NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF BUSINESS AND HUMAN RESOURCE

COURSE CODE:BHM 781

COURSE TITLE:CORPORATE SOCIAL RESPONSIBILITIES
AND GOVERNANCE

COURSE GUIDE

BHM781
CORPORATE SOCIAL RESPONSIBILITIES AND GOVERNANCE

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Introduction

BHM781: Corporate Social Responsibilities and Governance is a first semester year one, two credit and 600 level core course. It will be available for all students offering PGD in Corporate Governance, Human Resources Management, and Local Government Administration.

This course will expose you to understanding of many of the concepts and theories in Corporate Governance as they affect business organisations in Nigeria. It will assist you to be able to apply these concepts and theories to the task and roles that you perform as an entrepreneur, business manager, top management executive in the corporate business setting.

The course consists of 15 units, which include course guide, definition, philosophy and nature of corporate social responsibility, corporate governance, brief historical trends in corporate governance, terminologies in the context of corporate social responsibility, parties to corporate governance, ethics and role of directors/board and company secretary in corporate governance, the stewardship model, the stakeholder theory, emerging political issues theory, the power perspective of corporate governance, the political model, cybernetic control perspective, cultural perspective of corporate governance, the finance model, and other issues in corporate governance.

This course guide tells you briefly what the course is about, what course materials you will be using and how you can work your way through these materials. It suggests some general guidelines for the amount of time you are likely to spend on each unit of the course in order to complete it successfully.

It also gives you some guidance on your tutor-marked assignments, which will be made available in the assignment files. There are regular tutorial classes that are linked to the course. You are advised to attend these sessions.

What You will Learn in This Course

BHM781: Corporate Social Responsibility and Governance to introduce you to various techniques, guides, principles, practices, etc. relating to corporate social responsibility in the governance in business organisations.

Course Aim

The aim of the course can be summarised as follows:

This course aims to give you an understanding of the meaning of corporate governance, theories and issues, what they are and how they can be applied in everyday business activities. It also aims to help you develop skills in the corporate business management. You can also apply the principles to your job as business managers, top management of corporate organisations in both the private and public enterprises. All these will be achieved by aiming to:

1.0 introduce you to definition, philosophy and nature of corporate social responsibility and governance;
2.0 introduce you to theories and models or perspectives in the context of corporate governance;
3.0 introduce you to parties and stakeholders in corporate governance;
4.0 introduce you to the roles of management, board of directors and company secretary in corporate governance.

Course Objectives

To achieve the aims set out, the course sets overall objectives. Each unit also has specific objectives. The unit objectives are always included at the beginning of a unit; you should read them before you start working through the unit. You may want to refer to them during your study of the unit to check on your progress.

You should always look at the unit objectives after completing a unit. In doing so, you will be sue that you have followed the instructions in the unit.

Below are the wider objectives of the course as a whole. By meeting these objectives, you should have achieved the aims of the course as a whole. On successful completion of the course, you should be able to:

1.0 define the, philosophy and nature of corporate social responsibility and governance,
2.0 explain corporate governance,
3.0 outline a brief historical trends in corporate governance;
4.0 state the terminologies in the context of corporate social responsibility and governance,
5.0 list the parties to corporate governance,
6.0 delineate the ethics and roles of directors of board and company secretary in corporate governance,
7.0 describe the stewardship model and the stakeholder theory
8.0 describe the emerging political issues theory,

9.0 explain the power perspective of corporate governance,
10.0 describe the political model,
11.0 explain the cybernetic control perspective,
12.0 explain the cultural perspective of corporate governance
13.0 describe the finance model and
14.0 list other issues in corporate governance.

Working through this Course

To complete this course, you are required to read the study units, read set books and read other materials provided by the National Open University of Nigeria (NOUN). Each unit contains self-assessment exercises, and at a point in the course, you are required to submit assignments for assessment purposes. At the end of the course, is a final examination. The course should take you about 16 – 17 weeks in total to complete.

Below you will find listed all the components of the course, what you have to do, and how you should allocate your time to each unit in order to complete the course successfully on time.

Below are the lists of all the components of the course:

Course Materials

Major components of the course are:

5.0 Course Guide
6.0 Study Units
7.0 References
8.0 Assignment
9.0 Presentation Schedule

Study Units

The study units in this course are as follows:

Module 1

Unit 1 Definition, Philosophy and Nature of Corporate Social Responsibility and Governance
Unit 2 Essence of Corporate Governance
Unit 3 Brief Historical Trends in Corporate Governance
Unit 4 Terminologies in Corporate Governance
Unit 5 Parties to Corporate Governance

Module 2

Unit 1 Ethics and Roles of Board of Directors and Company Secretary in Corporate Governance
Unit 2 The Stewardship Model in Corporate Governance
Unit 3 The Stakeholder Theory in Corporate Governance
Unit 4 Emerging Political Issues Theory
Unit 5 The Power Perspective of Corporate Governance

Module 3

Unit 1 The Political Model of Corporate Governance
Unit 2 Cybernetic Control Perspective in Corporate Governance
Unit 3 Cultural Perspective of Corporate Governance
Unit 4 The Finance Model of Corporate Governance
Unit 5 Other Issues in Corporate Governance

The first two units explain the important terms, concepts and meanings, theories and related issues in respect of corporate social responsibility and governance. The next three units give insight on historical trends, terminologies in context of corporate governance, parties to corporate governance.

The next unit explains the ethics and roles of directors of board and company secretary in corporate governance.

This is followed by seven other units, which tend to describe the different views on corporate governance and other issues related to corporate governance in Nigeria.

Assignment Files

There are fifteen assignments in this course. The fifteen-course assignment which cover all the topics in the course material are there to guide you to have proper understanding and grasp of the course.

Presentation Schedule

The presentation schedule included in your course materials gives you the important dates for this year for the completion of tutor-marked assignments and attending tutorials. Remember, you are required to submit all your assignments by the due date. You should guard against falling behind in your work.

Assessment

There are three aspects to the assessment of the course: first are self-assessment exercises, second, are the tutor-marked assignments; and third, there is a written examination.

In tackling the assignments, you are advised to be sincere in attempting the exercises; you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignment File. The work you submit to your tutor for assessment will count for 50% of your total Course mark.

At the end of the course, you will need to sit for a final written examination of ‘three hours’ duration. This examination will also count for 50% of your total course mark.

Tutor-Marked Assignment (TMAs)

There are nine tutor-marked assignments in this course. You only need to submit five of the eight assignments. You are encouraged, however, to submit all eight assignments in which case the highest five of the eight marks will be counted. Each assignment counts 10% towards your total course mark.

Assignment questions for the units in this course are contained in the *Assignment File. You will be able to complete your assignment from* the information and materials contained in your reading, references and study units. However, it is desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

When you have completed each assignment, send it together with a TMA (tutor marked assignment) form, to your tutor. Make sure that each assignment reaches your tutor on or before the deadline given in the Presentation Schedule and Assignment File. If for any reason, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Extensions will not be granted after the due date unless there are exceptional circumstances.

Final Examination and Grading

The final examination for BHM781 will be of three hours' duration and have a value of 50% of the total course grade. The examination will consist of questions, which reflect the types of self-testing, practice exercise and tutor-marked problems you have previously encountered. All areas of the course will be assessed.

Spend the time between finishing the last unit and sitting for the examination to revise the entire course work. You might find it useful to review the self-tests, tutor-marked assignments and comments on them before the examination. The final examination covers information from all parts of the course.

Course Marking Scheme

Total Course Marking Scheme

ASSESSMENT	MARKS
Assignment 1 – 9	Nine assignments, best six marks of the nine count @ 5% each = 30% of course marks
Final Examination	70% of overall course marks
Total	**100% of course marks**

Course Overview

This table brings together the units, the number of weeks you should take to complete them and the assignments that follow them.

