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PROSPECTS AND CHALLENGES OF EFFECTIVE CORPORATE GOVERNANCE IN NIGERIAN MANUFACTURING INDUSTRY: THE OYO STATE EXAMPLE

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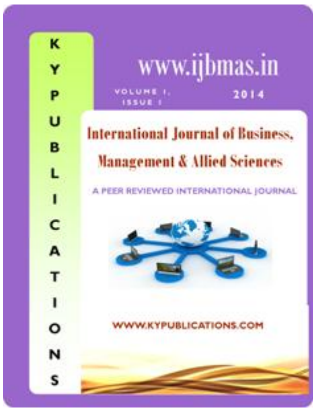

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ABSTRACT

In Nigeria, most of the corporate governance implementation efforts are targeted at banks, insurance companies and other financial institutions with very little or no attention to manufacturing industries. Given the importance of manufacturing industries as the engine of economic growth and development, this study is designed primarily to explore the prospects and challenges of corporate governance in the manufacturing sector of Nigerian economy. It also appraised the key corporate governance issues in diverse sectors of the Nigerian economy with specific reference to the corporate governance culture of selected manufacturing firms. One hundred and nineteen manufacturing firms were selected by systematic random sampling from the 471 firms existing in Oyo state, the industrial hub of southwestern Nigeria. The actual participants were selected by purposive sampling from top management, middle level and junior cadres who must have spent at least five years in service of each of the firms. Data were collected through a self-constructed questionnaire adapted for the different cadres in the study sample and was treated with factorial validation and expert judgment. It yielded a test-retest reliability of 0.724 and an internal consistency validity (Cronbach's Alpha) of 0.89. The data collected were analyzed using Relative Significance Index (RSI) and simple percentages as well as Multiple Regression and Analysis of Variance (ANOVA). The result identified the key corporate governance issues in diverse sectors of Nigerian economy and presented the specific corporate governance cultures of the selected firms. It highlighted the superlative prospects corporate governance is capable of bringing out of manufacturing industries of it is faithfully adopted.

Keywords: Manufacturing industries, corporate governance, challenges, economic, business organizations, shareholder, boards of directors.

INTRODUCTION

The need for corporate governance arises because of the imperative of separating management and ownership in the modern business organizations. Corporate governance is concerned with the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions; the manner in which these rules and regulations are applied and followed; the relationships that these rules and regulations is designed to create; and the nature of those relationships. It also addresses the leadership role in the institutional framework. Corporate governance, therefore, refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholders value and satisfaction of other stakeholders in the context of its corporate mission. It also includes a set of mechanisms through which outside investors are protected from expropriation by insiders, including management, family interest and governments.

A well maintained corporate governance system will maximize efficiency, transparency and proper alignment of interest, facilitates access to capital, contributes to better performance and reduces the risk inherent in running a business. It implies that with corporate governance, companies not only maximize shareholder wealth, but balance the interest of shareholders with those of other stakeholders such as employees, customers, suppliers and investors so as to achieve long-term sustainable value. The role of corporate governance is, therefore, to prevent the expropriation of investors by managers, to increase organizational performance and to prevent misappropriation and mismanagement of organizational resources.(Ayida, 2004).

Studies of firms both in Nigeria and abroad have shown that market and investors take notice of well-managed firms, respond positively to them, and reward such firms, with higher valuations. A common feature of such firms is that they have systems in place which allow sufficient freedom to the boards and management to take decisions toward the progress of their firms and to innovate, while remaining within a framework of effective accountability. In other words, they have a system of good corporate governance. Corporate governance is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure. Without financial reporting premised on sound, honest numbers, capital markets will collapse upon themselves.

Another important aspect of corporate governance relates to issue of inside trading. It is important that insiders do not use their position of knowledge and access to inside information about the company, and take unfair advantage of the resulting information asymmetry. To prevent this from happening, corporates are expected to disseminate the material price sensitive information in a timely and proper manner and also ensure that till such information is made public, insider abstain from transacting in the securities of the company. This therefore calls for firms to device an internal procedure for adequate and timely disclosures, reporting requirements, confidentiality norms, code of conduct and specific rules for the conduct of its directors and employees and other insiders.

However, the need for such procedures, reporting requirements and rules also goes beyond corporates to other entities in the financial markets such as stock exchanges, intermediaries, financial institutions, mutual funds and concerned professional who may have access to inside information. Good corporate governance, besides protecting the interests of shareholders and all other stakeholders contributes to the efficiency of a business enterprise, the profitability and productivity, to the creation of wealth and to the country's economy.

Finally, good corporate governance is considered vital from medium and long-term perspectives to enable firms to compete internationally in a sustained way and make them flourish and grow so as to provide employment, improved productivity, wealth and satisfaction, not only to improve the standard of living materially but also to enhance social cohesion.

Apart from the main statute regulating corporate organizations in the country, that is the Companies and Allied Matters Act of 1990 there are several corporate governance codes in force, most of which are industry-specific. The corporate governance codes applicable in the country are the Code of Best Practices on Corporate Governance in Nigeria 2003, which was issued by the Securities and Exchange Commission; the Code of Corporate Governance for Banks in Nigeria Post Consolidation 2006, which was issued by the Central Bank of Nigeria; the Code of Corporate Governance for Licensed Pensions Operators 2008, which was issued by the Pension Commission; and the Code of Corporate Governance for Insurance Industry in Nigeria 2009, issued by the National Insurance Commission. The 2003 SEC code is currently being reviewed.

