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CORPORATE GOVERNANCE AS A SURVIVAL MECHANISM IN NIGERIA VOLATILE BUSINESS ENVIRONMENT

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ABSTRACT

This research work examined corporate governance as a survival mechanism in Nigeria volatile business environment. Corporate governance is a key element for improvement of investors' confidence, increase of competitiveness and improvement of economic growth. Good corporate governance can help to prevent corporate scandals, fraud, and potential civil and criminal liability of companies. Good corporate governance enhances image and reputation of a company and makes it more attractive to investors, suppliers, customers and other stakeholders of the company. The following objectives were carried out, the effects of board of directors as a survival mechanism in Nigeria volatile business environment and the effects of shareholders as a survival mechanism in Nigeria volatile business environment. Primary source of data was used for this study. The main findings from the empirical analysis of this study revealed that business culture that embraces change has a positive coefficient of .392; value creation has a positive coefficient of .331 and Strategic pursuit has a positive coefficient of .750. It is therefore a clear indication that, there is significant relationship between corporate governance and survival of Nigerian bank. , the Adjusted R^2 =0.67 shows that there is 67% variation between corporate governance and survival of Nigerian bank. Based on the findings and conclusion, the study therefore recommended the board of Nigerian Banks should have boards that are committed, knowledgeable, and effective. This will ensure that the shareholders are sufficiently satisfied in order to engender effectiveness.

Keyword: Corporate governance, survival, and volatile environment

1. Introduction

Corporate governance in Nigerian organizations is not only an evolving concept, but is also tied in with the notion of corporations and their practices within the wider society. Clark and Thomas (2000) defined corporate governance as a set of processes, customs, polices, laws and institutions affecting the way in which a corporation is directed, administered or controlled. Corporate governance also includes the relationship among the many players involved (the shareholders and stakeholders) and the goals for which the corporation is governed. The foremost players are the shareholders, management, and the board of directors, the accountants and auditors. Other stakeholders include employees, suppliers, customers, lenders, regulators and the community at large.
There has been a recent revitalization of concern about the issue of corporate governance, which is as a result of the widespread failure of large corporations all over the world. This makes it look as if there was no consistency in the way corporate organizations are being governed. Various corporations have collapsed e.g Enron Corporation in the USA, Polly Peck in US, Maxwell Communication and Bank of Credit and Commerce Industry (BCCI), National Bank of Nigeria, Societe Generale Bank etc. The experience at Enron and other cases of spectacular failure have helped to bring to the limelight the important role that the reinforcement of governance mechanisms could play to improve firm performance (Uche, 2017).

Bank is a financial institution that accepts deposits and recurring accounts from the people and creates a demand deposit. Lending activities can be executed either directly or indirectly through capital markets. Due to the significance of banks in the financial stability of a country, most authorities exercise a high degree of regulation over banks. Most countries have institutionalized a system known as fractional reserve banking, under which banks hold liquid assets equal to only a portion of their current liabilities. In addition to other regulations intended to ensure liquidity, banks are generally subject to minimum capital requirements based on an international set of capital standards, (Basel Accords 1988).

Given the vital financial intermediation role of banks in an economy, their high degree of

sensitivity to potential difficulties arising from ineffective corporate governance and the need to

safeguard depositors' funds, corporate governance for banking organizations is a great importance to the

international financial system and merits targeted supervisory guidance. The unique feature of the

banking sector demands extensive attention on the quality of governance systems in firms. (Omankhanlen et.al 2013).

Organizations today are increasingly aware of the need to prepare for the unexpected because of the dynamic and highly volatile nature of the modern business environment, especially the activities of competitors and external agents (Okuwa, Nwuche and Anyanwu, 2016). To be

effective and efficient, organizations need to be integrated and to consider three different perspectives simultaneously; structural design, work flow and human factors (Wolfensohn, 2009).

2. Statement of the Problem

The Nigerian banking industry has undergone marked structural changes since the late 80s as a result of various forces including deregulation, technological advances in information processing and their application to banking and financial innovations. These factors have changed the environment in which banks operate and the ways in which their activities are undertaken. Due to the vital role banks play in promoting economic growth and development, the conduct of their financial intermediation functions and the environment in which they operate remain particularly essential (Agrawal, 2009).