Unit	Title of Work	Weeks Activity	Assessment (end of unit)
	Course Guide		
	Module 1		
1	Definition, Philosophy and Nature of Corporate Social Responsibility and Governance	1	Assignment 1
2	Corporate governance	1	Assignment 2
3	Brief Historical Trends in Corporate Governance	1	
4	Terminologies in the Context of Corporate Social Responsibility and Governance	1	Assignment 3
5	Parties to Corporate Governance	1	Assignment 4
	Module 2		
1	Ethics and Roles of Directors	1	

	Board and Company Secretary in Corporate Governance		
2	The Stewardship Model	1	
3	The Stakeholder Theory	1	Assignment 5
4	Emerging Political Issues Theory	1	
5	The Power Perspective of Corporate Governance	1	Assignment 6
Module 3			
1	The Political Model	1	
2	Cybernetic Control Perspective	1	Assignment 7
3	Cultural Perspective of Corporate Governance	1	Assignment 8
4	The Finance Model	1	
5	Other Issues in Corporate Governance	1	Assignment 9
	Revision	1	
	Total		

How to Get the Most from this Course

In distance learning, the study units replace the university lecturer. This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as reading the lecture that a lecturer might set you some reading to do, the study unit will tell you when to read your other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from a Reading Section of some other sources.

Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1.0 Read this course guide thoroughly.

2.0 Organise a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

3.0 Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

4.0 Turn to unit 1 and read the introduction and the objectives for the unit.

5.0 Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.

6.0 Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to read sections from your other sources. Use the unit to guide your reading.

7.0 Well before the relevant due date, check your Assignment File and make sure you attend to the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments not later than the due date.

8.0 Review of the objectives for each study unit confirms that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.

9.0 When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule.

10.0 When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.

11.0 After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).

Facilitators/Tutors and Tutorials

There are 17 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the names and phone numbers of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter and provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary.

Contact your tutor if:

10.0 You do not understand any part of the study units or the assigned readings.
11.0 You have difficulty with the self-test or exercise.
12.0 You have a question or problem with an assignment with your tutor's comment on an assignment or with the grading of an assignment.

You should try your best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participating in discussions actively.

Summary

As earlier stated above, this course BHM 781: Corporate Social Responsibility, relates to corporate governance in business organisations.

It makes comparative analysis of the corporate governance in Nigeria with those around the world for better understanding of the practices and principles of governing business organisations.

We hope you enjoy your acquaintances with the National Open University of Nigeria (NOUN). We wish you every success in the future.

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MODULE 1

UNIT 1 DEFINITION, PHILOSOPHY AND NATURE OF CORPORATE SOCIAL RESPONSIBILITY AND GOVERNANCE

CONTENTS

1.0 INTRODUCTION

Under this unit, you will be provided with the general background information about the course by introducing you to the definitions, philosophy and nature or contents of corporate social responsibility.

Corporate organisations have, as a matter of fact, been told that they are better positioned for greater achievement of goals if they embrace Corporate Social Responsibility (CSR) in truth and indeed in the face of the recent developments. The concept has, attracted much attention of all stakeholders with regard to corporate governance and the accompany fallouts bothering on gains and losses as well as ethical issues in corporate governance. Corporate social responsibility as a concept has therefore graduated to the status of being listed among the essential items of organisational study in the fora such as conferences, seminars, workshops, in-house and outdoor training courses. Professional bodies and tertiary institutions have equally given deserved consideration to corporate social responsibility in their study curricula.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define corporate social responsibility
- describe the philosophy, aims and objectives of corporate social responsibility
- explain the nature and content of organisational social responsibility
- list the parties to corporate social responsibility
- explain the concepts as social responsiveness, social responsibility and organisational and corporate culture

3.0 MAIN CONTENT

3.1 Definition of Social Responsibility and Corporate Social Responsibility

3.1.1 Social Responsibility

Social responsibility is a critical consideration for a company's strategic decision makers since the mission statement must express how the company intends to contribute to the societies that sustain it. A firm needs to set social responsibility aspirations for itself, just as it does in other areas of corporate performance. Social responsibility is simply defined as an obligation beyond what is required by the law and economics, for a firm to pursue long-term goals that is good for the society.

The success of social responsibility in terms of goal achievement in this respect is premised on the spirit of social responsiveness which is the capacity of a firm to adapt to changing societal conditions. The concept of social responsibility is also connected to the idea of social obligation which is the commitment of a business to meet its economic and legal responsibilities. Social responsibility has, in recent years, been described as a counterpart to ethics. It is the company's attempt to balance its commitments to its investors and to its employees, its customers, other businesses, and the community or communities in which it operates. For example, housing scheme, donations to other social organisations and institutions in all respects constitute social responsibility.

Equally related to corporate social responsibility is the concept of corporate culture as a key component in the achievement of an organisation's mission, and strategies, the improvement of organisational effectiveness and the management of change. It constitutes an intangible yet ever present theme that provides meaning, direction, and the basis for action. Precisely, corporate culture is the pattern of shared beliefs, attitudes, assumptions and values which shape the way people act and interact and strongly influence the way that things get done.

3.1.2 Corporate Social Responsibility

Corporate social responsibility has been conceptualised in various ways by different writers; but all such definitions have common denominations and zero in on common goal(s) as far as the relationship between business organisations and the society is concerned.

In general, corporate social responsibility could be described as the disposition of organisations (especially the profit-oriented types) to exhibit a missionary rather than a mercenary attitude towards the society or environment in which they operate. Corporate Social Responsibility (CRS) has to do with the idea that business has a duty to serve society as well as the financial interest of stakeholders. It has to do with the company's aim to earn society's trust and to work to achieve sustainable corporate growth and increased value.

The definition of social responsibility of business organisation could be analysed and based on the following for proper understanding:

a. the expectations of the organisation in question, not just of those of its managers
b. based on the core function of organisation
c. to ensure the continued existence of the organisation through the provision of profit without which the social obligations or responsibilities may not be properly met

3.2 Philosophy and Nature of Corporate Social Responsibility

3.2.1 Philosophy of Corporate Social Responsibility

The idea or thinking of corporate social responsibility is based on the fact that business organisations owe it as a duty to give back parts of its profits to the society which constitutes the environment in which it is situated to carry out its operation in form of support for the well-being of such community. It has been witnessed that some business companies are almost inordinate in their ambition to maximise profits to the neglect of the community where they operate. Some of those companies' operations have even resulted in degradation and pollution of such communities, and in some cases, shown less than concerned expected.

3.2.2 Nature of Corporate Social Responsibility

The need for companies to undertake activity that might be regarded as socially responsible has been widely discussed in the literature and has been a topic of academic study for decades. It has to do with the inevitable nature of mutual relationships between business, society and government. Some authorities (authors) have identified that the primary role of business is to produce goods and services that the society wants and needs. However, there is interdependence between business and the society in the need for a stable environment with an educated (informed) workforce. It is an obvious fact that business can only contribute meaningfully to a society if it is efficient, profitable and socially responsible. Thus, it has been advanced that the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities.

3.3 Aims and Objectives of Corporate Social Responsibility

There have been great needs for managers to embrace socially acceptable behaviours in the conduct of the business activities of their organisations to avoid likely unpleasant reactions from within and unfavourable responses from the communities in which businesses are located. Such embrace among others will facilitate:

a. company's right to exist and to develop good processes to become responsive to the external environment
b. attraction of favour from government and its regulatory agencies by meeting changing social standards thereby allowing good terrain for smooth operations
c. enlisting cooperation of internal and external stakeholders thereby engendering stability and good grounds for peak performance
d. earn society's trust

Observation and Remarks

It has been observed that in spite of the relevance of and the need for corporate social responsibility as a concept and practice to be embraced by all in the study and operation of business outfits, we can still find some organisations and individual managers who are deviant to the spirit and letters of this all-important requisite to organisational well-being.

It is important to note that business organisations, which embrace the idea and practice of corporate social responsibility, have a lot to gain while those who are (perhaps stubbornly/cleverly) deviant will continue to suffer their losses in various spheres.

SELF ASSESSMENT EXERCISE

What do you understand by the phrase ‘corporate social responsibility’?

4.0 CONCLUSION

In this unit, you must have become familiar with important issues and concepts relating to the focus and needs for corporate social responsibility. By now, you should be able to use the knowledge gained so far to understand the need for considering accepting the fundamentals of the concept of good positioning of business organisations for effective and efficient operations for the overall benefits of its stakeholders through good relationship with the society.

5.0 SUMMARY

The main concept and sub-concepts relating to corporate social responsibility and governance have been dealt with. The philosophy and nature of corporate social responsibility as well as its aims and objectives have been given cursory explanation; all in a bid to wet your appetite for wider knowledge on the subject matter to which the next unit will be devoted.