Thus the Nigerian Code of Corporate Governance Practices developed in 2003 was based on unitary board structure (as in the UK and USA) with emphasis on the identified triple constraints; the role of the board of directors and management, shareholders rights and privileges and the audit committee (Oyebode, 2009). However, 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.

Okpara (2000) alleged that 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 Nigeria 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 financial and business operations.

Generally, the manufacturing industry has been described as one of the most critical engines for economic growth are increasingly important laboratories for scholars interested in researching where a variety of market frictions-information, asymmetry, liquidity constraint, integration and market diversification, for example, are most amplified (Sangosanya, 2011). It acts as a catalyst to transform the economic structure of countries, from simple, slow-growing and low-value activities to more productive activities that enjoy greater margins, and have higher growth prospects, in fact, its potential benefits are even greater in present times (Kuye & Oghojafor, 2011).

Naudé and Szirmai (2012) suggested that, in the twenty-first century, manufacturing development remains relevant for poor countries trying to catch up with more advanced economies and to provide increasing standards of living for their populations. In fact, the importance of the manufacturing sector can be clearly seen in the Kaldor's first law which posited that the growth of a Nation's GDP is positively related to the growth of the manufacturing sector and succinctly put, Libanio (2006) stated that the Kaldor's first law can better be understood as "manufacturing is the engine of economic growth". Also, Elhiraika (2008) demonstrated that economic transformation through increased share of manufacturing value added in aggregate output has the potential to accelerate growth and reduce growth volatility. Consequently, this sector deserves research attention, particularly in developing economies like Nigeria.

In Nigeria, the manufacturing sector subsumes two sub-sectors, with substantially different technologies, organization, and factor proportions. The most important of these is medium and large-scale manufacturing, which uses modern technology and relatively capital-intensive techniques, and produces about 80 per cent of value-added in manufacturing, although employing less than 10 per cent of the labour force. The small-scale sub- sector - firms employing under 10 people or whose assets in machinery and equipment are worth less than $100,000- is largely engaged in craft activities, and 90 per cent of its labour force is self-employed artisans (Wolgin,1978).

Meanwhile, according to Osagie (2012), the United Nations Industrial Development Organization (UNIDO) has reported a decline in the growth of the manufacturing sector in Nigeria and stressed that manufacturing output dropped to the lowest level since the beginning of 2011.

In a 2004 follow-up survey organized by UNIDO to identify the key constraints on the performance of Nigeria's manufacturing sector, the report identified the key factors which are seen as constraining productivity by entrepreneurs and managers in Nigeria. The first of these was corruption which is affecting the cost of doing business in Nigeria, thereby making the Nigerian manufacturers incapable of competing globally (Malik, Teal & Baptist, 2006). Corporate governance, which is hitherto seen as the foundation for good corporate performance has received lack-lustre attention from corporate bodies globally for a considerable length of time (Ejiofor, 2009). This attitude, according to Chukwuemeka, Nzewi and Ezenyilimba (2011) which bordered on neglect of corporate strategies may have eventually led to the recent global high profile corporate failures. It is in the view of the foregoing that this study was designed to examine prospect and challenges of corporate governance as a regenerative tool in the Nigerian manufacturing sectors via the example of Oyo State, Southwest Nigeria. Specifically, the study strived to:

a. identify the key corporate governance issues in diverse sectors of the Nigerian economy;
b. examine the corporate governance culture of selected manufacturing firms in Oyo State;
c. analyse the challenges and prospects of improved corporate governance in the manufacturing sector.

In other to achieve the objectives stated above, this study addressed the following research questions in respect of each objective:

I. What are the key corporate governance issues in diverse sectors of the Nigerian economy?
II. What are the corporate governance cultures of selected manufacturing firms in Oyo State?
III. What are the procedures available for reporting unethical practices?
IV. What control measures are put in place to ensure that all expenditures are properly authorized?
V. What issues and to what extent do they constitute challenges to the development of effective corporate governance in Nigeria?
VI. What are prospects of corporate governance in diverse sectors of Nigerian economy?

PROCEDURE

This study adopted a descriptive survey research design. It examined the corporate governance culture in selected manufacturing firms based on the data collected. It also investigated the prospects and challenges to effective corporate governance in manufacturing industries in Nigeria. The study was conducted in selected manufacturing firms in Oyo state which is made up of thirty three (33) local governments in the Southwestern part of Nigeria. Oyo state was chosen because of its being a principal industrial and economic centre; and one of the most highly populated amongst the states in Nigeria. The population for this study consisted the entire four hundred and seventy one (471) manufacturing firms located across Oyo state (National Bureau of Statistics, 2010). Twenty five percent (25%) of the population was selected by systematic sampling technique resulting in one hundred and nineteen (119) firms. Purposive sampling technique was used to select one (1) top management staff, one (1) middle level staff and one (1) junior staff who must have spent at least five years in service to respond to the questionnaire from each selected firm totalling three hundred and fifty seven (357) respondents. The manufacturing firms involved in this study include small, medium and large scale, and multinationals whose features are presented in Table 1.

