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Impact of Globalisation on Corporate Governance in Developing Economies: A Theoretical Approach

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

JEL Classification: G38

Keywords: Globalization, Corporate, Governance, Stakeholder and Benchmark

1. Introduction

> *"The sea brought Greeks the vine from Indian, from Greece transmitted the use of grain across the sea, from Phoenicia imported letters as a memorial against forgetfulness, thus preventing the greater mankind from vineless, grainless, and unlettered."* (Piutarch, 100 A.D as cited by Lynn, 2003)

This phenomenon suitably describes the implication of globalization, the process through which international trade, investment and immigration have all grown rapidly over the past two decades.

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 results 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 in Africa, interest in corporate governance, as part of the vast package of the needed economic reforms is growing. Toward this end, a historic Pan-African Consultative Forum on Corporate Governance, with about 34 African nations represented, was held in Johannesburg to lay foundation for continent-wide corporate governance reform.

Given the forgoing, this paper proposes to critically examine and/or analyse:

i. Conceptualisation of globalisation and corporate governance in developing economies
ii. The Organisation for Economic Cooperation and Development (OECD)'s principles of corporate governance
iii. Effect of globalisation on corporate governance in Nigeria
iv. Corporate governance regulatory framework in Nigeria
v. Assessment of the quality of corporate governance in Nigeria.

Given these objectives, the challenge of this paper is focused on the impact of globalization on corporate governance, or in other words, the globalization of corporate governance in developing economies. To this end, the paper is organized into five sections. Following this introduction is section II, conceptual clarification on globalisation and corporate governance, as well as the multi-jurisdictional dimension of corporate governance in developing economies. Section III discusses the OECD's principles of corporate governance. Section IV presents the effect of globalisation on corporate regulatory framework in Nigeria, and the rating of Nigeria in corporate governance among other economies. Section V summarizes the findings and gives some policy recommendations.

2. Conceptualisation of Globalisation and Corporate Governance; and the Multi-Jurisdictional Dimension of Corporate Governance in Developing Economies

2.1 Conceptualising Globalisation and Corporate Governance

Many scholars around the world have been expressing different view concerning globalisation 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 its presume negative impact. Hence, globalisation 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;

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

2.2 Multi-Jurisdictional Dimension of Corporate Governance

Corporate governance practices vary across nations and individual companies. This variety reflects not only distinct societal values, but also different ownership structures, business circumstances, and competitive conditions.

In developed countries, the discussion on how to improve corporate governance, according to Gregory (2000), tends to assume that the following are in place:

- Well-developed and well-regulated securities markets
- Laws that recognize shareholders as the legitimate owners of the corporation and require the equitable treatment of minority and foreign shareholders.
- Enforcement mechanisms through which these shareholders rights can be protected.
- Strong corporate disclosure requirement.
- Securities, corporate, and bankruptcy laws that enable corporations to transform and even to fail.
- Anticorruption laws to prevent bribery and protections against fraud on investors.
- Sophisticated courts and regulators.
- Experienced accounting and auditing sector, etc.

However, many developing and emerging market nations have not yet fully developed the legal and regulatory system enforcement capacities and private sector institutions required supporting effective corporate governance. Therefore, corporate governance reform effort in these countries tends to focus on the fundamental framework, which includes:

i. A change in culture and laws against bribery and corruption as accepted ways of doing business.
ii. The creation of systems of registering share ownership.
iii. The enactment of laws for basic minority shareholder protection from potential self dealing by corporate insiders and controlling shareholders.
iv. The improvement of audit and accounting standards, and;
v. Education and empowerment of a financial plan.

3. The Organisation for Economic Cooperation and Development Principles of Corporate Governance

The Organisation for Economic Cooperation and Development (OECD)'s Business Sector Advisory Group on corporate governance details four core governance standards necessary to attract private capital:

i. Fairness: Protect shareholders right, including the rights of minority and foreign shareholders.
ii. Transparency: Require timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate performance, and corporate ownership.
iii. Accountability: Clarify governance roles and responsibilities, and ensure that managerial and shareholder interests and aligned and monitored by board of directors.

iv. Responsibility: Ensure corporate compliance with the other laws and regulations that reflect the respective society's value.