6.0 TUTOR-MARKED ASSIGNMENT

In which ways is corporate social responsibility related to such concepts as organisational culture and corporate social responsiveness?

7.0 REFERENCES/FURTHER READING

Imoisili, I.C. (1985). Corporate Social Responsibilities: Concept and *Scope. Journal of the Institute of Personnel Management of* Nigeria. PERMAN Vol. 12 No. 1.

Peace, John A. II and Richard B. Robinson, Jr. (2003). (eds.). Strategic *Management . (Irwin), New York: McGraw-Hills/Irwin.*

UNIT 2 ESSENCE OF CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

In this unit, efforts will be made to elicit what is meant by corporate governance by giving a panorama of its definitions. The concept for long has gained attentions from both private and public socio-political and economic spheres of human endeavour with its ubiquitous nature. Our main concern in this unit will be how it has been conceptualised, its relevance and effects on business organisations.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain what is meant by corporate governance
- state the relevance of corporate governance
- assess the effect(s) of corporate governance on business organizations.

3.0 MAIN CONTENT

3.1 Definition of Corporate Governance

In its simplest meaning, the word governance comes from the verb govern which is to control or influence something or somebody or how something happens, functions etc. The word somebody or something in this regard could be people, country or company while the word governance, as the noun means activity of governing a country or controlling a company or an organisation. It is a way in which a country is governed or a company or institution is controlled.

On more general grounds, corporate governance describes all the influences affecting the institutional processes, including those of appointing the controllers and/or regulators, involved in organising the production and sales of goods and services. Described in this manner, corporate governance includes all types of firms whether they are incorporated under civil law or not.

Corporate governance is the set of processes, customs, laws, policies and institutions affecting the way a corporation is directed, administered or controlled. It also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

The major stakeholders are the shareholders, management and the board of directors. Other stakeholders include the employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

Corporate governance encompasses accountability and the culture of an organisation as reflected in its line of business, global operational network, decision making processes, leadership style, authority and approach to accomplishment (or not) of tasks.

Corporate governance is a multi-faceted subject. It is an internal system encompassing policies, processes, and people that serve the needs of shareholders and other stakeholders by directing and controlling managers or management activities with good business knowledge, understanding, objectivity, integrity and accountability. It could also be described as the process by which corporations are made responsive to the rights and wishes of stakeholders. It is the relationship among various participants in determining the direction and performance of corporations.

3.2 The Essence and Impact of Corporate Governance on Business Organisations

Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporations and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between internal and corporate funds in the management of a company. In essence, corporate governance is viewed as ethics and moral duty.

The positive effect of good corporate governance on different stakeholders has strengthening effects on the economy, and thus become a tool for socio-economic development. Thus, good corporate governance has become a necessity for sustainable development. The economic health of a nation depends on how sound and ethical businesses are. It is gaining grounds and attracting more attentions of all stakeholders in the world of business. Among the effects of good corporate governance are:

a. organisation's engagement in activities that attract and ensure trust and confidence from the shareholders
b. adaptation of accountability and democratic mode of operation
c. imbibing good corporate culture
d. organisational social responsiveness
e. better handling of corporate issues including social responsibility and/or obligations
f. mutual relationships between business organisations and their host communities and other communities

SELF ASSESSMENT EXERCISE

Explain in details how you would prefer that the corporate governance as a concept be described.

4.0 CONCLUSION

Considering the content of this unit, it can arguably be concluded that corporate governance is an essential tool for which the essence of business organisation could realise its goals of meeting the purpose for which it has been established. As an essential aspect of organisational activities or culture, its good practice requires that all hands (of the stakeholders) must be on deck to nurture it to fruition.

5.0 SUMMARY

In this unit, we have discussed the meaning of corporate governance. We have also briefly touched on its contents and impacts.

6.0 TUTOR-MARKED ASSIGNMENT

Give an elaborate definition of corporate governance and state its positive effects on business organisations.

7.0 REFERENCES/FURTHER READING

AIMA (1995). Corporate Governance. Sydney, Australia: Australia Investment Manager's Association.

American Law Institute (1992). Principles of Corporate Governance, Analysis and Recommendations: Proposed Final Draft (March 21). The Institute Philadelphia, P.A.

http://en.wikipedia.org/wiki/corporategovernance (27th June, 2008)

UNIT 3 BRIEF HISTORICAL TRENDS IN CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

In this unit, we will be talking briefly on the historical trends on background of corporate governance and the rise of the institutional investors and its accompanying issues such as the need for diligence.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

- outline the history of corporate governance
- discuss the issue of institutional investors and the need for professional skills and diligence as regards corporate governance.

3.0 MAIN CONTENT

3.1 Historical Trends in Corporate Governance

Relatively, and arguably too, the idea and issues of corporate governance could be described as a recent phenomenon. The concept was not given much attention until around 19th century. Hitherto, the issue of managing corporations was being handled on individual basis rather than corporate strategic system of administration.

With the coming up of state (government) corporation laws in the 19th century, the rights of corporate boards to govern or administer their organisations with little or no reference to shareholders' consent became enhanced. There was no room for the rights of the shareholders to appraise the activities of the board for efficiency in the handling of the corporations. The erosion of individual owners' and shareholders engendered concerns from various spheres. The concerns of shareholders over administration pay and stock losses from time to time simply led to intense calls for corporate governance and necessary reforms.

The 20th century brought with it changes in the role of Modern Corporation in the society. Such changes started and continued to have profound influence on the conception of corporate governance in different fora. The need for corporate governance as a possible strategy to make private business and even public corporations more democratic, responsive, responsible, efficient and effective has been given rightful positions in scholarly debates today. The trends have been on the notion of transaction of costs into the understanding of why business firms are founded and how they should behave or how their affairs should be conducted.

Towards the second half of the 20th century the emergence of agency theory for understanding of corporate governance came as the firm had been perceived as a series of contracts. The development that started in the United States of America and spread to other parts of the world after the World War II gave rise to managerial class. There was the emergence of multinational corporations while many large corporations had and have dominant control over business affairs without sufficient accountability or monitoring by their board of directors.

Essentially, since the late 1970's, the concept and issues of corporate governance has become the subject of significant debates in the United States of America and all over the world. Thus, bold and broad efforts to reform corporate governance have been driven partly by the needs and desires of the shareholders to exercise their rights of ownership and to increase the value of their shares as well as their corporate wealth.

As could be observed today, the duties of corporate directors have expanded far beyond their traditional legal responsibility of loyalty to the corporation and the shareowners. Tremendous attention is being drawn to it through mass media, boards are now better informed, empowered to monitor, control and direct corporations or companies chief executives. There is now the institutionalisation of shareholders, even to the point of forming associations to enhance their relevance, rights and power with their great involvement in the governance of their companies.

The development in the first half of the 1990's became very favourable to these trends whereas areas such as in the countries of the eastern world had financial crisis in their economies in the 1977 onwards. By the end of the 1990's, because of lack of corporate governance mechanism, there were weaknesses in the institutional structures and in their economies.

In this millennium, a lot of misfortunes have befallen many economies of the world, East or West, and even Africa; a situation that has largely led to increased shareholder and governmental interest on the need for embracing corporate governance and its tenets. This has been with a view to engendering the promotion of democratic participation, proper direction and control, resolution of ethical issues, accountability, responsiveness and social responsibility in relation to the overall organisation's internal and external interactions.

4.0 CONCLUSION

As earlier mentioned at the beginning of this unit, corporate governance we say, is a relatively recent phenomenon. In spite of that, its impact has remained tremendous in the administration of corporations. In order to realise the overall corporate and individual goals, efficiency, effectiveness, accountability, proper direction and control should be the watch words of the institutions and their stakeholders. Going about narrating the historical antecedent of corporate governance is a prerequisite to its effective discussion as such exercise will facilitate good understanding of the discourse.

5.0 SUMMARY

In this unit, we have done the narration of how the concept of corporate governance came into being and the impetus given to its development and the attention it has attracted over the periods of time especially as from the 19th century. We have seen that its popularity has remained a function of economic necessity and realities of the nations of the world which have made the issue of reforms of corporate governance strategy for good organisational behaviour imperative.

6.0 TUTOR-MARKED ASSIGNMENT

Present the chronological trends in the evolution of corporate governance with regard to business organisations as you understand it to be.

