ABIA STATE UNIVERSITY UTURU

Contemporary Economic, Financial and Business Issues in Nigeria

of

NIGERIA JOURNAL OF ECONOMIC AND FINANCIAL RESEARCH

Volume 2, Number 1

- Purchasing power parity paradox: Evidence from 2-anglophone ecowas
  CHIBUIKE R. OGUANOBI, JUDE OKECHUKWU CHUKWU, ANTHONY A. AKAMOBI, *PhD*, JOSEPH I. AMUKA, *PhD***
- Export trade and external performance Of nigeria's economy: a case for non-oil exports
  IKECHUKWU S. NNAMDI
- Dynamics Of Government Expenditure And Unemployment Problems In Nigeria; 1970 2006. A Co-integration Exposition
  HYCENTH O. R. OGWURU PhD*
- Nigerian labour force characteristics: implications for the human resources managers
  DR. NWIERE, B. M. AND DR. EMECHETA, B. C.
- The Rational Planning And Strategic Planning Processes
  DR. JOY UGWU AND DR. S.O. UNYIMADU,
- Towards A Pragmatic Right To A Clean And Healthy Environment For The Development Of The Niger Delta Region
  CHIZOBA I. OKPARA (MRS.) AND GAZIE S. OKPARA, PHD
- The Analysis Of The Impact Of Taxation On Nigeria Economic Development
  KALU E UMA, PhD,
- Managing The Global Economic Melt Down: The Role Of Corporate Governance In Entrepreneurial Ventures
  F. EZIONYE EBOH, Ph.D AND NICK NGOZI IGWE, Ph.D.
- Travelling The Cluster Road To Local Economic Development
  C. E. UDENSI
- The Role of Venture Capital in Economic Development: A Nigerian Perspective
  B. CHIMA ONUOHA, Ph.D, MIMC
- Bank Failures And Persistent Distress In Nigeria: A Discriminant Analysis.
  OKPARA, G. C.
- Microfinance: A Panacea To Poverty Alleviation
  F. EZIONYE EBOH, Ph.D And WILLIAM CHIMEE NWOHA
- An Empirical Analysis Of Debt Policy Of Corporate Firms - The Nigerian Experience
  ALEX.E. OSUALA, *PH.D* AND JOHN U. IHENDINIHU, *PH.D*
- Corporate Tax Systems And Multinational Companies: The Need For Economic Integration
  DR. AMA, GODWIN AGWU NDUKWE, PhD, CPA, CNA,
- Evaluation Of The Impact Of Creative Accounting Techniques On Reported Financial Performance Of Firms In Nigeria
  IBANICHUKA, EMMANUEL AMAPS LOVEDAY, *MBA, FCCA, FCA* AND IHENDINIHU, JOHN UZOMA, *PhD* .

ISBN 978-37794-9-4

MANAGING THE GLOBAL ECONOMIC MELT DOWN: THE ROLE OF CORPORATE GOVERNANCE IN ENTREPRENEURIAL VENTURES

BY

F. EZIONYE EBOH, Ph.D.
Head, Department of Economics,
Abia State University, Uturu, Nigeria

AND

NICK NGOZI IGWE, Ph.D.
Management Consultant

ABSTRACT
This paper has attempted to offer explanations that facilitate the understanding of the role corporate governance can play in managing the global economic down turn arising from excessive credits boom of the new millennium. It also identified the place of Agency theory and stewardship theory in corporate governance. The paper concluded that corporate governance is the key strategic management issue which can lead to better organizational performance over time and reduce the risk of enterprises getting into trouble.

INTRODUCTION
The credit boom of the early years of the new millennium left many financial institutions unhealthily bloated. Yet only a few months ago, a smooth return to the pre-credit crunch world would seem conceivable, but that would be a case of the world eating its cake and wishing to have it back. The world's financial firms have lost close of N2.8 trillion dollars as a result of the continuing credit crisis, the Bank of England has recently estimated. The Bank of England's latest Financial Stability Report (FSR) estimates that UK banks would have to shed one-sixth of assets to return to 2003 leverage levels. Such outright shrinking of balance sheets could be achieved in several ways, all of them dire (Business Day, 2008:45). Yet the idea that a quick recession would purge the world of past excesses is ludicrous. The danger is, instead of a slump, as a mountain of private debt in the United State of America (U.S.A) equal to three times the GDP, it topples over into mass bankruptcy (Wolf, 2008). The crux of the matter is that further downward spiral would ignite further decay of the world's financial systems and proceed via pervasive mistrust, the vanishing of credit, closure of vast numbers of entrepreneurial ventures, soaring unemployment, tumbling commodity prices, cascading declines in asset prices and soaring repossessions. Globalization no doubt would spread the catastrophe everywhere in the globe. Many of the victims would be innocent of past

excesses, while many of the most guilty would retain their ill-gotten gains.