The OECD principles of corporate governance issued in 1999 expanded the four core standards into five board and non-binding principles:

i. Protect shareholders' rights.

ii. Ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

iii. Recognise the rights of stakeholders, as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

iv. Ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.

v. Ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

The OECD's principles of corporate governance have gained the status of an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. The principles have formed a basis for corporate governance initiatives in both OECD and non-OECD countries. The observance of this basic principles of corporate governance is very important in shaping investment decisions as corporations seek to increase shareholders' wealth and remain competitive, good corporate governance behaviour is a key element (Maimako, 2010).

4. Effect of Globalisation on Corporate Governance Nigeria

The interconnection of sovereign nations through trade, capital flows, and harmonization of the economic rules, brought about by globalization encourages the presence of giant public corporations with subsidiaries and off-shoots in various countries. Nigeria is very much affected by the influence of the multinational and transnational corporations which are major players in her economy. They include nearly all major global oil and gas companies like Shell, ExxonMobil, Chevron, Texaco, Total, Agip and other multinational corporations like Unilever, Paterson and Zochonis (PZ Cussons), Nestle, and Cadbury. The corporate governance structure and practices of these companies must meet a minimum standard wherever the companies operate, which dictate the need for certain measure of uniformity and consistency in corporate governance strategies and rules all over the globe.

Liberalization is a major plank of globalization; hence the liberalization of capital markets has made foreign capital more accessible and attractive in some cases to the corporation. According to Onyema (2012), the Nigerian capital market in 2011 was driven by the activities of foreign investors, who accounted for 70 percent of the total market activities. Accessibility of foreign capital sometime entails the adoption of practices that the foreign investors bring. For instance, some foreign investors, particularly American investors, demands for improved disclosure of financial results, and reforms to improve the independence of the Board of Directors (Jacob, 2007).

The Nigerian banking sector has also experienced the impact of globalization, in the aspect of corporate governance. For instance, the Central Bank of Nigeria's recapitalization policy, which led to consolidation of banks, through mergers & acquisitions; the introduction of new products &

services; change of top management teams; and consistent training of staff on industry's best practices are all issues bothering on Corporate Governance (Aanuoluwapo, 2009).

Globalisation has been found to affect most sectors in developing economies like Nigeria, resulting in the benchmarking of processes across firms and industries, particularly in the formulation of corporate governance regulatory framework and rating of countries corporate governance performance.

4.1 Corporate Governance Regulatory Framework in Nigeria

In line with the new wave of issuing corporate governance-specific codes and standards, the United Nations gave the guidance on good practices in corporate governance disclosure. Both the guidelines on corporate governance issued in September 1999 by the Basel Committee under the Bank for International Settlements (BIS) and in particular the OECD Principles of Corporate Governance have become widely accepted as benchmarks for measuring good corporate governance (Nwadioke, 2009). Although a survey by the Securities and Exchange Commission (SEC) showed that corporate governance is at a rudimentary stage in Nigeria, however, Nigeria's SEC in 2003 released the Code of Best Practices for Public Companies in Nigeria. The Central Bank of Nigeria also issued the Code of Corporate Governance for Banks in Nigeria post-Consolidation. Other principal/legislations/codes in Nigeria designed to promote good governance include:

i. The Companies and Allied Matters Act No. 46 of 1991 (CAMA), which is the main legislation governing mandatory corporate governance standards among companies
ii. Investment and Securities Act No. 45 of 1997 (ISA)
iii. Banks and Other Financial Institutions Act No. 24 of 1991 (BOFIA)
iv. Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act No. 18 of 1994.
v. Insurance Act No. 2 of 1997
vi. The National Insurance Commission Act No.1 of 1997
vii. The Nigerian Accounting Standards Board Act No. 22 of 2003
viii. Code of Best Practices on corporate governance in Nigeria
ix. International Standards of auditing
x. CBN Code of corporate governance for banks in Nigeria post consolidation

4.2 Rating of Nigerian Corporate Governance among Other Economies

Based on this principle, the OECD and other international organizations assess and rate the corporate governance performance of countries.

