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ETHNICITY AND CORPORATE GOVERNANCE PERFORMANCE IN NIGERIA: Problems And Prospects

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ABSTRACT

A lot has been written and discussed about ethnicity and the dangers it portends on the socio-economic development of any country vis-à-vis Nigeria. These salient scholarly contributions have been on either its effects on the public or civil service as attention to that of Corporate Governance is virtually none existent. This paper therefore examined the effects of ethnicity on the Corporate Governance in Nigeria. It anchors on the Upper Echelon's Theory and consequently, revealed that corporate governance is relatively a new concept that emanated from the modern economists. The argument as was discovered, was that, ethnicity actually influences the performance of corporate governance in Nigeria but the underlying question is, - to what extent? We therefore, appraised the nexus between the variables and recommended amongst others; - that organizations should ensure that ethnic consideration is emphasized in board memberships of corporate institutions in Nigeria (i.e., comprising the major ethnic groups in Nigeria).

KEYWORDS: Ethnicity, Corporate Governance.

INTRODUCTION

The primary objective of every organization either private or public is to maximize profit and contribute her quota in the overall growth of the country's economy. To achieve this fit, the roles of the leaders of these organizations are quintessential. This is so because; a fish in the ocean, as it said cannot deny itself from the touch/feel of water. It is thus, be suffixed to conclude that organizations efficacy and the character of her leaders are quite inseparable. It is therefore, quite worrisome that writers have not taken an indebt study on the nature and structure of board membership of corporate institutions. There are numerous factors that are ought to be considered when corporate institutions are structuring their leadership especially in a multi-ethnic society in Nigeria and that involves taking note of all ethnic affiliations. The essence of this is to ensure equity and public acceptance.

Ethnicity is one major factor that if not properly checked would rather be retrogressing the economy of the nation. To this end, Jones (1997) states that "ethnicity is not a passive reflection of similarities condition in which people socialize…nor is ethnicity … produced entirely in the process of social interaction, whereby epiphenomerial cultural symbols are consciously manipulated in the pursuit of economic and political interest". This assertion exposed the weakness and strength of ethnicity in other words, it shows that its negligence would play an important role in everything we do as a nation and even dangerous to our economic growth.

Similarly, the underlying truth about ethnicity is that it is a product of self and group identity that is formed in extrinsic/ intrinsic contexts and social

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interaction which has become a regular occurrence in the day to day activities of man. The effect if not properly checked, would apparently be counterproductive to the overall goal of the organization.

The overall guidelines outlines by the code of corporate governance include board structure, board size and independent board of directors. This research however, does not probe the ethnic discrimination within the boards of directors of corporate entities in Nigeria rather; it empirically examine the influence of ethnic composition in board of directors on the performance of corporate governance in Nigeria.

In Nigeria, the excessive use of ethnicity in allocating resources, positions and contracts has left little or no empirical studies to the best of our knowledge that tries to find out the influence of ethnic consideration in board membership of public organizations in relation to the enhancement of the corporate governance performance. To fill this research gap, the study would be sectionalized into four; (1) defining the concepts of ethnicity and corporate governance, (2) discussing the influence of ethnicity on corporate governance in Nigeria, (3) Theoretical basis on which corporate governance should be run in other to ensure optimum productivity, and (4) to finally proffer relevant recommendations that would help better the performance of the corporate institutions in Nigeria.

CONCEPTUALIZING ETHINICITY

Historically, ethnicity has best been defined within the cultural anthropology, but it has been a debated topic and there is no single definition or theory of how ethnic groups are formed. According to John Hutchinson & Anthony Smith (1996), the term “ethnicity” is relatively new, first appearing in the Oxford English Dictionary in 1953, but its English origins are connected to the term “ethnic”, which has been in use since the middle ages. The true origins of “ethnic” have been traced back to Greece and the term ethnos, which was used in reference to band, tribe, race, a people, or a swarm.