The global financial crisis has brought volatility for markets in other countries especially India where the sensex index of the Bombay Stock Exchange broke through 8,000, falling by 11 percent and the rupee hit a new low of 50.29 to the Dollar in October, 2008. The information technology outsourcing industry and the small and medium sized business ventures were particularly vulnerable. The SME sector in India contributes more than 50 percent of the country's exports. If there is recession that is deeper and recovery is longer, the sector is going to be hit more terribly than others. Down here in the continent, the Governor of South African Reserve Bank in October 2008 point blankly told his country men and women that the global economy has been significantly hit by the financial crisis that arose as a result of poor regulated financial institutions in developed countries and the slowdown threatens to undermine the economy and further push tens of millions of South Africans over the poverty line (Business Day, 2008:56). Similarly in Nigeria, the global economic melt down is equally having its tolls with the downward pressure it is already inflicting on the process of our commodities with the real possibility that the volume of oil export will be extremely reduced by the depressed international demand due to the crisis. Countries whose banks' capitalization are miles higher than our consolidated banks are fighting tooth and nail to come up with solid and appropriate levels of regulations to stem the destructive tide of America's global financial crisis. Our policy makers should be doing same instead of treating our own economic problems with kid's glove. The truth remains incontrovertible that we have had successful bank consolidation but it has not resolved all the problems of our banking industry, let alone the national economy's. So when the world's largest economies are coughing so violently, we should not pretend that it is not an infectious cough or flu.

CORPORATE GOVERNANCE DEFINED:

A corporation is a mechanism established to allow different parties to contribute capital, expertise and labour for their mutual benefit. Management runs the company without taking responsibility for personally providing the funds. The investor/shareholder participates in the profits of the enterprise without taking responsibility for the operations. To make this possible, laws are formulated so that shareholders have limited liability and invariably limited involvement in a corporation's activities. That involvement includes the right to elect directors who have a legal duty to represent the shareholders and protect their interests (Monks and Minow, 1995: 8-24). The board of directors has therefore an obligation to approve all decisions that might affect the long-run performance of the corporation. This means that the corporation is fundamentally governed by the board of directors overseeing top management with the concurrence of the shareholders. The term corporate governance refers to the relationship among these three groups in determining the direction and performance of the corporation (Monks and Minow, 1995:1). Shleifer and Vishny (1997:737) write that corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. It 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 their stakeholders and spells out the roles and procedures for making decisions on corporate affairs. In this paper, the term corporate governance refers to the way in which managers of companies manage effectively and efficiently the shareholders' wealth with a view to guaranteeing maximum return to the owners of the business. Corporate governance is all about promoting corporate fairness, transparency and accountability (Woldensohn, 1999:52).

Corporate governance became an issue following the separation of ownership and management. This resulted from the industrial revolution, which eventually led to the emergence of modern large scale corporations and subsequently the dispersal of ownership through the instrumentality of capital market operations. Since it was no longer possible for the owner to oversee all aspects of his business and since ownership had become dispersed, it became imperative to ensure that those who manage the business (who are agents of the owners) do so on behalf of the owners and other stakeholders through setting or pursuing appropriate objectives, transparency, accurate reporting and regulatory sanctity

THE OBJECTIVES OF CORPORATE GOVERNANCE:

Perhaps more fundamental to understanding the meaning of corporate governance is to grasp the purpose of corporate governance. World over, the institution of corporate governance serves two indispensable objectives:

i. Enhance the performance and ensure the conformance of companies to ethical standards. The institution of corporate governance in organizations facilitate the performance of corporations the principal force behind economic wealth and growth in society creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firm's operational efficiency, returns on investment and long term productivity and growth.

ii. Again the institutions of corporate governance establish the means to monitor managers' behaviour to ensure corporate accountability and provide for the cost effective protection of investors and society's interest vis-à-vis corporate insiders (Pouder and Cantrell, 1999:48-60).