7.0 REFERENCES/FURTHER READING

Clarke, Thomas (ed.). (2004). Theories of Corporate Governance: The *Philosophical Foundations of Corporate Governance. London &* New York: Routledge.

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UNIT 4 TERMINOLOGIES IN CORPORATE GOVERNANCE

CONTENTS

13.0 INTRODUCTION

Talking about theories in the context of corporate governance is suggestive of presence of concepts whose assemblage gives rise to theories. The various terminologies as they apply to corporate governance also constitute the phenomena relating to organisations. In most cases, concepts and terminologies are taken to mean same or similar thing and therefore used interchangeably in the literature. The individuals in persons, things and processes involved in or connected with corporate governance. Our understanding of the meanings of the two words 'concept and terminology' will ease understanding of what theory is.

14.0 OBJECTIVES

At the end of this unit, you should be able to:

- define concept and terminologies in corporate governance
- explain the importance of terminologies in corporate governance
- describe the roles of each party and the interrelatedness thereof

15.0 MAIN CONTENT

3.1 Definition of Concepts and Terminology

Concept simply means a generalised idea about people, objects or processes that are related to one another, and the ways of classifying things that are similar. The term concept is also described as an idea or principle that is connected with something e.g. the concept of social class, corporate governance, civilisation, equal opportunity, egalitarian society etc.

Terminology on the other hand is the set of technical words or expressions being used in a particular subject or discipline e.g. medical or engineering terminology, legal terminology. It is a word used with particular meaning. Every discipline, subject, course of study, occupation, profession and vocation has its own concepts and terminologies usually employed as working tools being used by the people within for putting across messages and information.

3.2 List of Terminologies in Corporate Governance

There is no doubt that ambiguity exists or is likely to exist in the meaning of key words being used in corporate governance discourse and practice. To be familiar with such words or terminologies and for learners to attach meaning as they relate to corporate governance, endeavour, it has become necessary to list them while some of them are explained for good understanding. The list, though not exhaustive include or contain words such as:

Control, direct, manage, management, regulate, govern, governance, self-regulation, cybernetics, self-governance, stakeholders, shareholders, corporate conduct, strategic stakeholders, strategic management, board, directors, chairman, chief executive officer (CEO), compound board, corporate culture, investors, parent company, statutory auditors, firm, finance, institutions, ownership, stewardship, transaction costs, corporations, agency etc.

3.3 Definitions of Some Terminologies in the context of Corporate Governance

Control – any process in which a person or group of persons or organisation of persons determines (intentionally affects) what another person or group or organisation will do. It is used in the sense of meeting standard of performance. It means a person or a group possesses power and authority to determine what actions are taken.

Stakeholders – are described as those groups without whose support the organisation would cease to exist. They are also defined as strategic stakeholders dealing with strategic issues concerning the ability of a firm to exist and function.

Compound Board – is the existence of two or more control centres whether or not they are required by law, the constitution of the firm or one created by relationships external to the firm.

Management – is defined as a subset of governance processes involving executive actions. Shareholders are those who own the corporation, firm, company or business organisation in terms of finance or capital or equity who expects returns on their financial investments.

SELF ASSESSMENT EXERCISE

With your knowledge of our discussion under this unit, create a comprehensive list of terminologies as used within the discourse of corporate governance and find appropriate definitions for them.

16.0 CONCLUSION

As words and terminologies are the tools of thinking, there is need for them to be clearly defined and identified to provide a basis for clear communication and rigorous analysis. This is necessary as a result of the relevance of terminologies to the facilitation of good understanding of discussions of related issues involved in corporate governance.

As a course of study, corporate governance deserves to have its own set of operating concepts, terminologies and theories with which the stakeholders, especially those involved in management functions, need to make other stakeholders become familiar with these sets of terminologies, concepts and frameworks cannot be overemphasised as understanding them will go a long way to reducing ambiguity, misconception, confusion and conflicts among general stakeholders.

17.0 SUMMARY

In this unit, we have dealt with the essence of concepts and terminologies in corporate governance as discipline or course of study, and an endeavour which is entitled to its own set of operating words as used by those involved in its principles and practices. Brief definitions of concepts and terminologies have been dealt with while such operative terminologies within corporate governance have been enlisted to wet the appetite of learners to make more lists of such related terminologies and to provide definitions to them.

18.0 TUTOR-MARKED ASSIGNMENT

What do you understand by the word terminology, and how is it relevant to corporate governance?

19.0 REFERENCES/FURTHER READING

Analytica (1992). Board of Directors and Corporate Governance: *Trends in the G7 Countries over the next Ten Years. England:* Oxford Analytica Limited.

Shann, Turnbull (1997). Corporate Governance: Its Scope, Concerns *and Theories. Sydney NSW, Australia: Graduate School of* Management, Macquarie University.

UNIT 5 PARTIES TO CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

The word corporate connotes involving or shared by all the members of a group; it implies group concern rather than single individual. Whatever involves group is indicative of the fact that parties that are various and/or different exist. The differences border on interests, roles, responsibilities and other patterns of behaviour including rights, obligations span of control and directives. The word corporate gives rise to the concept of corporation which is a network of relationships. The network of relationship concerns other sub-concepts such as roles, duties, functions etc.

The parties involved in corporate governance essentially include the regulatory body, example of which are the chief executive officer, the board of directors, management and shareholders. Other parties equally involved in the governance of business corporations are the suppliers, employees and their unions (associations), creditors, customers, the state (government) and the community at large. The network involvement also implies that the governance of corporate bodies has structural arrangement to earn it the status or title of organisational and/or institutional governance.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the concept of corporate governance
- describe the roles of the stakeholders in corporate governance.

3.0 MAIN CONTENT

3.1 Comments on Feature of Corporate Governance

The economies of the world may though have similar goals of improving and supporting better standard of living of people, their strategies are apparently not the same. The mode of existence, operation and development are, to a very large extent, contextual so much so that each country follows specific pattern of political system which in turn gives rise to the feature and structure of the system of its economic institutions and their administration or governance.

There is usually a complexity of features which is the diversity of governance systems and processes around the globe. Thus, forms of corporate governance are shaped nationally by their economic, political and legal (constitutional) backgrounds, sources of finance, and by the history and culture of the countries under reference.

3.2 Itemising Parties to Influence Corporate Governance

On a general note, the parties in corporate governance are the individuals, corporations and the society. These could however be further distilled as itemised below:

a. Chief executive
b. Board of directors
c. Management
d. Shareholders (individuals and organisations)

Further classification into the issue of stakeholders in corporate governance leads us to internal and external influences which can affect the operations of publicly traded firms. Specifically, the external influences come from either the private or public sector. Those to be considered under the private sector include: customers, competitors, shareholders, employees, unions, suppliers, bankers and financiers, auditors, stock exchange rules, professional associations, trade associations, directors and advisers or consultants. While those under the public are: trade practices, anti-monopoly, securities, labour and equal opportunity, arbitration or industrial courts, fair trading, credit and bankruptcy, corporate, federal/state and local tax regimes, health and safety compensation or reward system, environmental, quality, building and community.

3.3 Cursory Look at the Roles of Some of the Stakeholders in Corporate Governance

This section will be devoted to explain the roles of some of the stakeholders in corporate governance for your further understanding:

Shareholders: Usually, the shareholder delegates decision rights to the manager to act in the principal's best interests. This may lead to a loss of managerial control by the shareholder. Hence, a system of control by shareholder is in-built in the corporate governance mechanism to align the incentives of managers with those of the shareholders.

Board of Directors: It often plays a key role in corporate governance. It is its responsibility to endorse the organisation's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organisation to its owners and authorities.

Secretaries and Administrators: As already mentioned, all parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organisation. Directors, workers and shareholders receive salaries, benefits and reputation, while shareholders receive capital return. Customers and larger community get goods and services, suppliers receive compensation for their goods and services. In return, these individual stakeholders/parties provide value in form of natural, human, social and other form of capitals. The state (government) usually provides terrain in terms of statutes, infrastructures and policy guidelines, on which the establishment, development, operation and progress of organisations are based. In fact, the system or nature of corporate governance takes its bearing from the state economic policy and socio-political dictate of the period.

A key factor in parties' decision to participate in an organisation e.g. through providing financial capital and trust that they will receive a fair share of the company's returns. Fair treatment attracts participation while unfair treatment or bad governance discourages effective participation that may lead to organisational collapse.