Table.1 Percentage Distribution of Sample by Sub-Sectors

Sub sectors	Population	Sample size	Sample %
Building Materials	42	11	26.19
Chemical and Pharmaceuticals	11	3	27.27
Domestic	8	2	25
Food and Beverages	104	26	25
Iron and Steel	46	12	26.08
Paper products, Prints and Publishing	45	11	24.44
Textile, Wearing apparels and Leather products	116	29	25
Wood Industries	99	25	25.25
Total	471	119	25.26

Source: National Bureau of Statistics (2010)

Data were collected through primary source consisting of two types of questionnaires, one type for the management and the other type for other categories of staff members. The questionnaires contain four sections. Section A sought general information like demographic information and socio-personal. Section B sought information on corporate governance practices and culture and the items were measured on 5-point Likert scale while section C sought information on prospects of corporate governance in manufacturing industries and was also measured on 5 –point Likert scale while section D sought information on the challenges confronting corporate governance. To validate the questionnaire, construct validation was carried out using factorial validation on one hand and expert judgment on the other. A test-retest reliability was conducted via a pilot study using thirty (30) questionnaires, yielded reliability co-efficient of 0.724 and an internal consistency validity (Cronbach's Alpha) of 0.89. The data collected were analysed using descriptive statistics such as Relative Significance Index (RSI) and simple percentages as well as inferential statistics such as Multiple Regression and Analysis of Variance (ANOVA) to achieve its objectives. All the items in the questionnaire were scored in such a way that a "strongly agree" response were allotted 5, Agree, 4; Undecided, 3; Disagree 2 and Strongly disagree, 1.

RESULTS

Research Question 1: What are the key corporate governance issues in diverse sectors of the Nigerian economy?

To answer this research question, a number of commonly held opinions concerning corporate governance in Nigeria were presented to the respondents in Section A of the Management questionnaire and were requested to state their agreement or otherwise on a 5-Likert scale level of strongly agree (SA), agree (A), undecided (U), disagree (D) and strongly disagree (SD). Their responses were then given a descriptive analysis as presented in table 2 below:

Table. 2. Descriptive Analysis of the Key Corporate Governance Issues

		SA	A	U	D	SD	RSI	Rank
1	Corporate governance codes became very salient following the corporate failures witnessed since the 1990s and as recently experienced in the Nigerian banking sector.	34.4	28.0	21.6	14.0	2.0	0.7576	10
2	Apart from the Companies and Allied Matters Decree of 1990, there are several other corporate governance codes in force in Nigeria, some of them are industry specific.	26.0	31.6	19.2	16.0	7.2	0.7064	17
3	It is generally believed that an effective corporate governance mechanism backed up with adequate monitoring and enforcement regime would build investors' confidence, eliminate financial scandals and corporate failures.	24.8	32.8	24.0	12.0	6.4	0.7152	16
4	Although every company is expected to prepare financial statements reflecting a true and fair view of operations of the company during the financial year, these reports normally do not contain adequate information for shareholders.	22.0	26.0	30.4	18.4	3.2	0.6904	18
5	The annual financial statements	32.8	6.5	7.4	6.2	39.5	0.5282	31

	must include the balance sheet and profit and loss accounts, the sources of and application of funds, giving information about the generation and utilization of funds							
6	The financial statement must also present the value added statement reporting the wealth created by the company during the year and the five year summary which provides comparative inter-temporal performance information.	31.6	6.3	11.0	6.7	39.0	0.5372	29
7	The financial statement is expected reach the shareholders who must decide whether to approve or reject it at least 21days before the AGM and must be laid before the shareholders at the annual general meeting (AGM)	34.3	5.3	10.8	6.4	38.3	0.5524	22
8	Only a few of the directors are defined as independent by many of the Nigerian Corporate governance codes and hence are in the minority	29.2	23.6	30.4	14.0	2.8	0.7248	15
9	Directors are not able to play the crucial balancing role expected of them	29.6	32.4	21.2	14.4	2.4	0.7448	11
10	There must be an annual preparation of the Directors' report which should give shareholders a fair view of the developments of the business of the company, its principal activities during the year and any significant change in those activities.	36.5	5.2	7.0	5.1	40.0	0.5490	23
11	The director's report must contain information about the amount recommended as dividend and amount recommended as reserves.	34.2	5.8	15.6	7.6	31.8	0.5760	20
12	The directors' report must also contain information about emoluments of directors, emoluments waived, pensions and compensation for loss of office to directors	35.7	5.4	7.4	6.2	36	0.5414	26
13	All companies appoint auditor(s) at its AGM to audit its financial statements .	24.8	38.4	20.4	12.8	3.6	0.736	13
14	An employee, office or servant of the company is prohibited from	34.0	31.2	19.2	12.8	2.8	0.7616	9