Globally, corporate governance has become a major factor influencing investment decisions and determining the flow of capital. The need for this approach has become apparently amplified by recent corporate scandals in various jurisdictions, cutting across developed and emerging economics. For instance the recent basket of high profile corporate failures Enrom, WorldCom, Pamallat Tyco at the global level and other strange happenings at the local level. The imperative of country-wide adoption and adherence to global standards of governance, transparency and accountability across entrepreneurial ventures can no longer be ignored in Nigeria. Entrepreneurial organizations are unequivocally compelled to speedily develop and implement strong codes of ethics to guide their leaders and directors and infact all levels of management and employees

THEORETICAL ISSUES IN CORPORATE GOVERNANCE

Managers of large, modern publicly held corporations are typically not the owners. In fact, most of today's top managers own only nominal amounts of stock in the corporations they manage. The real owners (shareholders) elect boards of directors who hire managers as their agents to run the firm's day-to-day activities. Once hired, how trustworthy are these executives? Do they put themselves or the organizations first?

i. Agency Theory

Agency theory is concerned with analyzing and resolving two problems that occur in relationships between principals (owners/shareholders) and their agents (top management) (Wheelers and Hunger, 2004:30). Agency problems could arise when (a) the desires or objectives of the owners and the agents conflict or (b) it is difficult or expensive for the owners to verify what the agent is actually doing. One classic example is when the top management is more interested in raising its own salary than in increasing dividends.

Again the risk sharing problem that arises when the owners and agents have different attitudes toward risks. Executives may not select risking strategies because they fear losing their jobs if the strategy fails. According to agency theory, the likelihood that these problems will occur increases when stock is widely held (no one shareholder owns more than a small percentage of the common stocks), when the board of directors is composed of people who know little of the company or who are personal friends of the top management, and when a high percentage of the board members are inside (management) directors (Davis, et al, 1997:20 47).

ii. Stewardship Theory

In contrast to agency theory, stewardship theory suggests that executives tend to be more motivated to act in the best interest of the corporation than their own self interests. Whereas agency theory focuses on extrinsic rewards that serve the lower-level needs, such as pay and security, stewardship theory focuses on the higher order needs, such as achievement and self-actualization. Stewardship theory argues that senior executives over time tend to view the corporation as an extension of themselves. Rather than use the firm for their own ends, these executives are more interested in guaranteeing the continued life and success of the corporation (Sheppard, 1994:795 820). The relationship between the board and top management is thus one of principal and steward, not principal agent (hired hand). Stewardship theory notes that in a widely held corporation, the shareholder is free to sell his or her stock at any time. A diversified investor may care little about risk at the company level preferring that management assume extraordinary risk solving as the return is adequate. Thus, stewardship theory would argue that in many instances top management may care more about a company's long term success than do more short-term oriented shareholders (Hayward and Hambrick, 1997:103-127).

THE ROLE OF CORPORATE GOVERNANCE

Corporate governance was long ignored as a matter of importance for developing countries. It remained virtually invisible in those countries until the East Asian Financial Crisis of 1997 1998 drew attention to the problems of "crony capitalism" and their perceived relationship to poor local corporate governance practice in several major emerging-market economies. Yet as the threat to global financial markets raised by that crisis has receded, significant efforts to improve corporate governance in the developing world have flagged. Indeed even at the height of international concern for corporate governance in the emerging market economies (called "emerging" because of the rapid growth of portfolio equity flaws hitherto in the early 1990s by large institutional investors based mainly in the United States of America and United Kingdom (Great Britain)), little attention was paid to corporate governance in other developing countries, Nigeria inclusive. This tendency to ignore the quality of corporate governance in the developing world in a mistake. It should not have been ignored if the essential role played by corporate governance in instituting long term process of development of an economy was considered.

Corporate governance comprises the private and public institutions, both formal and informal which together govern the relationships between those who manage companies (corporate insiders) and those who invest resources in them. These institutions typically include a country's corporate laws, securities, regulations, stock market listing requirements, accepted business best practices and the prevailing business ethics (Dalton et al, 1998:270-299). Corporate "insiders" can include suppliers of equity finance (shareholders), suppliers of debt finance (creditors), suppliers of relatively firm specific human capital (employees) and suppliers of other tangible and intangible assets that corporations may use to operate and grow.

Corporate governance also facilitates and stimulates the performance of corporate organizations - creating and maintaining a business environment that encourages managers and motivates entrepreneurs to maximize organizations' operational efficiency, returns on investment and long term productivity rewards.