4.0 CONCLUSION

The consideration of the issues in this unit cannot be overstressed. The concept of corporation, its operations, and governance rest on the effective participation of these stakeholders. Hence, emphasis should always be placed on how the parties fare as regard corporate governance to serve as beam light on trends of organisational dos and don'ts to enhance sustainable organisational wellbeing.

5.0 SUMMARY

This unit has acquainted you with the features of corporate governance and itemisation of parties influencing corporate governance. The various sources of influence affecting operations of publicly traded or quoted firms have been enumerated as well as the roles of some of the major stakeholders and the rewards accruable to participants.

6.0 TUTOR-MARKED ASSIGNMENT

What do you understand by the phrase ‘Parties to corporate governance’? Give a concise account of the roles of parties in the administration of corporations.

7.0 REFERENCES/FURTHER READING

Holton, Glynn A. (2006). Investor Suffrage Movement, Financial Analysts Journal.

Corporate Governance International Journal (2003). A Board Culture of *Corporate Governance, Vol. 6 Issue 3.*

MODULE 2

UNIT 1 ETHICS AND ROLE OF BOARD OF DIRECTORS AND COMPANY SECRETARY IN CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

Ethical issues are of paramount importance in human conduct and interaction either as individual or in group situation. This is because they border on the rules and modes of conducts that help to enhance rational and objective ways of doing things in such a manner that reduces neglect and facilitate satisfaction of parties in terms of resources allocation and reward system implementation.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

- define the ethic
- describe ethics as a concept
- describe the issues that ethic borders on.

3.0 MAIN CONTENT

3.1 Definition/Description of Ethics

Ethic is generally taken to mean the moral principles that control or influence a person's behaviour. It is a body of moral principles or rules of behaviour. It has to do with what is right as opposed to what is wrong. What is ethical is what is morally correct or acceptable. It borders on standard setting to serve as a yardstick for measurement of behaviour/conduct, things and situations.

We can talk of ethics in relation to business and professions hence the phrase 'business ethics' and 'professional ethics'. Under these concepts, codes of ethics outlining principles and standards of personal conduct for their member are established for such profession and business. It should be noted that without such ethics, or where there is, but either not committed or adhered to, then decadence and all manners of misrule, corruption and sharp practices become prevalent in place of transparency, accountability, responsive governance and socially responsible organisational behaviour.

For our specific purpose, business or managerial ethics refer to standards of conduct and moral judgement being used by managers or organisations in carrying out their business. Under this, the actions, roles and duties of managers, board of directors and employees and in their interactions within and relationship with other stakeholders outside the organisation and the community at large are guided. Business or managerial ethics deals with fundamental human relationships – how people within organisations think and their behaviour towards others and how they want others to think towards them. Hence, ethical ideas are present in societies, organisations and individual persons although vary greatly from one situation/organisations to another.

The need for government bureaucracies to intercede as corporate regulators usually arise because those adversely affected by a firm may not have the information, power and will to correct the problem. Stakeholders' participation are not sufficiently wide to reflect the concern of the host society, some government interventions will still be required. Stakeholders' participation may also be required in government bureaucracies to allow policies to be mediated to suit local conditions and performance standards established and evaluated by those affected. Laws differ from nation to nation, but all have laws on industrial spying, restraint of trade, working conditions, payment of bribes, the rights of workers, and so forth. Even the incorporation of business organisations is through the statutory regulations as enacted by government. Such incorporation spells out in the articles of association or registration, name, address, ownership, composition of stakeholders and their roles, span of activities including relationships thereof including financial matters and a host of others.

3.2 Roles of Board of Directors and Company Secretary

3.2.1 The Board of Directors

A body of individuals charged with top management decision-making process and responsible for policy formulation on issues bordering guidelines as to how an organisation's day-to-day activities are to be carried out. Principal organs here are the chief executive officer (CEO) and his immediate subordinate managers and other relevant stakeholders whose status fit into this conceptual frame of reference.

The directors and management see to the development of a model of governance that aligns the value of the corporate participants and then evaluate such model periodically for its effectiveness. Senior executives should conduct themselves honestly and ethically, especially on actual and apparent conflict of interests and disclosure in financial reports.

3.2.2 Company Secretary

The role of a Secretary in a business organisation covers some administrative and legal secretarial duties. Meetings are covered and minutes produced through the secretarial seat/office. Legal issues are handled on behalf of the company both internally and outdoor. The company secretary's office represents the organisation in the law courts as the situations demand. It is part of the duties of the company secretary to see that the organisation's business ethics is adhered to at all times to enhance responsiveness, accountability, transparency, honesty, trustworthiness, integrity, performance orientation, responsibility, mutual respect and commitment to the organisation.

4.0 CONCLUSION

The concern about ethics is underscored by its relevance and importance with regards to its functionality in business organisations in relation to issues such as guides on code of conducts of people within organisations and in their relationship with the outside communities. Such issues include fairness, diligence, integrity, honesty, trustworthiness, openness, responsibility, accountability, mutual respect and commitment to organisation's cause. The role of stakeholders such as the directors, the management team and the company's secretary are so crucial that their mention is a necessity in the concept and practice of corporate governance. Emphasis on ethics borders on issues such as the vulnerability of small firms to unethical behaviours. These unethical acts include bribe, tampering with firm' funds, etc.

In addition, there are four views of ethics thus:

Utilitarian view – meaning decisions made solely on the basis of their outcomes on consequences

Rights views – decisions concerning respect and protection of basic rights of individuals

Theory of justice view – decision makers seeking to impose and enforce rules fairly and impartially

Integrative social view – means that decision be based on empirical (what is) and normative (what should be) factors.

5.0 SUMMARY

In this unit been we were to deal with some topics relating to corporate governance such as ethics and its areas of coverage. The role of some stakeholders, especially the board of directors and the company secretary, have been treated, all of which we believe you must by now have become acquainted with.

6.0 TUTOR-MARKED ASSIGNMENT

Explain in full what the word 'ethics' means and state four ways it can be viewed.

7.0 REFERENCES/FURTHER READING

Otunba, Ayodele Oladunni (1998). Issues in Corporate and Human *Resources Management in the Oil Industry: A Collection of Essays. Lagos: Publishing Resources Nigeria Limited.*

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UNIT 2 THE STEWARDSHIP MODEL IN CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

To gain additional knowledge about the explanations of the goings on in the field of corporate governance, the examination of the stewardship scheme of reference is a necessity. Hence, our discussion of stewardship under this unit to further our horizon about the various systems of corporate governance and the accompanying issues and the resultant problems crying for solutions through amendments.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain what is meant by stewardship in terms of corporate governance
- discuss the content of stewardship model
- list the problems that may result from the adoption of stewardship method of governing corporations among other things.

3.0 MAIN CONTENT

3.1 The Relevance of Stewardship Model

According to the stewardship model, managers are good stewards (servants/organisations) of their employing corporations and diligently work to attain high levels of corporate profit and shareholders' returns on their investments. Under this theory, there is the assumption of opportunism towards a self-fulfilling behaviour but with increase in the sanctions and incentives imposed to curtail it. This is more appropriate to firms that have no independent directors. This situation applies to firms where all members are either executives or shareholders.

Here, each firm or each group of firms in the system is controlled by three or more boards/councils or control centres. This control centres introduce a division of power with checks and balances. The principle of the company as obtained in Japan is that a man may place his employer before family and gives individual managers the inclination to act as selfless stewards which may be culturally contingent.

3.2 Problem of Stewardship Model

One major problem associated with corporate governance rooted in stewardship theory is the possibility of common voluntary resignation of executives when a firm is disgraced and instances of suicides. The institutional context may cause individual inclination to start acting as stewards or self-seeking agents.

SELF ASSESSMENT EXERCISE

What are the problems and/or difficulties observable in the stewardship model?

4.0 CONCLUSION

This unit's discussion derives from the fact that there are incentives and appropriate sanctions to serve as strategy for checks and balances in corporate governance. The practice of governance of firms under this scheme is different and better than what obtains in the finance model which precludes shareholders or boards from necessary information for monitoring and supervision to prevent expropriation and mismanagement.

5.0 SUMMARY

In this unit we have dealt with the conceptual description of the stewardship theory; the main import and the problems associated with the model.

