical attitude of boards of directors in Nigeria notably in the areas of ensuring adequate review of the systems for compliance with laws and regulations, coupled with inadequate systems to review and approve material changes in accounting principles, continue to put corporate governance in the forefront as panacea for turnaround.

These corporate scandals culminated the introduction of Sarbanes Oxley in the US which further brought into the political and corporate limelight the inevitability of efficient corporate governance in providing strategic direction not only to the management but also, to ensure transparency, controls and accountability to protect business

interests, the interest of the shareholders and the stakeholders. With regard to the ongoing global economic problems, current researches in corporate governance have clearly pointed out the positive correlation between efficiency in corporate governance best practice and sustainable economic growth and development (OECD, 2008).

Prior to the ongoing global financial meltdown, the experience of the Asian Tigers financial crisis in the 1990s signaled a clarion call to reform corporate governance as the solution for successful turnaround. The ongoing practice in the less developed countries in Africa, Middle East, Asia, Eastern Europe to embrace privatization of government enterprises, most especially Russia's regretful massive privatization without the appropriate systems in place, are wakeup calls to the underdeveloped, developing and developed countries alike to invest in infrastructure necessary to sustain efficiency in corporate governance best practice (McGee and Sanjoy, 2009).

However, the major import from these literature reviews is that regardless of the level of economic advancement of the western world, the fundamentals and the pragmatic common-sense principles of corporate governance remain relevant. The lesson learned is that the collapse of one of the major players in corporate governance i.e. when the agent is not acting in the best interest of the principal by taking inappropriate risks, because the board is not providing the oversight to minimize agency problems, the result is huge agency cost (Mallin, 2010). In the ongoing global context, governments around the world are compelled to pay the agency cost (monitoring and disciplining) with the bail-out payments which further plunged the global economy into deficit.

Corporate Governance in Nigeria

Without appearing suspiciously patriotic, Nigeria is globally legendary for corrupt practices which have eaten deep into the social fabrics of the Nigerian society. The subject of corporate governance as previously noted, is relatively new in Nigeria and the rest of the underdeveloped and developing economies. History of corporate governance in academic and corporate is also at the early adopter stage the world over, and the first real lecture in corporate governance was delivered at Harvard as recently as 15 years ago in 1996. (Moran, 2010).

The 1999 change in government in Nigeria ushered in a new democratic administration with a policy to attract new and sustainable foreign investments which necessitated the heed for reform in all ramifications. This resulted in an established commission to review the existence, adequacy and

relevance of corporate governance in Nigeria relative to the international best practices in response to the New International Economic Order (NIEO). Thus, the Nigerian Code of Corporate Governance Practices was developed in 2003 based on unitary board structure (as in UK and USA) with emphasis on the identified triple constraints: the role of board of directors and management, shareholders rights and privileges, and the audit committee (Oyebode, 2009).

In Nigeria, the recent insider's transactions (e.g. massive and prevalent frauds, mandatory retirement of CEOs of banks, due to corrupt practices and inefficient rubber-stamped board, have combined to signal the absence of or failure of existing corporate governance structure. The Company and Allied Matters Act (CAMA) enacted to regulate and balance the relationship among the board, shareholders and the management including other stakeholders, failed woefully due to inadequate enforcement capacity.

The corporate governance regulatory institutions in Nigeria such as the Security and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Corporate Affairs Commission (CAC) and the Nigerian Deposit Insurance Corporation (NDIC), are staffed with self-interested executives who easily and readily collaborate with companies' senior executives to compromise the shareholders' interests. Board members are picked from the pool of high-profiled retired senior military officers and civil servants without expertise in basic finance and business operations (Okpara, 2000).

These set of never-do-well saboteurs sit atop the over populated board of directors (average 40-50 members) with the sole purpose to perpetuate corrupt practices particularly fixing the remunerations of senior executives which compromise corporate governance etiquette and decorum. In Nigeria, institutional investors are discouraged and not included in governance, and it is not uncommon to bribe some shareholders to rally support for the board and the management at annual general meetings (AGM), while the meetings even take place at remote locations in an attempt to keep away most shareholders.