There seems to be some elements of doubt if the governance of corporate organizations is really effective considering the volatile business environment and collapse of commercial banks all over the world, both in Nigeria and foreign countries (Adenikinju, 2017). In recent times, the world has witnessed the failure of large corporations; in particular, the Nigerian banking sector is currently experiencing insider abuses of reckless granting of credit facilities running into several billions of naira without adequate security. This is contrary to accepted practice which has been attributed to large scale fraud by directors in connivance with auditors. It is against this backdrop that this study intends to examine corporate governance as a survival mechanism in Nigeria volatile business environment.

3. Objectives of the Study

The general objective of the study is to evaluate corporate governance as a survival mechanism in Nigeria volatile business environment. The specific objectives of the study were to;

i. examine effects of board of directors as a survival mechanism in Nigeria volatile business environment.

ii. determine the effects of shareholders as a survival mechanism in Nigeria volatile business environment.

4. Research hypothesis

The hypothesis to be tested in the course of this study includes:

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H_0: There is no significant relationship between corporate governance and survival of Nigerian bank

H_1: There is significant relationship between corporate governance and survival of Nigerian bank

5. Literature review

5.1 Concept of Corporate Governance

The set of processes, customs, policies, law and institutions affecting the way a corporation is directed, administered and controlled. The system or process by which corporate entities exercising accountability to shareholders and responsibility to stakeholders are directed and controlled to achieve sustainable improvement in shareholder values (Miyajima et al, 2015). For Metrick (2012) Corporate governance is a system by which corporation are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders. Aguilera and Jackson (2003) Opines that corporate governance specifies the rights and obligations among the various interest groups in the organization. Magbagbeola (2015) states that good corporate governance enables firms to comply with extent laws and policies thereby avoiding costs that could arise from legal battles.

Corporate governance system has been observed as of the most important structure ad mechanism that regulates the relationship between executives and shareholders (La Porta, et al, 200i9). Jensen and Michael (2001) defines corporate governance as the set of processed, customs policies, laws and regulations affecting the way a corporation is directed, administered or controlled. Hermalin (2014) view corporate governance as the system of controls, process, policies, rules and proceedings set up by the board and management of a company to ensure the smooth running of the company, maximize shareholders wealth and satisfy the interest of every stakeholder.

5.2 Corporate Governance in Nigeria

Governance has become an acceptable international practice, which every country is embracing. Realizing the need to align with international best practices the Security and Exchange Commission (SEC) in collaboration with Corporate Affairs Commission (CAC) inaugurated a seventeen (17) member committee in June 2000, in Nigeria, which was headed by Peterside Atedo. The committee was mandated to identify weaknesses in the current corporate governance practices in Nigeria. Membership of the committee was carefully selected to cut across all sectors of the economy including members of professional organizations, organized private sector and regulatory agencies. The committee submitted a draft code of corporate governance which centered on Codes of Best Practice on Corporate Governance in Nigeria (ICAN, 2006).

5.3 Determinants of Banking Performance

Loon (2005) asserted that governance framework should reflect the home country's prevailing institutional arrangements and social economic climate with realities. Effective governance

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requires a more fundamental approach in which directors and other executives are enabled to develop their own personal governance systems and superimpose it on the corporate governance structure (Kala, 2005). The issues of governance deals with whom really controls the activities of the company, for whose benefit is control exercised, and how are the demands for accountability of board met? The stewardship model views director and managers as responsible stewards who should be relied upon to run the firm unfettered in the interests of all stakeholders (Hawley and Williams, 1996). In a Global Investors' Opinion Survey of over 200 institutional investors first undertaken in 2000, Mckinsey found that 80% of the respondents would pay a premium for well-governed companies. They defined a well-governed company as one that has mostly outside directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investors' requests for information on governance issues.

Other studies have linked broad perceptions of the quality of company to superior share price performance. In a study of five years cumulative returns of Fortune Magazine's Survey of most admired firms', Antunovich found that those most admired had an average return of 125%, whilst the least admired firms returned 80%. In a separate study Business Week enlisted institutional investors and experts to assist in differentiating between boards with good and bad governance and found that companies with the highest rankings had the highest financial returns. On the other hand, research into the relationship between specific corporate governance controls and firm performance has been mixed and often weak.