6.0 TUTOR-MARKED ASSIGNMENT

What is the contribution of stewardship theory to corporate governance?

7.0 REFERENCES/FURTHER READING

Analytica (1992). Board of Directors and Corporate Governance: *Trends in the G7 Countries over the next Ten Years. England:* Oxford Analytica Limited.

AIMA (1995). Corporate Governance. Sydney, Australia: Australian Investment Managers' Association.

UNIT 3 THE STAKEHOLDER THEORY OF CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

There is no doubt the fact that there are numerous schemes of reference being employed by writers and researchers in the corporate governance studies. It is a fact that a single theory cannot, in anyway, adequately explain strategies and/or methods of explaining the processes of governance of corporations. This position becomes more relevant as differences and variations in culture, nature of industry, and ownership etc. abound. Hence, the need for the discussion of stakeholder theory as the subject under this unit.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

- explain the meaning of the phrase – stakeholder model
- state the main purpose of the firm
- distinguish the interdependent relationship between firm and its environment.

3.0 MAIN CONTENT

3.1 Definition of Stakeholder Model and the Main Purpose of Firm

Stakeholder's theory presupposes that the firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. Following from the standpoint of the stakeholder theory, the purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services. This tenet has been re-echoed by some authorities that the goals of directors and management should be maximising total wealth creation by the firm.

The key to achieving the above is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical specialised inputs, (firm specific human capital) and align them. This is the main tenet of the stakeholder theory.

In compliance with the import of the viewpoint therefore, there should be encouragement of long-term employee ownership and board representation by significant customers, financial advisers, employees and community representatives in corporation governance (i.e. relationship investors). All these will facilitate business alliances, trade related networks and strategic associations as obtained in continental Europe and Japan but not yet in Anglo-American economies.

Under this model, the interdependence between a firm and its strategic stakeholders is recognised and should be encouraged whereby the modern corporation by its nature creates interdependence with a variety of groups with whom the corporation has a legitimate concern, such as employee, customers, suppliers, and members of the communities in which the corporations operate. The control of the firm likewise shared between investors and stakeholders through multiple boards, to remove conflicts of interest and so agency costs in a manner similar to the situation in continental Europe.

4.0 CONCLUSION

The need for stakeholder model cannot be overemphasised, considering the fact that there could not be single universal scheme of reference in the spectrum of processes involved in the governance of corporations. The relevance of this model, hinges on the benefits in the areas of interdependence of stakeholders within and without. The principle has a way of enhancing good relationships between the firm and the host community, which culminate in improvement in the financial strength of the corporation and the facilitation of span of control.

5.0 SUMMARY

Our discussion has taken us through the description of the stakeholders, the purpose of the firm and interdependence of the firm and the host community and the accruing benefits derivable from the principles of the model.

6.0 TUTOR-MARKED ASSIGNMENT

State all you can to justify your support for the choice of stakeholder theory in corporate governance.

7.0 REFERENCES/FURTHER READING

Turnbull, S. (1997). Corporate Governance: Its Scopes, Concerns and *Theories. Graduate School of Management, Sydney, Macquarie* University.

UNIT 4 EMERGING POLITICAL ISSUES THEORY

CONTENTS

1.0 INTRODUCTION

In search of ways of establishing the best scheme of reference for corporate governance for better corporation's performance, there comes the emerging political issues model which emerged as a universal or expanded ownership of administering business firms. The discussion of this model and its related issues is the concern of this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the concepts of universal ownership and expanded ownership
- discuss some emerging issues associated with the model in relation to corporate governance
- state the benefits derivable from the model.

3.0 MAIN CONTENT

3.1 The Emerging Political Issues Theory

The emerging political issues theory presupposes the apparent growing spread and size of employee ownership, in both private and publicly traded firms. This situation precludes concentration of issues of governance of corporations in the few hands, especially the institutional intermediaries, in any democracy. The principles of this model negate and discourage such power concentrations. This prevention will enhance participation from employees and commitment.

3.2 Benefits of the Model

The emerging political issues model attracts a lot of benefits to the system of corporate governance in view of its principles. Such benefits include the following:

a. promotion of universal share ownership
b. enhancement of the growing and spread of employee ownership participation in private and publicly traded companies
c. discouragement of power concentration within corporate governance in few hands of institutional agents
d. give room for introduction of tax and other incentives performance improvement through individual universal stakeholders through increased ownership participation and control based on the concept of expanded ownership
e. increasing operating advantages and a basis for improving corporate self-governance.

SELF ASSESSMENT EXERCISE

Briefly describe what you understand by “emerging political issues”?

4.0 CONCLUSION

The import of the emerging political issues model is more than being obvious in view of the numerous advantages it attracts to the system of corporate governance enumerated above. It is a model whose principles support greater participation of shareholders in the control of the issues involved in corporate governance. Under the model, power and resource concentration is discouraged to a reasonable extent.

5.0 SUMMARY

The discussion in this unit include the definition of the emerging political issues model, the benefits of the model to the whole issues of corporate governance have been given a cursory examination.

6.0 TUTOR-MARKED ASSIGNMENT

State all the advantages derivable from the adoption of the emerging political issues model of corporate governance.

7.0 REFERENCES/FURTHER READING

American Law Institute (1992). Principles of Corporate Governance: *Analysis and Recommendations. Philadelphia P.A.: The Institute.*

UNIT 5 THE POWER PERSPECTIVE OF CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

Power as the ability to control people or things or political control of an area or organisation, is very important in governance without which an individual may not act and/or perform as expected even if he or she possesses the knowledge, skill and will, all of which are necessary but not sufficient conditions. It is essential that will and power should be available to all shareholders and/or stakeholders to function well.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the meaning of 'power' as a concept
- state clearly what power perspective is all about

3.0 MAIN CONTENT

3.1 Definition of Power Perspective in Corporate Governance

It is the ability of individuals or groups to take action which is overriding concern. Power perspective also means the power of stakeholders to act.

3.2 The Main Substance of Power Perspective Corporate Governance

The main support of this perspective is that those who are to be involved in corporate governance as shareholder and stakeholders, board of directors should be provided with necessary power that will support the realisation of effective and efficient governance, to meet the demands of their corporations. This is imperative to back the will, as willingness without power appears to be meaningless. Hence, even when shareholders, directors, management or any other stakeholders, have the knowledge, skill, right attitude and will to act, this is of no avail unless they also possess the power to act.

The power of the shareholders to act is part of the political model of corporate governance. Thus, there should be independence and majority will and power. The power of directors to control management is dependent upon there being a sufficient number of directors who have the knowledge and the will to act to form a board majority.

Under the power perspective, there should be separation of power backed-up by the will. To facilitate this, information must appropriately be made available to actors with regards to its being timely, accurate, sufficient and yet manageable for action to take place.

SELF ASSESSMENT EXERCISE

What is power perspective?

4.0 CONCLUSION

We have been able to identify that without power the will is almost irrelevant in governance, hence power should not be neglected. There should be feedback to provide necessary information to empower board of directors and shareholders to facilitate control. Without the power to take corrective action, no action can take place.

5.0 SUMMARY

In this unit, we have dealt with the definition of the power perspective while the main assumptions have also been mentioned. The supremacy of power as being supportive to willingness cannot be overemphasised in the scheme of things relating to corporate governance. Emphasis on information or feedback is also very essential.

6.0 TUTOR-MARKED ASSIGNMENT

Demonstrate your good understanding of the power perspective issue in corporate governance.

7.0 REFERENCES/FURTHER READING

Turnbull, S. (1997). Corporate Governance, its Scope, Concerns and *Theories. Graduate School of Management, Sydney, Macquarie* University.

MODULE 3

UNIT 1 THE POLITICAL MODEL OF CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

The importance and relevance of political model, in corporate governance, is underscored by the fact that the political activities and processes within the larger environment (community), in which business corporations are located and operated from can determine, to a very large extent, the activities, growth and development of the corporations.

Things are done through government laws, governmental agencies, with statutory regulations and directives, provision of terrains and other supports for the business sector and the nation's economy. Since the corporations (micro) are subsystem of the main national economy, whatever happens in and to this main system socially, politically and economically will automatically affect or influence the micro-subsystem hence, the political fallouts of nation have direct effects or bearings on corporate governance of firms. The nature of the nation's political economy dictates the nature and mode of operation of corporations. The democratic political process of the nation and the deregulation processes have implications for the governance process and practice within business organisations.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define political model
- identify the tenet of political model.