	being an auditor, neither can a partner, any person or firm that offers it consultancy services							
15	The auditor tells whether the company's balance sheet and profit and loss account are in agreement with the accounting records and returns	38.4	31.6	16.8	7.6	5.6	0.7792	5
16	The Company and Allied matters Act has confused the role of the audit committee by stipulating equal numbers of representatives of directors and shareholders in the committee.	24.8	40.8	18.4	13.6	2.4	0.744	12
17	In Nigeria, the shareholders are still substantially left in the dark in the administration of their companies.	34.0	35.6	17.6	9.2	3.6	0.7744	6
18	Institutional investors are not under strict and rigorous scrutiny from the owners of the funds they manage.	43.6	23.6	17.6	5.2	10.0	0.7712	7
19	In Nigeria, too much power is concentrated on the Chief Executive Officer (CEO) who, more often than not are also the chairmen of the Boards of Directors.	47.2	28.4	10.0	11.2	3.2	0.8104	2
20	Any change of ownership interest and values must be updated and be made known to all shareholders who have a right to ask for a copy of the register or any part thereof, albeit at a fee.	26.7	8.3	26.2	6.2	25.8	0.5670	21
21	The identity of the directors, the size of their shareholding and their remuneration should be in the public domain and thus be known to all available	34.2	5.8	15.6	7.6	31.8	0.5760	19
22	Disclosures on transactions and agreement on loans, quasi loans and other dealings in favour of directors and "connected persons " is mandatory.	33.4	4.7	9.0	8.8	39.4	0.5396	28
23	A shareholder's vote is proportional to the number of shares owned in the company	33.3	4.8	8.2	7.7	41.0	0.5334	30
24	Shareholders of quoted plc have right to share transfer, however, such transfer, however, such transfer has to be effected through a qualified person.	30.8	5.4	15.7	8.6	33.7	0.5472	24

25	The shareholders meeting should have supervisory functions over the company	26.4	33.2	21.6	15.6	3.2	0.728	14
26	Lack of checks and balances compromise directors ability to make independent decision on the behalf of the shareholders	41.2	29.2	20.4	8.8	0.4	0.804	3
27	There is lack of law enforcement capacity to implement the corporate governance codes of conduct in Nigeria.	34.0	43.2	12.0	9.2	1.6	0.7976	4
28	There is lack of thorough selection, evaluation and replacement of CEOs	51.2	27.6	13.6	6.0	1.6	0.8416	1
29	Retired or replaced CEOs are graduated to the membership of the board which creates conflicts and tension with the new CEOs	30.8	38.0	18.4	10.4	2.4	0.7688	8
30	Relinquishing wholly or partially government equity holdings in the privatized enterprises	34.0	6.4	7.7	9.3	35.7	0.5460	25
31	In Nigeria, the interest of the organization and the shareholders are commonly secondary to the self-interest of the board members and the management.	37.3	4.9	3.5	7.9	38.1	0.5410	27

Source: Field Survey, 2011

From Table 2 above it can be seen that the most popularly identified issue in corporate governance in diverse sectors of the Nigerian economy is that “There is lack of thorough selection, evaluation and replacement of CEOs” with an RSI value of 0.8416. Other important issues that may be referred to as key issues in diverse sectors of the Nigerian economy are “In Nigeria, too much power is concentrated on the Chief Executive Officer (CEO) who, more often than not are also the chairmen of the Boards of Directors.”, “Lack of checks and balances compromise directors ability to make independent decision on the behalf of the shareholders” and “There is lack of law enforcement capacity to implement the corporate governance codes of conduct in Nigeria.” With RSI values of 0.8104, 0.804 and 0.7976. These are issues that may be considered most significant key issues commonly raised in diverse sector of Nigerian economy. However, the respondents identified that issues like “The annual financial statements must include the balance sheet and profit and loss accounts, the sources of and application of funds, giving information about the generation and utilization of funds” and “A shareholder’s vote is proportional to the number of shares owned in the company” are not popular key corporate governance issues in diverse sectors of economy.

Research Question 2: What are the corporate governance cultures of selected manufacturing firms in Oyo state?

To answer this research question, items designed to explore ethical and corporate governance guidelines of selected manufacturing firms in Oyo state such as B1, B2, B3, B4, B5, B9, B10, B11, B12, B15, B16, B18, B19, B20, B21, B22 and B23 of the staff questionnaire was given a descriptive analysis and the result is presented in Table 3 below

Table 3: Descriptive Analysis of Ethical and Corporate Governance Guidelines Adopted in Companies

S/N	Ethical and corporate governance guidelines adopted in companies	SA F	SA %	A f	A %	Un f	Un %	D F	D %	SD f	SD %	NR f	NR %	RSI
B1	There is code of corporate governance in your organization	67	29.8	143	63.6	9	4.0	1	0.4	3	1.3	2	0.9	0.8347
B2	There is compliance with the best practices in your organization	71	31.6	135	60	10	4.4	2	0.9	5	2.2	2	0.9	0.8302
B3	The company's corporate governance structure and practices have been subject to comments and observation by outside parties.	63	28.0	119	52.9	21	9.3	3	1.3	10	4.4	9	4.0	0.7733
B4	The company has formal values and supporting standards of behaviour that are consistent with its mission strategy, operating policies and performance objectives	80	35.6	126	56.0	10	4.4	2	0.9	1	0.4	6	2.7	0.8347
B5	The company has a code of conduct or policy statement regarding dealing with suppliers, consultants and customers	67	29.8	134	59.6	9	4.0	7	3.1	3	1.3	5	2.2	0..8133
B9	Your company has safety policy for workers	68	30.2	124	55.1	19	8.4	4	1.8	5	2.2	5	2.2	0.8053
B10	The company provides services/benefits such as day care management, financial planning for dependent care family care, resource centre	61	27.1	134	59.6	14	6.2	8	3.6	6	2.7	2	0.9	0.8044
B11	The company has policy that maintains employees' morale and incentives for growth.	60	26.7	129	57.3	15	6.7	4	1.8	9	4.0	8	3.6	0.7804
B12	There is an ongoing programme for continuous productivity improvement in your organization	56	24.9	142	63.1	19	8.4	2	0.9	5	2.2	1	0.4	0.8124
B15	The company ensures quality customer service	71	31.6	130	57.8	13	5.8	2	0.9	2	0.9	7	3.1	0.8178
B16	Your company always get feedback from customers	80	35.6	131	58.2	5	2.2	2	0.9	3	1.3	4	1.8	0.8409