Nonetheless, ethnicity is a concept that is in dares search of a definition: writers have tried to explain the origin of ethnic groups especially as it regards to Nigeria without explicitly defining the concept. Ethnicity could be seen as the practices and traditions of a racial group such as language, religion, behaviors and culture.

Timothy (2004), opined that, in recent colonial and immigrant history, the term “ethnic” falls under the dichotomy of ‘us’ and “them”. The “us”, the majority are viewed as non-ethnics and the “Them”; new immigrants are minorities, as ethnic.

This was why; Hutchinson & Smith (1996) agreed that the term has developed, to include ethnic identity, ethnic origin, ethnocentrism and ethnicism.

They defined ethnic group to consist of six main features which include:

- A common proper name, to identify and express the “essence” of the community.
- A myth of common ancestry that includes the idea of common origin in time and place and that gives an ethnic a sense of fictive kinship;
- Shared historical memories, or better, shared memories of a common past or pasts, including heroes, event and their commemoration;
- One or more elements of common culture, which need not be specified but normally, include religion, customs and language.
- A link with a homeland, not necessarily its physical occupation by the ethnic, only its symbolic attachment to the ancestral land, as with peoples and

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- A sense of solidarity on the part of at least some sections of the ethnic's population

To Duruji (2010), he sees it as cultural characteristic that connects a particular group of people to each other. He further explained that the concept is rooted in the idea of societal groups, marked especially by shared nationality, tribal affiliation, religious faith, shared language or cultural and traditional origin and background.

The above definitions acknowledges the fact that ethnicity connects a particular group of people but did not explain if these group of people are equally of the same tribe or just any group of people regardless of the non-tribes group that could as well be in existence in such environment.

According to Obioha (1999) he posits that ethnicity is the consciousness of one's ethnic group or origin which is a psycho-sociological reality that is largely universal in nature. Cohen (1969) depicts ethnicity as the strife among ethnic groups in their bid to stress their identity and excessiveness.

On the other hand, Gerald (1972), defined ethnicity as one level of social stratification or social inequality that also includes race, class, kinship, age, estate, caste and gender.

Barth (1969), & Abner (1974) viewed ethnicity as an "individualistic strategy" in which individuals move from one identity to another to "advance their personal economic and political interests or to minimize their losses". This was why Hutchinson & Smith (1996), agreed that ethnicity is society constructed and people have the ability to cut and mix from a variety of ethnic heritages and cultures to form their own individual identity. Nagel, (1995) in the same vein, subscribed that ethnicity could be by choice or ascription. This he explained that an individual could choose to be identified to an ethnic group or membership to a certain ethnic group could be imposed on him.

Undoubtedly, the Barth & Abner dispositions apparently revealed the fact that the term "ethnicity" or "ethnic affiliation" is an individual's choice of what one which to be identified with or not. Thus it can as well be effectively be used for a positive input in organizations. Nagel in his opinion laid credence to the assertion when he said that an individual could choose to be identified with a particular ethnic group.

Similarly, to Albaku (2001), ethnicity is a combination of individual choice and social imposition. On the overall, the underlying idea as it regards to this study, ethnicity is the variation of social, cultural, language, age, kinship, religious etc. identifies amongst people existing together in a defined employment setting. Gox (2011) noted that these affiliations include gender, race, national origin, age cohort, among others.

However, researchers such as (Roberson & park, 2007; Ercharadt, Werbel & Slnader, 2003; Gerto, Lester, & Dan, 2006; Carson, mostley & Boyar, 2004) have studied specifically, the impact of demographic ethnicity on top management team or boards directors and its implications on organizational performance. It was revealed that there was increased ethnic dichotomy at the top management or boards of directors which impedes efficient corporate governance in the U.S (Burk 1995). Nevertheless, for this study, a look would be taken on this to seeing how either it negatively or positively affects the Nigerian Corporate Governance ecology.

CORPORATE GOVERNANCE

This refers to the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specified

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the rules and procedures for making decisions in corporate affairs. Government provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment.