I. The role of Board of Directors

The board of directors as representatives of shareholders and their interests have the authority and responsibility to establish basic corporate policies and ensure that they are followed (Monks and Minow, 1995:10). The board of directors has, therefore, an obligation to approve all decisions that might affect the long-run performance of the corporation. This means that the corporation is fundamentally governed by the board of directors overseeing top management with the concurrence of the shareholders. In a research conducted by Demb and Neubauer, (1992), they listed the responsibilities of board of directors in order of importance as follows:

A. Setting corporate strategy, overall direction, mission or vision.
b. Hiring and firing the CEO and top management.
c. Controlling, monitoring or supervising top management.
d. Reviewing and approving the use of resources.
e. Caring for shareholders' interests.

Over the past decade, shareholders and various interest groups have seriously questioned the role of the board of directors in corporations. They are concerned that inside board members may use their position to further their own nests and that outside board members more often than not lack sufficient knowledge, involvement and enthusiasm to do an adequate job of monitoring and providing guidance to top management. Instances of widespread corporation and questionable accounting practices at Enron, Global Crossing, WorldCom and Tyco among others tend to justify their concerns.

ii. The role of Top Management

The top management function is usually conducted by the CEO of the corporation in coordination with the Chief Operating Officer COO, executive Vice President and Vice President of divisions and functional areas. Even though strategic management involves everyone in the corporation, the board of directors holds the top management primarily responsible for the strategic management of the organization (Finkelstein and Hambrick, 1996).

Top management responsibilities, especially those of the CEO involve getting things accomplished through and with others in order to meet the corporate objectives. Top management's job is thus multidimensional and is oriented toward the welfare of the total organization. Specific top management tasks vary from organization to organization and are developed from an analysis of the mission objectives, strategies and key activities of the corporation (Wheelen and Hunger, 2004:35). Research indicates that top management teams with a diversity of functional and educational backgrounds and length of time with the company tend to be significantly related to improvements in corporate market share and profitability (Hambrick et al 1996: 659

684). Nevertheless, the CEO with the support of the rest of the top management teams most successfully handle two primary responsibilities that are crucial to the effective strategic management of the corporation:

i. Provide executive leadership and a strategic vision
ii Manage the strategic planning process

THE CHALLENGES OF CORPORATION GOVERNANCE

Many developing and emerging economies suffer from the destructive behaviour of powerful local vested interest. These are highly entrenched in oligopolistic enterprises of local environment. Their behaviour can greatly weaken or undermine healthy price competition and the proper functioning of markets which are essential for an economy's move to sustained productivity growth. Their behaviour can also weaken proper processes of industrial democracy. The cumulative effects of the foregoing are debilitating inefficiency including lack of interest in innovation, and investment in capabilities. A further consequence is to exacerbate resistance to needed change, reflected in the maintenance of status-quo in decision making. The behaviour of these vested interests constitute a very serious hindrance to development of good corporate governance (Oloyede, 2008:30).

The acts of some individuals in corporate Nigeria has also been detrimental to the development of the corporate governance culture in that they work to maintain or increase their share in the organizations where they are no longer relevant due to technological or global trend changes the 'sit put' factor not in the creation of new wealth, but in their bid to still parade themselves as relevant in the scheme of things and manipulate the company's wealth and other resources.

Another possible challenge to institution of corporate governance is that there is world wide standard of conduct for business people. Cultural norms and values vary between countries and even between different geographic regions and ethnic groups within a country. For instance what is considered to be a bribe to expedite action is sometimes considered in another country to be normal business practice.

Another impediment to corporate governance lies in differences in values between business people and key stakeholders. Some business people may believe profit maximization is the key goal of their firm, whereas concerned interest groups may have other priorities such as hiring of minorities and women or the safety of their neighbourhoods. Of the six values measured by the Allport-Vernon Lindzey study of values test (aesthetics, economic, political, religious, social and theoretical) both U.S and British executives consistently score highest on economic and political values and lowest on social and religious ones. This is similar to the value profile of managers from Japan, Korea, India and Australia (Kumar, 1995:32-35). This difference in values can make it difficult for one group of people to understand another's action. For example, even though some people feel that the advertising of cigarettes (especially to youths) is unethical, the people managing these companies respond that they are simply offering a product.

Let the buyer beware is a traditional saying in a free market capitalism. They argue that customers in a free market democracy have the right to choose how they spend their money and live their lives.