B18	The company's code of conduct requires that the board of directors/officers/senior management to submit written statement of compliance annually	61	27.1	120	53.3	28	12.4	6	2.7	5	2.2	5	2.2	0.7876
B19	The organization is making progress towards the stated mission and goals	70	31.1	135	60.0	10	4.4	2	0.9	4	1.8	4	1.8	0.8249
B20	In your organization, the CEO is responsible for progress or lack f it.	58	25.8	123	54.7	27	12.0	5	2.2	3	1.3	9	4.0	0.7787
B21	The actions of the CEO in your organization are consistent with the stated values and beliefs	63	28	119	52.9	28	12.4	2	0.9	6	2.7	7	3.1	0.7867
B22	Your personal relationship with the company is cooperative.	81	36.0	116	51.6	13	5.3	4	1.8	6	2.7	6	2.7	0.8196
B23	The CEO's compliance with the policies concerning employee's treatment is satisfactory	56	24.9	137	60.9	16	7.1	5	2.2	6	2.7	5	2.2	0.7929

SA – strongly agree, A-agree , U – undecided , D-disagree, SD - strongly disagree NR- No response, RSI – Relative Significance Index

Source: Field Survey, 2011

Table 3 shows the descriptive analysis of established ethical and corporate governance guidelines commonly adopted in companies. It can be seen from the table that the most popular ethical/corporate governance guidelines adopted in the companies is "Your company always get feedback from customers" with an RSI value of 0.8409 closely followed by "There is code of corporate governance in your organization" and "The company has formal values and supporting standards of behaviour that are consistent with its mission strategy, operating policies and performance objectives" with RSI values of 0.8347 each and "There is compliance with the best practices in your organization" with an RSI value of 0.8302. The least popular of such ethical/corporate governance guidelines adopted in the companies is "The company's corporate governance structure and practices have been subject to comments and observation by outside parties." with an RSI value of 0.7733 and is closely followed by "In your organization, the CEO is responsible for progress or lack of it" with an RSI value of 0.7787.

Research Question 3: What are the procedures available for reporting unethical practices?

To answer this research question items B5, B6, B7, B8 and B17 of the Staff questionnaire are given a descriptive analysis and the result is presented in Table 4 below:

Table 4: Descriptive Analysis of Procedures Available for Reporting Unethical Practices in Companies

S/N		SA		A		Un		D		SD		NR		RSI
		F	%	F	%	F	%	F	%	f	%	F	%	
B5	This company has a code of conduct or policy statement regarding dealing with suppliers, consultant and customers	41	35.7	63	54.8	8	7.0	0	0	2	1.7	1	0.9	0.8400
B6	This company has a G. S. M. number or other means that employees can use to report suspected illegal acts or fraud on a confidential basis.	29	25.2	74	64.3	9	7.8	3	2.6	0	0	0	0	0..8243
B7	The policies and procedures in your company enable employees to report matters to an independent party, the management anonymously and without fear of retribution or punishment.	40	34.8	65	56.5	4	3.5	3	2.6	3	2.6	0	0	0.8365
B8	There is a workers' union in your organization	35	30.4	67	58.3	4	3.5	7	6.1	2	1.7	0	0	0.8191
B17	There is a provision in the code of conduct that prevent former employees from using trade secrets or research results.	22	19.1	68	59.1	19	16.5	1	0.9	4	3.5	1	0.9	0.7739

Source: Field Survey, 2011

Table 4 shows the procedures available for reporting unethical practices in the companies under study. It can be seen from the table that the most popular of such ethical procedures is the fact that "This company has a code of conduct or policy statement regarding dealing with suppliers, consultant and customers" with an RSI value of 0.8400. this is closely followed by the fact that "The policies and procedures in the company enable employees to report matters to an independent party, the management anonymously and without fear of retribution or punishment" and "The company has a G.S.M. number or other means that employees can use to report suspected illegal acts or fraud on a confidential basis" with RSI values of 0.8365 and 0.8243 respectively.

Research Question 4: What control measures are put in place to ensure that all expenditures are properly authorized?

To answer this research question, the financial control section of the management questionnaire (items 26 to 31) of section B were given a descriptive analysis and the result is presented in Table 5 below

Table 5: Descriptive Analysis of Control Measures Put in Place to Ensure that All Expenditures are Properly Authorized