Shleifer F. Vislory (1997) defined corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investments. What this definition made distinct is the underlying idea that corporate governance focuses more on ensuring that corporation owners (be it the government or private) gets the return on their investment (i.e. profit).

Similarly, the financial times (1999), defined it as the relationship of a company to its shareholders or, more broadly, as its relationship to society. Put differently, Wolfensolm (1999) noted that corporate governance is about promoting corporate fairness, transparency and accountability.

Organization for Economic Co-operation and Development (OECD), (1999), elaborately defined the term as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

On the overall, the underlying idea about corporate governance is that it is a concept, conceived. Previous writers have wrongly perceived it to be synonymous with shareholder democracy *(www.wikipedia.com)*. We would put the definition to be not just a technique by which companies are directed and managed but also all about balancing individual, societal and economic goals by ensuring its equitable composition and structure.

CORPORATE GOVERNANCE AND ETHNICITY IN NIGERIA

Nigeria is an amalgam of rival ethnic groups pitched against each other in a contest for power and resources that have reflected in the political processes, sometimes threatening the corporate existence of the country (Duruji, 2010). This was as a result of many years of military rule in the country but the return to democracy in 1999 has enabled and suppressed the ethnic grievances in Nigeria (Ikelegbe, 2004).

Nonetheless, there has been a considerable debate in recent times concerning the need for strong corporate governance (McConomy & Bujaki, 2000) with countries around the world drawing up guidelines and code of practice to strengthen corporate governance (Cadbury, 1997, Corporate Governance Code of Nigeria, 2005). The rationale for this emphasis can be linked to increased concerns over the integrity of corporate markets (International Federation of Accountants- IFAC, 2010; Millsterin, 1999).

Effective corporate governance by boards of directors is recognized to influence the quality of corporate performance, which in turn has important impact on investor confidence (Levitt, 1998 and 2000). Beasley (1996), Dechow, et al, (1996), McMullein, (1996), all noted that good corporate governance reduces the adverse effect of management earnings as well as the likelihood of creative optimization arising from fraud or errors.

Observers and researcher are of the opinion that corporate governance is the foundation of the emerging global economy (Witherell, 2000). In the same vein, Aoki; (2000) asserted that "the structure of rights and responsibilities among parties with a stake in the firm". However, the prolificacy of corporate governance practices throughout the world is remarkable (Fligstein & Freeland, 1995). Worthy of note thus, is the fact that most studies of corporate governance are largely ethnocentric and predominant Anglo-American in nature (Sarka & Sarkar, 2000; Turnbull 1997).

Additionally, we have established ab-initio that, the synergy between corporate governance and ethnicity could either be positive or negative. The bottom line is that a clear cut disposition ought to be made on the angle in which one views it. A comparative analysis made by Williams et al (2006), revealed that several factors do influence corporate governance. This he described as; Country-level influence and the Industry-level influence (Doige, Kabolyi & Strtlz, 2004). Country –level influence are regarded as those factors that are products of state mechanism for instance, racism, government regulations, societal vices and most importantly ethnicity. Industry-level influence on the other hands, are seen as internal factors within the organization which could be the activities of the informal groups, poor welfares, undemocratized leaderships etc.

Similarly, sociologists such as Davis (2005) opined that the most efficient and effective corporate governance research seeks to understand the environmental context in which it occurs, rather than the more traditional agency or transaction cost perspective. Consequently, researchers such as Deeg & Perez (2000) noted that the institutional convergence within the European Union is contributing to the convergence of corporate governance practices there. Groenwegen (2004), speaking from an economists' viewpoint, asserted that, the institutional economics is shifting its focus from firms and individuals to institutional environment to better explain corporate governance behaviours and results.

Going down the lane, we have observed that recent literatures are of the view that emphasis on corporate are more governance shifting from what it were, to look into the environmental factors that could help corporate governance thrive better in behaviours and results. This is due to the fact that what worked in Europe may not work in Africa, thus, an in-depth look into the successes of these corporate entities in Africa vis-à-vis Nigeria becomes expedient.