3.0 MAIN CONTENT

3.1 Definition of Political Model of Governance

Political model of corporate governance is an approach in which active investors seek to change corporate policy by developing voting support from dispersed shareholders, rather than by simply purchasing voting power or control. It is a new form of corporate governance based on politics rather than finance which will provide a means of oversight that is both far more effective and far less expensive than some other modes of governance. The political model is concerned with the concept of watching the watchers.

3.2 The Import of Political Model

The current political model deals or focuses on contemporary issues such as propensity for market liquidity over institutional control. It also deals with the related issues of trading-off investor voice to investment exit, and institutional agents monitoring corporate agent (i.e. watching the watchers). All these issues are influenced by government laws and regulations and so subject to public policy debates for changes and reforms.

The corporate governance political model places severe limits on the traditional economic analysis of the problems of corporate governance but locates the performance – governance squarely in a broader political context. Politics here does not necessarily mean or imply a government role. It facilitates our understanding of how both economic transactions and their coordinating institutions are governed. It also shows that national income can be distributed without work or welfare by spreading the ownership directly to individuals without passing through institutional intermediaries. These statutory relations that limit the influence of corporations also limit corporate governance to the problem of coordination and control. Corporate ownership has been controlled and limited under this model.

The political model recognises that the allocation of corporate power, privileges and profits between owners, managers and other stakeholders is determined by how governments favour their various constituencies. The ability of corporate stakeholders to influence allocations between themselves at the micro level is subject to the macro framework which is interactively subjected to the influence of the corporate sector.

SELF ASSESSMENT EXERCISE

In which way would you like to describe the political model of corporate governance?

4.0 CONCLUSION

The analysis of the political model shows that corporate governance should not be based solely on economic point of view. Rather, the political framework should be given adequate consideration which implies the dominance of political arrangement and control with little or no emphasis on intermediary agents in corporate governance.

5.0 SUMMARY

In this unit, we have presented some definitions of the corporate governance political model as well as its nature. Also, the main substance of the political frame of reference and its implications in terms of power and resource allocations by placing limits on the role of institutional intermediaries were also discussed, among other things. Mention has also been made of the various benefits of the political theory which make adoption preferable to some economies of the world.

6.0 TUTOR-MARKED ASSIGNMENT

Make a very good presentation of what the main import of the political model of corporate governance represent in business organisation.

7.0 REFERENCES/FURTHER READING

Corporate Governance as down loaded from www.industryweek.com; http://www.corpgov.net/

UNIT 2 CYBERNETIC CONTROL PERSPECTIVE IN CORPORATE GOVERNANCE

CONTENTS

12.0 INTRODUCTION

The role of information in an organisation is essential and significant to the governance of corporate body, as feedback based on information flow is a prerequisite for effective and efficient corporate governance.

To this extent, examination of the relevance of cybernetic, as one of the schemes of reference in the explanation of how firms are administered, is a worthy exercise, especially in the context of our discussion of corporate governance theories and the related issues.

13.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the concept of cybernetics in the context of corporations and its governance
- identify the advantages of information flow, its management system
- analyse the whole idea of information flow, feedback syndrome and monitoring and control as panacea to corporate governance

14.0 MAIN CONTENT

3.1 Definition of Cybernetic Control System

It is a self-regulating control system that once it is put into operation, can automatically monitor the situation and take corrective action(s) when necessary. It is all about analysis in organisations which deals with their information and control system.

Cybernetic model of corporate governance is a fundamental issue in relation to the usefulness of internal information management mechanism and strategic stakeholders' structure. The self-regulating, management strategy ward off a lot of external or third party effects that may arise from independent external board which may act as oppositions that may hinder the smooth running of corporations. The management information system and the span of monitoring and control allow internal networks, teamwork, and allowances between firms to be effective and efficient. There is power arising from information transmitting system to back the board and other stakeholders' will to perform with little or no effects of the whistle blowers.

3.2 Relevance of Cybernetic Perspective in Corporate Governance

Monitoring and control are very important issues in matters relating to corporate governance effectiveness and efficiency all of which depend, to a large extent, on power upon which cybernetic analysis in turn depends.

Cybernetics is based on the mathematics of information theory, in which information is broken down into bits, which the system automatically gathers through data collection, which have been stored and processed or transmitted. The information allows measurement of activities which gives rise to monitoring and control, as an in-built system in the organisation. The emphasis in cybernetic theory is on the efficient processing of information to transaction cost which helps to reduce corporation's economic problems. The limited ability of human agents to receive, store, retrieve and process data, causes some problems in corporation. Hence, the effort to bring about the cybernetic perspective into corporate governance is essential. The theory has made it clear that the obvious imperfection in communication may slow down the rate of change.

To undertake and encourage fast and good capacity in relation to information, there is the need for a system of network which will exceed the capacity of just one system. In that wise, two or more information generating systems can be connected to solve more demanding tasks by working in teams; groups and network alliances. Cybernetic consideration or analysis cannot be ignored in understanding or designing teams, divisions, the need for one or more boards and their structure or the structure of external alliances with stakeholders.

3.3 Benefits of Cybernetic Perspective

On a general note, it provides basis for evaluating the integrity of corporate governance information channel and control systems from a number of aspects. Through cybernetic analysis, boards can obtain information from strategic stakeholders and management to avoid bias, distortion or errors. It provides room for countering any variable in organisation that may bring about matching responses i.e. using complexity to manage complexity, through law of requisite variety. The example of this is reflected in a compound board and a network of firms involvement of strategic stakeholders in the control of a firm.

The cybernetic concept is a condition precedent for self-regulation or self-governance. The advantage here is the prevention of whistle blowers, and the prevention of external environmental intervening variables as the organisation is designed to have in-built regulatory system for self-managing. Stakeholders have the will and power through possession of inside expert information. They provide ways to inform management and their monitors of any operational shortcomings. The external environmental effects, and that of an independent board, acting as opposition to internal corporation's governance, is drastically reduced if not removed altogether.

SELF ASSESSMENT EXERCISE

With the knowledge gained in the discussion under this unit, give a comprehensive definition of cybernetic model of corporate governance.

15.0 CONCLUSION

This unit considered cybernetic control perspective in corporate | governance and its, benefits as it concerns corporate organisations.

16.0 SUMMARY

In this unit, we have discussed the definition and description of cybernetic perspective, stated its analysis and benefits to strategic management which in turn give room to the empowerment of strategic stakeholders and their internal boards.

17.0 TUTOR-MARKED ASSIGNMENT

What are the main thrusts of cybernetic perspective as it relates to corporate governance?

18.0 REFERENCES/FURTHER READING

Bartol, K.M. and David, D.C. ( ). Management. New York: McGraw-Hills Inc.

Turnbull, S. (1997). Corporate Governance: Its scope, Concerns and *Theories. Graduate School of Management, Sydney Macquaire* University.

UNIT 3 CULTURAL PERSPECTIVE OF CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

There are other models of corporate governance apart from the ones that had earlier been discussed. One of such models or theories is based on culture. The importance of culture underscores the concept of context in the existence and operation of a firm. The cultural content, to a large extent, affects the forms, manners and ways a corporation is operated and more importantly, the system of its governance.

Culture contents are usually both extensive and intensive with far-reaching effects and influences on all human endeavours including complex and non-complex business corporations. Hence, the overall issues relating to business corporate bodies are largely determined or influenced by their cultural contents. Its relevance in terms of cultural influence brings us to the discussion under this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define 'culture'
- state the relevance of culture as a determinant of the context of corporate governance
- list some of the advantages of cultural model of corporate governance.

3.0 MAIN CONTENT

3.1 Definition of Culture

Culture can be broadly defined as the totality of the way of life evolved by a people in their attempts to meet the challenges of living in their environment; which gives order and meaning to their social, political, economic, aesthetic and religious norms and modes of organisations; thus distinguishing a people from their neighbours. The definition is further distilled to comprise material, institutional, philosophical and creative aspects. The institutional aspects of culture deals with the political, social, legal and economic structures erected to help achieve material objectives. From this, the business corporate bodies' nature of governance takes its bearing.