S/N		SA		A		Un		D		SD		NR		RSI
		f	%	F	%	F	%	F	%	f	%	F	%	
B26a	Are there controls to ensure all income is at appropriate levels/rates	36	31.3	54	47.0	21	18.3	2	1.7	2	1.7	0	0	0.8087
B26b	Are there controls to ensure all income is collected?	34	29.6	60	52.2	11	9.6	2	2.6	4	3.5	3	2.6	0.7843
B26c	Are there controls to ensure all income is banked intact	26	22.6	60	52.2	14	12.2	4	3.5	7	6.1	4	3.5	0.7426
B27	Are there controls to ensure all expenditure is properly authorized?	33	28.7	66	57.4	10	8.7	1	0.9	5	4.3			0.8104
B28a	Are there controls to ensure all assets are properly recorded	35	30.4	61	53	7	6.1	1	0.9	8	7.0	3	2.6	0.7826
B28b	Are there controls to ensure all assets are properly safeguarded	43	37.4	58	50.4	7	6.1	2	1.7	4	3.5	1	0.9	0.8278
B29	Are there controls to ensure the accuracy of financial information held within the department	43	37.4	59	51.3	10	8.7	0	0	3	2.6	0	0	0.8417
B30	Are there controls to ensure all transactions are processed accurately, completely on a timely basis?	41	35.7	58	50.4	12	10.4	0	0	3	2.6	1	0.9	0.8278
B31	Are there controls to ensure that all of the business system output is fit for purpose (i.e. accurate, complete and relevant)	36	31.3	62	53.9	12	10.4	1	0.9	3	2.6	1	0.9	0.8157

Source: Field Survey, 2011

Table 5 shows the control measures put in place to ensure that all expenditures are properly authorized. The most prevalent measures adopted by the companies involve “controls to ensure the accuracy of financial information held within the department” with an RSI value of 0.8417 and closely related to this are two measures “controls to ensure all assets are properly safeguarded” and “controls to ensure all transactions are processed accurately, completely on a timely basis” with RSI values of 0.8278 each. The least common measures adopted is “controls to ensure all income is banked intact” which has the least RSI value of 0.7426.

Research Question 5: What issues and to what extent do they constitute challenges to the development of effective corporate governance in Nigeria?

To answer this research question respondents’ responses were given descriptive analysis as presented in Table 6.

Table 6: Challenges to the Development of Effective Corporate Governance in Nigeria

		SA	A	U	D	SD	RSI	Rank
1	Culture of corruption	34.0	43.2	12.0	9.2	1.6	0.7976	1
2	Lack of institutional capacity to implement corporate governance codes.	34.2	5.8	15.6	7.6	31.8	0.5760	7
3	Limited opportunities for institutional investors	24.8	32.8	24.0	12.0	6.4	0.7152	5
4	Recent collapse of the Nigerian stock exchange market	34.4	28.0	21.6	14.0	2.0	0.7576	2
5	Lack of effective yardstick to evaluate board and management processes and performance	32.8	6.5	7.4	6.2	39.5	0.5282	10
6	Auditors and audit committees are always ready to cover up corrupt practices for kick-backs and retention of engagement of big clients	29.2	23.6	30.4	14.0	2.8	0.7248	4
7	Relocation of Nigerian companies to more stable and vibrant neighbouring countries	34.3	5.3	10.8	6.4	38.3	0.5524	8
8	Lack of managerial training and capacity development among Nigerian executives	36.5	5.2	7.0	5.1	40.0	0.5490	9
9	Failure of directors as a monitoring device to minimizing agency problems	29.6	32.4	21.2	14.4	2.4	0.7448	3
10	Disregard of policies and procedures required to ensure efficient internal controls	22.0	26.0	30.4	18.4	3.2	0.6904	6

Source: Field Survey, 2011

Table 6 shows the responses of the research participants to challenges of developing effective corporate governance in diverse sectors of the Nigerian economy. It can be seen from the table that the respondents considered the greatest challenges to be the “culture of corruption” that has permeated the society with an RSI value of 0.7976. Other important challenges as identified by the respondents are “Recent collapse of the Nigerian stock exchange market”, “Failure of directors as a monitoring device to minimizing agency problems” and “Auditors and audit committees are always ready to cover up corrupt practices for kick-backs and retention of engagement of big clients” with RSI values of 0.7576, 0.7448 and 0.7248 respectively. However, they considered some challenges to be of least importance to the effective development of corporate governance in Nigeria. These include “Lack of effective yardstick to evaluate board and management processes and performance” and “Lack of managerial training and capacity development among Nigerian executives” as these have the lowest RSI values of 0.5282 and 0.5490 respectively.

Research Question 7: What are the prospects of corporate governance in Diverse sectors of Nigerian economy?

To answer this research question responses were given a descriptive analysis as presented in Table 7.

Table 7: Prospects of Corporate Governance in Diverse Sectors of Nigerian Economy

		SA	A	U	D	SD	RSI	Rank
1	Improved investors' confidence in the Nigerian manufacturing sector	43.6	23.6	17.6	5.2	10.0	0.7712	2
2	Elimination of financial scandals and corporate failures	34.0	35.6	17.6	9.2	3.6	0.7744	1
3	Excellent relationship between the board, the management and the shareholders leading to increased productivity.	24.8	40.8	18.4	13.6	2.4	0.7440	3
4	Improved transparency, proper disclosure, controls and accountability in the system	26.4	33.2	21.6	15.6	3.2	0.7280	5
5	Increased shareholders return on investments and institutional investors participation	34.2	5.8	15.6	7.6	31.8	0.5760	6
6	Marked reduction in agency cost and problems	33.4	4.7	9.0	8.8	39.4	0.5396	9
7	Institutionalized efficient recruiting process to align human resources with strength	33.3	4.8	8.2	7.7	41.0	0.5334	10
8	Shareholders' interest become the centerpiece of corporate governance policy formulation and implementation	30.8	5.4	15.7	8.6	33.7	0.5472	8
9	Audit and remuneration sub-committees become totally and truly independent.	26.7	8.3	26.2	6.2	25.8	0.5670	7
10	Improved international investment in Nigerian manufacturing sector	24.8	38.4	20.4	12.8	3.6	0.7360	4

