EFFECT OF GLOBALIZATION ON CORPORATE GOVERNANCE IN NIGERIA

by
Mary Denga

Abstract

The key elements in globalization are the interconnection of sovereign nations through trade and capital flows, harmonization of the economic rules, creation of structural support and facilitate interconnection and the development of a global market, which allow flow of foreign investment, both direct and portfolio. To assure these corporate financiers that their investment would be secured, there is need for good corporate governance, which involves a network of relationships between corporate managers, directors and the stakeholders. Globalization is a leading concept which has become the main factor in business life during the last few decades. This phenomenon affects the economy, business life, society and environment in different ways, and almost all corporations have been affected by these changes. We can see these changes mostly related with increasing competition and the rapid changing of technology and information transfer. This issue makes corporations more profit oriented than a long term and sustainable company. However, corporations are a vital part of society which needs to be organized properly. Therefore we need some social norms, rules and principles in society and business life; this is the role of governance. The objective of this paper is to find out how globalization has been able to influence corporate governance practices, effect of globalization on corporate governance in Nigeria, and determine the relationship between corporate governance and organizational profitability. Findings indicate that corporate governance in most developing economies has been influenced by globalization, which has provided an international benchmark for policy makers on issue of corporate governance. Based on the findings, recommendations were made on how to improve corporate governance in developing countries, especially Nigeria.

Introduction

Globalization has continued to attract increase scholarly and analytical attention across the globe. It is, thus not fortuitous that globalization has been at the epicentre of most development and intellectual discourses (Prasad, et al., 2003). Even though it has brought about some great advantages for many countries and people, it must be recognized that the progress has not been even, and although there are great benefits to globalization, there are also draw backs. While some segments witness great improvements, others may be left behind, at least in the short run (Keat& Young, 2006).

It was in this vein, Mohamad (2002) described the concept of globalization as deceptively simple, which in theory suppose to be for the good of all, however, in reality, the concept was designed by developed countries on behalf of their companies and financial institutions for the purpose of overcoming the regulations set up by developing countries to promote their domestic economy and local firms which has been marginalized during colonialism.

However, in actual sense, globalization seeks to remove all national barriers to the free movement of international capital and the process is accelerated and facilitated by the supersonic transformation in information technology. It could therefore be said that globalization is mainly a phenomenon of capital mobility, through its two prongs which are foreign direct investment and international portfolio flow. Direct investment means that the concerns of the investing country exercise *de facto* or *de jure* control over the asset created in the capital importing country by means of the investment. Whereas, the indirect investment better known as portfolio or rentier investment consists mainly of the holdings of transferable securities, shares or debentures by the nationals of some other country. Such holding may not amount to a right to control the company (Jhingan, 2010, pp. 43).

In the management of modern business, ownership is divorced from management. It has long been recognized that the separation of ownership and control in the modern corporation result**s** in potential conflicts between owners and managers, whereby management may act its own best interest rather than those of shareholders (Maimako, 2010), or even misuse of corporate assets. Therefore, corporate financiers need assurances that their investments will be used as intended for the agreed corporate objectives, and ensure that boards and managers are held accountable for pursuing this objective. These assurances are the major concern of effective corporate governance.

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Many authors describe corporate governance in terms of a system of structuring, operating and controlling a company with a view to achieving long term corporate goal.

Corporate governance involves a network of relationships between corporate managers, directors, and providers of equity or stakeholders. Interest in corporate governance is now truly global, reflecting recognition by world leaders, business leaders, and investors that the quality of corporate governance is a factor in the ability of a nation's economy to thrive (Gregory, 2000).

In most developing economies, including African, corporate governance is part of the package of the needed economic reforms for growth. Towards this, the historic Pan-African Consultative Forum on Corporate Governance, which about 34 African countries were represented held, Johannesburg laid the foundation for continent-wide corporate governance reform.

Statement of the problem

Globalization? is a well known and widely used term for a long time and continues to affect businesses in all aspects, there are only a few researches that address the impact of globalization on firm performance. Among these, Acheampong et al. (2000) examined whether increasing globalization equalizes speeds of profitability adjustment of global firms in the beverage and tobacco industry and the food and consumer products industry and their findings report no significant country effect in the beverage and tobacco industry while in the food and consumer products industry, speeds of profitability adjustment was found to vary across countries. In another study, Peltonen et al. (2008) analyzed the impact of import penetration on firm?s profitability in 15 manufacturing industries in 10 euro area countries during 1955-2004 and their results indicate that import competition from emerging market economies has had an overall negative impact on company profitability in the euro area manufacturing sector. However, contrary to the findings of Peltonen et al. (2008), Georgiou (2011) report a positive impact of globalization (as measured by total trade to GDP) on company profitability (as measured by net return on equity) for Europe and the findings of Akinola (2012) suggest that the performance of Nigerian Banks as measured by profit before tax increases with globalization. Nevertheless, it is obvious that there exists a limited body of knowledge about the impact of globalization on the firm performance, value and further research is crucially needed.

This research is hoped to contribute to filling the gap through focusing on the impact of the degree of overall globalization of a country as well as its single dimensions, specifically the economic, political and the social dimensions.

Objective of the Study

i. The objective of this paper is to find out how globalization has been able to influence corporate governance practices.

ii. Effect of globalization on

corporate governance in Nigeria

Iii. Determine the relationship between corporate governance and organization profitability.