3.2 Explanation of Cultural Mode of Corporate Governance

Business transactions of firms are conducted on the basis of mutual trust and confidence sustained by stable, preferential, particularistic, mutually obligated and legally non-enforceable relationships. They may be kept together either by value, consensus or resource dependency – that is, through 'culture' and 'community'. This implies that transactions being governed by networks at the intermediate location between the micro level of the firm and the macro level of the whole economy rather than the firm only. Some corporate behaviours and relationships are based on, or influenced by cultural belief and values. While some culture believes in hierarchies others believe in alliances and networks. The system of governance of corporations is a function of their cultural milieu or context.

3.3 Advantages of Cultural Model in Corporate Governance

Because of the binding effects of culture on people with common belief, shared value and commitment to form alliances, trust and confidence are embedded which facilitate mutuality in the governance of organisations evolved and operated within such cultural context. This will enhance corporate governance commitment to employee participation and the forming of strategic alliances and interdependency backed up by cultural and spiritual beliefs. Culture provides environment devoid of threats and social adaptability and conversion of firms owned by an entrepreneur to a cooperative.

SELF ASSESSMENT EXERCISE

Present a concise definition of the word 'culture'.

4.0 CONCLUSION

In this unit, the need to integrate culture into the research and governance calculus of firm structure and performance in evaluating economic development was stated. Also, consideration should always be given to the cultural context or atmosphere of transactions within and between firms in the analysis of corporate issues and or governance.

5.0 SUMMARY

This unit has taken us through the definition of culture, its analysis in relation to the context and contents of organisation's governance as well as the benefits derivable from the model under reference.

6.0 TUTOR-MARKED ASSIGNMENT

In which ways is culture relevant to corporate governance?

7.0 REFERENCES/FURTHER READING

Oladunni, A. (1998). Issues in Corporate and Human Resources *Management in the Oil Industry: A Collection of Essays. Lagos:* Publishing Resources Nigeria Limited.

UNIT 4 THE FINANCE MODEL OF CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

Like most perspectives, finance model is one of the theoretical frames of reference for corporate governance. Its cursory look in this unit has become necessary. This is because its knowledge will further enhance our understanding of the ownership structure and power/authority relation of corporations.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- describe the concept of finance model
- explain the basic tenets of finance model of corporate governance
- state the relevance of finance model to governance of corporation
- discuss the problems associated with the finance model/agency theory.

3.0 MAIN CONTENT

3.1 Finance Model (Agency Theory)

According to the finance point of view, the central issue in corporate governance is the construction of rules and incentives that will facilitate the alignment of behaviour of managers (as agents), with the desires of the principal owners. The rules and incentives from the finance model point of view refer to those established rules by the firms themselves rather than reference to the legal/political/regulatory system and culture of the host economies or the nature of the owners.

The finance perspective represents a subsection of the political model of corporate governance. Usually, it is the nature of the owners which aggravates the problem of control in corporations, as may be found in most economies, especially in Anglo countries of the world such as the USA, UK and Australia. In each of these countries, institutional investors own the majority shares in most of the largest companies, unlike in the continental Europe and Japan.

3.2 Problems Associated with Finance Model of Corporate Governance

The problem with this system of ownership whereby institutions rather than individual persons or families dominate ownership, is that their investment managers are fiduciary agents of the beneficial owners and so, it is a matter of agents representing agents. This system further compounds the agency costs because, it is assumed (according to the agency theory), that managers will act opportunistically to further their own interests before the shareholders. The value of a firm under this finance model, arrangement cannot be maximised because, managers possess discretionary powers that allow them to expropriate value to themselves. In an ideal situation, managers would sign a complete contract that specifies exactly what they could do and profits would be allocated. But then, there is the problem of meeting contingencies under such complete contract. Hence, some rights/discretions some undefined or unanticipated decisions in the (incomplete) contracts under which debt or equity finance is distributed.

This again raises the principal's (owner's) problem and agency problem. The fundamental question is that how can publicly traded firms with such incomplete contracts with their managers, be effective and efficient in raising funds.

The agency problem is acute in cultures/economies with dispersed small minority ownership where corporations do not have a supervisory board or a relationship investor. The small minority interests' shareholders create, diverse ownership which does not encourage board supervision and monitoring to reveal and prevent expropriation or mismanagement.

In many countries, where finance model or agency theory is embraced, the law limits the shareholders' coming together to form a voting bloc to influence or change management except, through public offer to shareholders. The insider trading laws may inhibit or prohibit shareholders from obtaining necessary information, to monitor or supervise managers/management. Some managers may influence law making to protect themselves from shareholders' interventions.

SELF ASSESSMENT EXERCISE

Give reasons for your preference or otherwise of the finance model (agency theory) in the context of corporate governance.

4.0 CONCLUSION

The finance model is tailored towards the agency theory orientation whereby there is a relationship problem. The manager, as agent is given more opportunities than the principals (owners) who are seriously limited under the insider trading laws in terms of access to information. This inhibits or prevents them (the small minority diverse owners) from interventions). This situation precludes board monitoring and supervision of managers/management, to prevent expropriation and mismanagement.

5.0 SUMMARY

In this unit, we have gone through what is meant by the phrase ‘finance model’, the main import of the model. We have also discussed the tenet of the agency theory, the various problems accompanying the agency theory and the existence and effects of insider trading laws in corporate governance.

6.0 TUTOR-MARKED ASSIGNMENT

Describe and assess the relevance of the finance model in the corporate governance of business firms.

7.0 REFERENCES/FURTHER READING

Aoki, M. (1993). Japanese Capitalism: Past, Present and Future, Paper Presented to Colombia University Law School on Relationship Investing: New York: Hilton.

American Law Institute (1992). Principles of Corporate Governance: *Analysis and Recommendations (March 31). Philadelphia, P.A.:* The Institute.

UNIT 5 OTHER ISSUES IN CORPORATE GOVERNANCE

CONTENTS

1.0 INTRODUCTION

A lot has been discussed under the previous units particularly with regard to theories of corporate governance. However, such discussion can hardly be exhaustive. There are usually a lot more which further explains the manners in which corporations are run. Such other perspectives deserve to be mentioned, even if they are not going to be discussed in details here. The itemisation of such other perspectives is the subject of this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- list perspectives of corporate governance
- identify different models.

3.0 MAIN CONTENT

3.1 Itemisation of the Perspectives

Itemised below are some perspectives for your understanding of the subject matter.

3.1.1 Limited Life

Limited life firms have particular values when the business is not large enough to have its shares publicly traded. The need to periodically recapitalise the firm provides liquidity and so provides an exit opportunity for investors. It also provides a programmed exit for firms with declining business.

Also, the need to periodically establish a successor organisation allows all contractual arrangements to be re-negotiated. The bargaining power of the owners is usually reduced, just like the power of the creditors due to their dispersed nature. Re-investment by shareholders becomes difficult due to lack of confidence in management. Hence, managers are forced to provide information and cash distributions to retain investors' confidence

3.1.2 Worker Ownership and Control

These are firms controlled by workers and which have not publicly traded securities, but such firms, that can add more value to their host economy.

3.1.3 Compound Boards

This is a system where two or more boards are involved in the governance of a business outfit as may be required by law to engender efficiency in the control of the firm. One of the assumptions here is that it facilitates co-determination in decision making process.

3.1.4 Other Perspectives

Other perspectives which are of note include: information theory, networks, colonic structures, self-regulation and self-governance.

SELF ASSESSMENT EXERCISE

Make a careful choice of one of the perspectives mentioned in this unit and discuss it in detail.

4.0 CONCLUSION

In conclusion, it has become imperative to mention the perspectives as discussed under this unit to increase your horizon about the models of governing corporations.

5.0 SUMMARY

In this unit, we have discussed some additional models in corporate governance where others are only listed.

6.0 TUTOR-MARKED ASSIGNMENT

Write short notes on the following:

a. Limited life perspective
b. Workers ownership and participation
c. Compound boards

7.0 REFERENCES/FURTHER READING

Aoki, M. (1993). Japanese Capitalism: Past, Present and Future, Paper Presented to Colombia University Law School on Relationship Investing: New York: Hilton.

American Law Institute (1992). Principles of Corporate Governance: *Analysis and Recommendations, (March 31). Philadelphia, P.A.:* The Institute.