Source: Field Survey, 2011

Table 7 shows the responses of the research participants to prospects of effective corporate governance in diverse sectors of the Nigerian economy. From the table, it can be seen that the most prevalent prospect as identified by the respondents is "Elimination of financial scandals and corporate failures" with an RSI value of 0.7744. Other important prospects as identified by the respondents are "Improved investors' confidence in the Nigerian manufacturing sector", "Excellent relationship between the board, the management and the shareholders leading to increased productivity" and "Improved international investment in Nigerian manufacturing sector" with RSI values of 0.7712, 0.744 and 0.736 respectively.

DISCUSSION

In Nigeria, corporate governance is mainly applied to banks and other financial institutions given the corporate failures earlier experienced. However, the merits observable in corporate governance practices could be of immense usefulness to manufacturing industries given their developmental roles in developing economies like Nigeria. Consequently, this study is targeted at exploring the prospects and challenges of corporate governance in Nigeria using Oyo state which used to be the hub of manufacturing industries in southwestern Nigeria as the case study.

Therefore, research question 1 was targeted at identifying the key corporate governance issues recently raised in diverse sectors of Nigerian economy. Many of such issues were presented to the respondents who are mainly management and staff members of manufacturing industries in Oyo state to determine the key ones. This was done by asking the respondents to select those that they considered as the key issues. The result of the analysis of the responses produced to this research question showed that such key issues include the fact that “There is lack of thorough selection, evaluation and replacement of CEOs”, “In Nigeria, too much power is concentrated on the Chief Executive Officer (CEO) who, more often than not are also the chairmen of the Boards of Directors.”, “Lack of checks and balances compromise directors ability to make independent decision on the behalf of the shareholders” and “There is lack of law enforcement capacity to implement the corporate governance codes of conduct in Nigeria.”. These issues have also been stressed by other researchers. For instance the findings is in agreement with those of Quadri (2010) who reiterated that there is lack of law enforcement capacity to implement the corporate governance codes of conduct in Nigeria, and lack of thorough selection, evaluation and replacement of CEOs. He also found 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 shenanigans. Oyejide and Soyebo, (2001) also found that 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. They further reported that too much power is concentrated on the Chief Executive Officer (CEO), and the CEOs, who more often than not, are also the Chairmen of the boards of directors. This lack of checks and balances compromise the ability to make independent decisions on behalf of the shareholders. Also Adeyemi (2010) and CBN (2006) attributed the much touted poor corporate governance culture to executive duality, ineffective board oversight functions and weak internal control.

On the other hand, Oghojafor, Olayemi, Okonji and Okolie (2010) found in an empirical study that poor corporate governance culture precipitated the current Nigerian banking sector crisis and that supervisory laxity has significantly contributed to the present banking crisis. However, it should be noted as Kajola (2008) pointed out that apart from operating the firm in an effective and ethical manner, another salient duty of the CEO is to establish an effective system of internal controls to give reasonable assurance that the firm’s books and records are accurate, its assets safeguarded and applicable laws complied with. Wilson (2006), however recommended the need to separate the roles of the CEO and the board chairman and prescription of non-executive and executive directors in boards as key highlights of the SEC and CBN codes.

Different firms in the study area adopted selected corporate governance provisions to different extents, resulting in different firms developing its own corporate governance cultures and traditions. Therefore, research question 2 was posed to explore the ethical and corporate governance cultures of selected manufacturing firms in Oyo state. The result shows that the most popular ethical/corporate governance guidelines adopted in the companies is the fact that companies always get feedback from customers, that organizations have their own ethical and corporate governance codes and that the companies have formal values and supporting standards of behaviour that are consistent with its mission strategy, operating policies and performance objectives. They also claimed to possess compliance with the best practices in the organizations. It can be seen that these cultures are not central (core) codes of ethical and corporate governance practices. In fact they confirmed that core practices like holding the CEO responsible for progress of the company or lack of it is not a popular corporate governance practice. These findings are in agreement with other researches carried out in this area. For instance Wilson (2006) stressed that prior to the introduction of the new code of corporate governance by the CBN there were existence of disparate codes of corporate governance and even the one that was so introduced was mainly for banks and even then could not be said to be sufficient in itself or in combination with other existing codes to address issues of corporate governance that will inevitably arise later. Okpara (2006) also stated that corporate governance culture in Nigeria is generally weak. He further argued in agreement with Oyebode and Soyebo (2001) that some board directors are able to get away with not being independent and consequently could not be held responsible for the success or other wise of their companies because the law mandates that they have political connections.