Literature Review

Conceptualizing Globalization and Corporate Governance

Many scholars around the world have been expressing different view concerning globalization and its effect on live of the people, particularly the developing economies. While some would rather view it from its merit, others were concern about it's presume negative impact. Hence, globalization has been defined by many scholars from different perception. For example, Obadan (2006) define globalization as a process which integrates world economies, culture, technology and governance, while Snyder (2002) conceptualizes globalization as an aggregate of multifaceted uneven, often contradictory economic, political, social and cultural processes, which are characteristic of our time. To Jacob (2007), globalization refers to the process and a web of increasing integration of countries into the world economy which allows for a free flow of ideas, people, capital and contacts among enterprises, institutions and people across national borders. While globalization may not alter the corporate structure, it influences corporate governance practices in several ways especially through the strategies it makes available on corporate finance, production and management.

According to Iskander and Chamlou (2000) as cited in Chiejine (2010), corporate governance can be viewed from two perspectives, that is, the private sector and public sector. From a private sector's perspective, corporate governance is about maximizing value subject to meeting the corporation's financial and other legal and contractual obligations. And this involves the board of directors' balancing the interests of shareholders with those of other stakeholders. On the other hand, corporative governance from the perspective of public policy is about nurturing enterprises while ensuring accountability in the exercise of power and patronage by firms. Parkinson (1994), however view corporate governance as the process of supervision and control (of governing) intended to ensure that the company's management act in accordance with the interest of the shareholders. In their own opinions, Copeland and Weston (1992) consider corporate governance to enclose the legal rules, institutional arrangements, and practices that determine who controls business corporations and who gets the benefits that flow from them. And Adams (2006) considers it as a function of direction and leadership, risk management, control, transparency and accountability.

Regardless what view of the corporate objective is taken, according to Gregory (2000), effective governance ensures that boards and managers are accountable for pursuing it. Effective corporate governance thus:

i. Promotes the efficient use of resources both within the company and the larger economy

ii. Helps ensure that the company is in compliance with the laws, regulations, and expectations of society.

iii. Provides managers with oversight of their use of corporate assets.

Iv. Supports effort to reduce corruption in business dealings and;

Assists companies and economies in attracting lower-cost investment capital by improving both domestic and international investor confidence that capital will be used as agreed

Research Methodology

This study aims to investigate the impact of corporate governance, globalization and performance of banks in Nigeria. The study made use of proportionate stratified sampling technique. As such, the study relied fully on the data gathered from the respondents. Organization administered questionnaire. The study made use of a sample of one hundred and fifty (150) respondents.

Data Analysis

Table 1

How does globalization influence corporate governance practices.

Variable	Respondents	Percentage (%)
Positively	103	69
Negatively	47	31
Total	150	100

Source: Field work 2017.

From the table above, it is clear that globalization positively influence corporate governance practices. This influence is leading to organizational growth and excellent performance.

Table 2

How does globalization affect corporate governance in Nigeria

Questionnaires Items	A	SA	D	SD	Total
Result to technological transfer.	114(76%)	25(17%)	11(7%)	-	150(100%)

Increase competition	111(74%)	23(15%)	11(7%)	5(3%)	150(100%)
It enhances the perspective of firms	97(65%)	48(32%)	3(2%)	2(1%)	150(100%)
It provide international benchmark for policy makers	101(67%)	23(15%)	19(13%)	7(5%)	150(100%)
Total	423(71%)	119(20%)	44(7%)	14(2%)	600(100%)

Source: Field work 2017.

The table above shows that 71% of the respondents agreed that, globalization effect on corporate governance in Nigeria by resulting to technological transfer in Nigeria and this also increase competition, enhances the perspectives of organization and provide international benchmark for policy makers; While 20% of the respondents strongly agreed with the stated fact, 7% disagreed and 2% strongly disagreed with the stated fact.

Table 3

Is there relationship between corporate governance and organizational profitability

Variable	**Respondents**	**Percentage (%)**
Yes	129	86
No	21	14
Total	150	100

Source: Field work 2017.

The table clearly shows that, there is great relationship between corporate governance and organizational profitability; as 86% of the respondents agreed to the stated fact.

Findings

Base on the analysis and discussion from above; the findings of this work are as follows:

i) Globalization on corporate governance positively influence firm performance.

ii) Globalization brings about technological improvement in Nigeria

iii) Globalization enhances firm perspectives and increase competition

Iv) Finding also review that, there is a relations between corporate governance and organizational profitability

Conclusion and Recommendation

Globalisation has encouraged capital mobility through foreign direct investment and indirect or portfolio flow. Since in modern business, ownership is divorced from management, hence the need to boost the corporate financiers confidence over the security of their investment. To achieve this calls for a good corporate governance. Interest in corporate governance has become global, having been acknowledged by policy makers and all other stakeholders as a significant factor in the ability of a nation's economy to thrive. The OECD details corporate governance standard principles, which has gained the status of an international benchmark for policy makers, corporations and other stakeholders worldwide. The principles have got a great impact on the practices of corporate governance in many developing economies including Nigeria.

Considering the important of good corporate governance on the economic growth, and to enhance the integration of Nigerian economy into the global system, this paper recommends that Nigerian economic and financial policies and their implementation should be examined by the various stakeholders to ensure that the financial sector and the economy is strong.

To check cases of extremely generous remuneration to the executive directors and top managers at the expense of the corporation, the board should report to the shareholders each year on remuneration.

Many cases of failed companies have resulted from lack of attention by the stakeholders on the issue of corporate governance, especially when firm's share price is rising. Company executives, policy makers, regulators and shareholders have to pay more attention to corporate governance in their organization.

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