4.2.1 Investment Risk Assessment

Nigeria's political and institutional shortcoming has constituted critical risk factors that worsen the investment climate in Nigeria. The banking crisis has stemmed from governance inadequacy whereas heavy administrative procedures impede the decision process concerning strategic investment (Coface, 2008).

According to Coface in its corporate climate rating assessment aimed at measuring the quality of the governance in a given country and more specifically the financial transparency of companies and efficiency of the court system for settling debt issues, Nigeria is rated D, which indicate a country speculated to have high risk profile and very bad payment record as shown in Table 1 below:

Table 1. Coface Credit Rating of Countries, 2008

Country	Grade	Country	Grade
Canada	A1	Cameroon	B
Australia	A1	Egypt	B
U.S.A	A1	Indonesia	B
Chile	A2	Turkey	B
Korea	A2	Ukraine	C
Thailand	A3	Congo	C
China	A3	Argentina	C
Mexico	A3	Iran	D
Indian	A3	Venezuela	D
Tunisia	A4	**Nigeria**	**D**
Algeria	A4		

Sources: Coface report, 2008.

Where:

A1 – Steady economic and political situation

A2 – Weak default probability

A3 – Adverse circumstances may lead to worsened payment record

A4 – Patchy payment record could be worsened by adverse economic/political development

B – Unsteady economic and political environment

C – Bad payment

D – High risk profile and very bad payment record

The global perception of Nigeria as an investment and credit risk country, discourages potential foreign investors from involving in a long term projects in Nigeria, and makes it difficult for the local entrepreneurs to have access to foreign capital needed for investment towards improving the economy.

4.2.2 Corruption Perception Index

One of the indications of bad corporate governance is corruption, which economically, Ayodele, et al. (2010) describe as embrace elements of: fraud, forgery, embezzlement, extortion and bribery. Corruption has been persistent in most economic sectors in many developing countries, especially Nigeria, which shows a weak corporate governance in the country. According to the Transparency International report from 2002 to 2009, as quoted by Saheed and Alofun (2010), the corruption perception index which relates to the perception of the degree of corruption as seen by business people and corporate analysts, and ranges between ten (10) for highly clean countries, and zero (0) for highly corrupt countries, Nigeria was rated the second most corrupt nation in the world as at 2002 with index of 1.6, which improved to 2.5 and ranked 130 out of 180 countries surveyed in 2009, and descended to index of 2.4 in 2011 when it ranked 143th out of 183 countries as shown in Table 2 below:

Table 2. Worldwide Corruption Index and ranking of Nigeria, 2002-2011

Year	Index (x/10)	Rank	No. of Countries
2002	1.6	101	102
2003	1.4	132	133
2004	1.6	144	145
2005	1.9	152	158
2006	2.2	142	163
2007	2.2	147	179
2008	2.7	121	180
2009	2.5	113	180
2010	2.4	134	178
2011	2.4	143	183

Source: Transparency International

A recent study by the OECD alluded to the significant impact of failures and weakness in corporate governance on the global financial crisis. The study was categorical that failures and weakness in corporate governance arrangement encouraged risk taking in number of the failed companies, especially where many of them have lacked board oversight and robust risk management, while the remuneration of boards and senior management remains a thorn issue.

These reasons were recently alluded by the Central Bank of Nigeria when it dismissed the management of some Nigerian banks as a result of excessively high level of non-performing loans in five banks which was attributed to poor corporate governance practices, lax credit administration process and the absence or non-adherence to the banks' credit risk management practices.

5. Summary and Policy 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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