Nonetheless, given the dismay picture of corporate governance in Nigeria, it should be noted that the inefficiency of corporate governance best practice is not limited to Nigeria alone. As earlier pointed out, the failure of companies in the developed countries such as Arthur Andersen, Enron, WorldCom, the problems with Fannie Mae, Citi Group, etc, in the United States, Royal Bank of Scotland and Baring bank in the United Kingdom, Parmalat in Italy and Satyam in Indian, are clear indications for reform in international best practices in corporate governance.

Failure of Corporate Governance In Nigeria

The challenges and failure of corporate governance in Nigeria stems from the culture of corruption and lack of institutional capacity to implement the codes of conduct governing corporate governance. Company executives enjoy an atmosphere of lack of check and balances in the system to engage in gross misconducts since investors are not included in the governing structure. Policy and procedures required to ensure efficient internal controls are disregarded, and total lack of thorough selection process (of CEO and board members - round pegs in square holes) remain a challenge in Nigeria.

The business cum shareholders' interests are secondary to the self-interest of board members and the management. Limited opportunities for institutional investors, and near zero interest in corporate social investments to demonstrate companies' sense of belongingness as evidenced in environmental pollutions, are clear indications of failure of corporate governance. Lack of managerial training and capacity development among Nigerian executives to manage business risks has resulted in huge agency costs, and shareholders have had to shoulder several avoidable agency costs since the board of directors usually failed as a monitoring device to minimize agency problems.

The recent collapse of The Nigerian Stock Exchange market is a pointer to a system devoid of controls and accountability, which resulted in lack of shareholders' interest and confidence in the operating environment. Some Nigerian companies relocated their operations to more stable and vibrant neighboring countries like Ghana and South Africa. Failure of corporate governance in Nigeria has also been traced to lack of effective yardsticks to evaluate board and management processes and performance, since the board sub-committees required to be fully independence, especially the audit and remuneration committees, are compromised. The auditors/the audit committee of the board have been singled out as abettors of fraudulent practices given their readiness to cover-up corrupt practices for executives in a desperate bid for kick-back, and, to retain the audit engagement(s) of big clients.

Conclusions

This paper reviewed the conceptual framework and practice of corporate governance in Nigeria given the recent global economic challenges and the financial meltdown. It is reasonable to conclude that the implementation strategy of corporate governance standard in Nigeria has been poorly formulated. Despite the existence of institutional infrastructure to aid proper deployment of corporate governance best practices in Nigeria, lack of enforcement and compliance remain a challenge while the negative impact of corruption on corporate governance effectiveness cannot be over emphasized. Absence of transparency, disclosure, controls and accountability continue to cast a bleak shadow on the primary

responsibility of the board who often collaborate with the management to capitalize on the financial illiteracy of the shareholders.

While it plays to the advantage of Nigeria to look inward in formulating sustainable strategy to implement best practices in corporate governance, it is also potentially suicidal to operate in autarky considering the increasing opportunities for foreign investments (Combined Code 2008). It is important to emphasize that this paper serves as bedrock for further research to measure success and progressive elaboration of the development and implementation processes to reposition corporate Nigeria in line with international best practice in corporate governance.

If recommended panaceas are well implemented, Nigeria will see instant results in the following areas:

Excellent relationship between the board, the management and the shareholders (stakeholders)

Unprecedented transparency, proper disclosure, controls and accountability in the system

Increased shareholders' returns on investments and institutional investors' participation

Internal controls effectiveness and marked reduction in investible agency cost and problems.

Recommended policy frameworks are manifold: country specific and international best practices.

Country Specific:

Eradicate corruption as the major constraint of any socio-economic development

Institutionalize efficient recruiting process to align human resources with strength

Sponsor research and development as a requirement for wealth management

Invest more resources on enforcement and compliance with laws and regulations

Make shareholders' interest the centerpiece in corporate governance policy formulation

Encourage the development of institutional investors and incorporate them in governance

International Best Practices

Promote a system of high-powered and independent sub-committees of the board

Ensure stakeholders' interest, ownership and participation in corporate governance

Conduct compulsory induction training on governance for new members of board of directors

Embark on structured training for companies management to strengthen internal controls

Encourage efficient process and performance evaluation and reporting to stakeholders

Enforce "comply or explain mechanisms"

and make CEO/CFO certify reports

Make audit and remuneration sub-committees totally independent and highly functioning.

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