6. Theoretical framework

6.1 Resource Dependency Theory

The tenet of resource dependence theory hinges on the need for environmental linkages between the firm and external resources. Resource dependency theory was drawn from both sociology and management. According to Gugler (2012) directors serve to connect the firm with external factors by co-opting the resources needed to survive Thus, boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. Gompers (2013) held that environmental linkages could reduce transaction costs associated with environmental interdependency. The resource dependency theory investigate the association between directors interlink and different facets of organization performance (Gugler, 2012).

In other words, resources and power are directly linked. Those firms who have resources can be considered more powerful as compared to its competitors. The dependence on other firms normally affects the productivity of firms. The scarcity of resources leads to uncertainty for organizations. Firms always strive to exploit the resources for the growth of its own long term survival. The organization's need to acquire resources and these leads to the development of exchange relationships and network of governance between firms. Further, the unequal distribution of required resources results in interdependence in organizational relationships. Moreover, directors may serve to link the external resources with the firm to overwhelm uncertainty (Hillman, 2014). According to the resource dependency rule, the directors bring resources such as information,

skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty (Gadi, 2015). Thus, resource dependence theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways because the acquisitions of external resources are vital for strategic management of any organization.

6.2 Stakeholders Theory

The essence of the theory is to identify, develop and manage strong co-ordination among the stakeholders (Freeman, 2004). It is in juxtaposition to agency theory; in agency theory the maximization of shareholders wealth is paramount, whereas the stakeholders focused on wider stakeholders groups. The theory is prominent corporate governance theory because of the accountability of the firm to a wider group than focusing on its shareholders alone. According to Jensen (2001), the theory suggests that the performance of the corporation cannot be measured only in term of gain to its shareholders.

Franks (2010) argues that corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction. McDonald and Puxty (1979) states that companies are no longer the instrument of shareholders alone but exist with society and therefore, has responsibilities to society. Core (2009) argue that the company has to safeguard the interests of all who contribute to the general value creation to a given corporation.

6.3 Agency theory

This theory propounded by Jensen and Meckling (1976) is based on the premise that when ownership of an organization is separated from control, managers acting as agents on behalf of the owners or principal are prone to pursuing their own interest to the detriment of the owners. It further emphasized that managers have interest which does not align with maximizing returns to shareholders thus creating agency problem between shareholders (principal) and directors (agents). The principal has to bear some agency cost in order to monitor the activities of the agent to ensure efficiency.

7. Empirical Review

Charkam (2007) carried out a study on corporate culture and organizational effectiveness in Nigeria banking industry and the study results indicates that adaptability positively influences organizational profitability. Similarly Brickley (1987) conducted a study on organizational culture

and organizational effective in Arizona and they concluded that cultures are different and positively associated with the effectiveness criteria.

Also, Borokhovich (2006) conducted a study on employee empowerment and organizational effectiveness in the executive organizations in Iran and the study shows that there is a positive relationship among employee empowerment and organizational effectiveness. Yermack (1996) in their study examines the relationship between organizational knowledge capabilities, knowledge sharing and organization effectiveness among different industries located in Taiwan and the study concludes that, there is a positive relationship between organizational knowledge capabilities, knowledge sharing and organizational effectiveness.

8. Methodology

In carrying out this study, the researcher made use of primary sources of data. The population of this study comprises of all the senior staffs and employees of Union Bank of Nigeria, Ogbomoso branch Oyo state. The sample frame for this study consists of the staff and employees in Union Bank in Ogbomoso. The population of the study was forty (40) and the sample size is made up of thirty (30) of those staff in various departments. The respondents were selected from top level management, middle level management and lower level management of the units, which should be a good representation of the population based on stratified sampling. All staff and employees were given equal chance of being selected. The main research instrument used for this study was questionnaires. The interview method was inevitable as some questions required narrative answer and the respondents were perceived as too busy to go into the task of lengthy writing. The responses obtained through these techniques were considered in the appropriate areas of this study. The research instrument adopted were quantitative techniques of data analysis. Data was analyzed using Statistical Package for Social Sciences (SPSS Version 20.0) program. Both quantitative analysis and regression analysis was used as data analysis technique. The data collected was run through various models so as to clearly bring out the effect corporate governance on the survival of Banks in Nigeria volatile business environment.