The managerial hegemony theory of corporate governance emphasizes the role of the management structure in productivity and effectiveness of the company. In fact, it advocates that boards of directors are just statutory additions which are dominated by the management; boards play only a passive role in strategy or directing the corporation (Okpara, 2006). Consequently, research question 3 was posed to find out if the companies' management structure would have any effect on their level of productivity. Four different management structure described by Business Process and Re-engineering (2010) for manufacturing industry were employed as the framework for categorizing the companies into management structures. The result shows that none of the companies under study adopted the self-management structure such that their level of productivity could not be compared. However, it appears that the more complex their management structure the more productive the companies appear to be. For instance the only company that adopted the "Task" management structure appears to be highly productive; in the remaining 2 categories of management structure the number of companies with increased productivity increased from the "Directive" management structure to the "Role" management structure and conversely the number of companies with low and very low levels of productivity decreases from the "Directive" management structure to the "Role" management structure. It follows that the companies with role management structure akin to the application of corporate governance were most productive. This may be in agreement with the Ultimate Business Dictionary (2003) as it defines corporate governance as the managerial control of an organization, which can reduce the risk of fraud, improve company performance, leadership, and demonstrate social responsibility. To confirm this a research hypothesis was tested to see if a significant difference will be produced in companies' productivity across the management structures under study. The results indicated that there is a significant difference in the levels of productivity of the company on the basis of their management structure in agreement with the findings of Wintrobe and Breton (1986) who gave the reason for this to include the fact that it is effective organization which makes possible, and ineffective organization which impedes, the rapid accumulation of capital inputs, the successful adaptation to newer technology, and the efficient use of labour.

To answer research question 5, the respondents were asked to identify the challenges to effective corporate governance in Nigeria out of a list of common challenges known to confront corporate governance. The result of this section shows that the most popular challenges as identified by the respondent is the culture of corruption that has permeated the society. Other important challenges identified by the respondents are the recent collapse of the Nigerian stock exchange market, failure of directors as a monitoring device to minimizing agency problems and auditors and audit committees are always ready to cover up corrupt practices for kick-backs and retention of engagement of big clients. It can be seen that all these are still akin to the culture of corruption on the society. These are in agreement with research findings of Quadri (2010) who stressed that in spite of 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. He further claimed that the 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. Okpara (2006) in agreement with this study asserted that in Nigeria, an independent board of directors remains a challenge, not only for the government but also for those with whom such enterprises contract because of shortage of skills and lack of familiarity with board functions and fiduciary responsibilities. He argued that although one of the major laws regulating business conduct and operations in Nigeria is the CAMD (1990), the problem of supervision and enforcement of such laws and processes still remains a major issue hindering effective implementation of corporate governance. He also pointed out that many board members lack the requisite skills and competencies to effectively contribute to leadership of modern corporations. 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.

The importance of reporting unethical practices is an important aspect of implementing codes of corporate governance. In fact the Code of Corporate Governance established by the CBN (2006) provided in section 6.1.12 mandates banks for an example to establish 'whistle blowing' procedures that encourage (including by assurance of confidentiality) all stakeholders (staff, customers, suppliers, applicants etc.) to report any unethical activity/breach of the corporate governance code using, among others, a special email or hotline to both the bank and the CBN. Consequently, the manufacturing industries were explored for the existence of framework for reporting unethical practices. The results indicated that most of the companies have code of conduct or policy statement regarding dealing with suppliers, consultant and customers and that the policies and procedures in the company enable employees to report matters to an independent party, the management anonymously and without fear of retribution or punishment. Also they mostly claimed that the company has a G.S.M. number or other means that employees can use to report suspected illegal acts or fraud on a confidential basis.

The control measures put in place to ensure that all expenditures are properly authorized in the companies under study was also explored in research question four and the study found that most of the companies possess controls to ensure the accuracy of financial information held within to ensure all assets are properly safeguarded; to ensure all transactions are processed accurately, completely on a timely basis, and to ensure all income is banked intact. These are in agreement with internal standards required for corporate governance as enumerated by Nmehielle and Nwauche (2004) as essential audit requirements. They also argued that all these and other accounting and reporting policies of the company must be in accordance with legal requirements and ethical practices.

To achieve the fourth objective, the respondents were asked to identify the challenges to effective corporate governance in Nigeria out of a list of common challenges known to confront corporate governance. The result of this section shows that the most popular challenges as identified by the respondent is the culture of corruption that has permeated the society. Other important challenges identified by the respondents are the recent collapse of the Nigerian stock exchange market, failure of directors as a monitoring device to minimizing agency problems and auditors and audit committees are always ready to cover up corrupt practices for kick-backs and retention of engagement of big clients. It can be seen that all these are still akin to the culture of corruption on the society. These are in agreement with research findings of Quadri (2010) who stressed that in spite of 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. He further claimed that the 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. Okpara (2006) in agreement with this study asserted that in Nigeria, an independent board of directors remains a challenge, not only for the government but also for those with whom such enterprises contract because of shortage of skills and lack of familiarity with board functions and fiduciary responsibilities. He argued that although one of the major laws regulating business conduct and operations in Nigeria is the CAMD (1990), the problem of supervision and enforcement of such laws and processes still remains a major issue hindering effective implementation of corporate governance. He also pointed out that many board members lack the requisite skills and competencies to effectively contribute to leadership of modern corporations. 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.

Concerning prospects, the study found that if the proper cultures of corporate governance is entrenched in manufacturing industries in Oyo state, financial and corporate failures can be easily eradicated, there would be improved investors' confidence in the Nigerian manufacturing sector, excellent relationship between the board, the management and the shareholders leading to increased productivity and improved international investment in Nigerian manufacturing sector. This is in agreement with the findings of Ofo (2010), Rose (2010) and Quadri (2010)

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