GLOBAL TRENDS IN CORPORATE GOVERNANCE

Good governance has become an issue of global importance. As countries after countries shamefully slide in avoidable debt traps and indescribable poverty, multilateral institutions started paying attention to government machinery, institutions and even business processes believing that answers may be found therein. Towards the end of last century for instance, the International Monetary Fund (IMF) started paying more attention to governance issues like military spending, democracy, human rights, corruption and "Crony Capitalism" because it believed that addressing them would provide markets with better information, ensure greater transparency and limit the irrational destructiveness of financial crises. While good corporate governance is already a norm in developed countries, the Least Developed Countries (LDC) have not be so lucky. But following the pressure from foreign, investors businessmen in these LDCs have also started paying attention and professing their love for the concept so as to be in the investors' good books.

The globalization of business is having an impact on corporate governance especially as it relates to board membership. When it comes to outside directors' appointment, majority of them are academicians, attorneys, consultants, former government officials and bankers.

Given that approximately 60% of the outstanding stocks in the largest U.S and U.K corporations is now owned by institutional investors such as mutual funds and pension plans, these investors are taking an increasingly active role in board membership and activities (Monks, 1999: 20). In Germany, bankers are represented on almost every board primarily because they own large blocks of stock in German corporations. In Demark, Sweden, Italy and Belgium, investment companies assume this role. For example, the investment company investor AB casts 42.5 percent of the Electrolux AB shareholder votes, thus guaranteeing itself positions on the Electrolux board. Surveys of large U.S. corporations found that 73 percent of the boards have at least one woman director, with 25 percent having two female directors. Boards having at least one minority member increased from 9 percent in 1973 to 60 percent today (African American: 39%; Hispanic: 12%; Asian: 9%) (the Conference Board, 1999).

CONCLUSION:

The issue about corporate governance in business arises from the fact that some business leaders are holding power and acting on behalf and supposedly in the interest of shareholders/stakeholders.

A board of directors is involved in strategic management to the extent that it carries out the three tasks of monitoring, evaluation and influencing, and initiating and determining. The role of the board of directors in the strategic management of the corporation is likely to be more active in the future. This is because there is a general consensus amongst investors that good corporate governance leads to better performance over time, good corporate governance reduces the risk of the company getting into trouble and above all, corporate governance is a strategic key issue in corporations.

REFERENCES

Business Day, 2008, Thursday, October, 30.

Business Day, 2008, Thursday, October, 30.

Dalton, D. R., Daily, C.M. Ellstrand, A. E. and Johnson, J.L. (1998), "Meta-Analytic Reviews of Board Composition, Leadership Structure and Financial Performance" Journal of Strategic Management, 3 (2).

Davis, J.H, Schooman, E.D. and Donaldson, I (1997), "Toward a stewardship Theory Management" Journal of Academy of Management Review 3 (5).

Demb, A and Neubauer, F.F. (1992), "The Corporate Board: Confronting the Paradoxes" Journal of Long Range Planning 1 (5).

Finkelstein, S, and Hambrick, D.C. (1996), Strategic Leadership, top Executives and their Impact on Organizations, St. Louis: West Publishing.

Hambrick, D.C., Cho, T.S, and Chen, M.J. (1996), "The Influence of Top Management Team Heterogeneity on Firms' Competitive moves" Administrative Science Quarterly, 5 (2).

Hayward, M. I. and Hambrick, D.C. (1997), "Explaining the Premiums paid for Large Acquisitions: Evidence of CEO Hubris" Administrative Science Quarterly, 2 (5).

Kumar, K. (1995) "Ethical Orientation of Future American Executives. What the value Profile of Business School Students Portend" Advanced Management Journal 5 (2).

Monks, A.G. and Minow, N. (1995), Corporate Governance, Cambridge: Blackwell Business.

Monks, A.G. (1999) "What will be the Impact of Acting Shareholders? A Practical Recipe for Constrictive Change" Long Range Planning Journal, 2 (3).

Oloyede, A. (2008), "Corporate Governance", Business Day Thursday, September, 11.

Pouder, R.W. and Cautrell, R.C. (1999), "Corporate Governance reform: Influence on shareholders Wealth", Journal of Business Strategies, 2(5).

Sheppard, I.P (1994), "Strategy and Bankruptcy: An Exploration into Organizational Death" Journal of Management, 5 (1).

Shleifer, M. and Vishny, N. (1997), "The Meaning of Corporate Governance" The Journal of Finance, 2 (5).

The Conference Board, (1999), Globalizing the Board of Directors: Trends and Strategic New York: The Conference Board Publishing.

Wheelen, T.L. and Hunger, D.J. (2004), Strategic Management and Business Policy New Jersey: Pearson Education Inc.

Wolf, M. (2008), "Preventing a Global Slump Should be the Priority" Business Day Thursday, October, 30.