9. Results and Discussion

Table 1:

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SN	Questions	(SA)	(A)	(UD)	(D)	(SD)
1	Corporate governance is a vital issue which must not be neglected in an organization.	20(40.0)	28(56.0)	2(4.0)	-	-
2	The board of direction of union bank has been building a business culture that embraces change.	28(36.0)	18(36.0)	2(4.0)	2(4.0)	-
3	Despite the volatile industrial challenges, management of Union bank has ensure that the affairs of the company are conducted in a lawful and efficient manner to enhance value creation	16(32.0)	16(32.0)	6(12.0)	12(24.0)	-
4	shareholders statutory rights and general rights are protected all the time through effective corporate governance of the bank	30(60.)	18(36.0)	2(4.0)	-	-
5	Board of Union bank has been effective and competent in diagnosing and evaluating events and trends in the larger environment that may hinder organizational effectiveness.	16(32.0)	16(32.0)	4(8.0)	12(24)	2(4)
6	The mission of board of director is a guiding element in its strategic pursuit and organizations must innovate consistently and seek other alternatives in improving profitability and market share for survival through corporate governance.	34(68.0)	14(3286.0)	2(4.0)	-	-
7	The relationship between the owners (shareholder) and decision makers (board of directors) has generated into conflicts which is now the major source of many problems with corporate governance.	18(36.0)	12(24.0)	8(16.0)	10(24.0)	2(4)
8	The internalization of effective mechanisms in the running of corporate organizations would encourage accountability and transparency	22(44.0)	28(56.0)	-	-	-
9	Internal compliance and controls are the nuts and bolts which keep the organization firmly	20 (40.0)	26 (52)	2 (4.0)	2 (4.0)	-
10	corporate governance for the banking organization is of great importance to the local and international financial system.	18 (36)	12 (24)	8 (16)	10(20)	2 (4)

Table 2: Variables' Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	Remark

	B	Std. Error	Beta			
(Constant)	6.083	1.457		4.175	.000	Sign.
Business culture that embraces change	.392	.345	.000	.000	.000	Sign.
value creation	.331	.248	-.181	-1.335	.000	Sign.
Strategic pursuit	.750	.521	-.379	-1.439	.000	Sign.

a. Dependent Variable: Survival of Nigerian bank

Source: SPSS output based on field survey, 2020

Decision Rule

The model coefficients confirm that the three variables have positive coefficients. Table 2 reveals that Business culture that embraces change has a positive coefficient of .392; value creation has a positive coefficient of .331 and Strategic pursuit has a positive coefficient of .750. It is therefore a clear indication that, there is significant relationship between corporate governance and survival of Nigerian bank.

Furthermore, the Adjusted R^2 =0.67 shows that there is 67% variation between corporate governance and survival of Nigerian bank. Therefore, the hypothesis of this study that states that there is no significant relationship between corporate governance and survival of Nigerian bank is hereby rejected.

10. Conclusion and recommendations

Corporate governance mechanisms are essential tools in organizations to adapt to the volatile business environment and unstable nature of business environment. Organizational objectives are achieved when they adopt effective corporate governance, which will also enhance the performance of an organization. When the boards of an organization are committed, knowledgeable and effective will lead to shareholders being sufficiently satisfied. The ability of an organization to consistently establish modern services to its customers, concentrating on good performance and quick adaptation to environmental change gives an organization edge over its competitors. The study also conclude that effective corporate governance mechanism in the banking industry can be used to enhance business culture that embraces change, value creation and strategic pursuit which in return ensure the effectiveness of an organizations. Based on the above conclusion, the study therefore recommended that the board of Nigerian Banks should have boards that are committed, knowledgeable, and effective. This will ensure that the shareholders are sufficiently satisfied in order to stimulate effectiveness in the organization.

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