Related literatures reveal that the relationship between ethnicity and corporate governance can either be positively correlated or negatively correlated. Some empirical researches indicate that ensuring ethnic balances in corporate governance results in:

- greater knowledge
- creativity and
- innovations and thus corporations tend to become more competitive (Watson et al, 1993).

Rhode & Peekel (2010) noted that ensuring ethnic consideration in the composition of boards of directors implores decision making process and financial performance. In the same vein, Rohanison & Dechant (1997) opined that ensuring ethnic consideration in firms composition of boards would help in the following;-

- to promote a better understanding of the market place.
- brings about innovation and creativity
- enhances more effective problem solving
- enhance efficient corporate leadership
- enhance more effective global relationships
- enhances bonds decision-making and monitoring.

Traditionally, in Nigeria, ethnic affiliation plays an important role in the survival of any business. Though in the code of corporate governance conduct of 2005 there is no established ground or emphasis made for the recognition of it (i.e. ethnicity), the fact however, is that it did not take away the manifestation of its impact. For instance in Nigeria, there are some companies in the East that no matter the amount of money they spend in the North, it may still not find its way in the market and vice-versa in the south-East, south-south, and south-west. The reason thus, lies in the composition of boards. If it is dominated by a particular ethnic group the other people may see it as a firm meant for such tribe and that makes it impossible for it to sell through in another tribe.

Aside from the Nigerian ecology, writers such as Carter, D' Souza, Simkins, &Simpson (2007), investigated ethnic composition of Fortune 500 board committee between 1998 and 2002; they found a positive effect of ethnicity on corporate governance performance.

THEORETICAL BASES

A very exigent theory that informed a clearer understanding of the influence of ethnicity on corporate governance within the top management that should be considered here is the Upper Echelon Theory. The theory was developed by Hambrick and Mason in 1984. It was born out of the desire to "Synthesize the previously fragmented literatures (from various fields about the characteristics of the managers) around a more general upper echelons perspective. Graid et al (2007) noted that one of the authors' objectives in espousing this theory to provide scholars a greater ability to predict and understand organizational outcome. The two subordinate ideas of this theory that have stimulated major streams of research are:

(1) A focus on the characteristics of the top management team, rather than the individual top executive will better inform understanding of organizational outcomes and

(2) Demographic profiles of executives are highly related to strategy and performances.

Additionally, there are stream of empirical evidence today that have substantiated the findings of the theory. Some research shows that ethnic affiliation consideration on boards of directors would be beneficial to organization in terms of gaining critical resources (Preffer & Salamut, 1978) and where corporate governance is concerned, benefit at strategic level are positively related to diverse top management (Eisendardt & Bougeois, 1988).

Significantly, to the study, though scholars such as Williams & O' Reilly, (1998), have argued in favour of homogenous top management. To them it would be beneficial to firm performance because heterogeneity would bring conflict and negatively affect communication at the top management. We are of the view that such claims can only be considerable in a bit less heterogeneous society. As in the case of Nigeria that has over 350 ethnic groups coupled with the nature of our religious practices ensuring the proponents of the Upper Echelons Theory is the best that can happen to us.

RECOMMENDATION

A careful study of the available literatures left us with the following recommendations.

1. Nigerian companies (the banks, oil and gas, manufacturing firms etc.) should implement a board re-composition system that would allow for board ethnic balance, (Omoye, et al, 2013).
2. Ethnicity of board composition be integrated into the Nigeria corporate governance practices in Nigeria as over dominating a board with one major tribe translate to poor organizational performance.
3. That though, one's ethnic affiliation would have its negative effect, management from

time-to-time should re-orientate them of more important reasons why they should put that aside and consider the goods of their organizations first.

4. That more research should be done in its regard that would involve large sample and data panel, which would help practitioners in a clearer understanding of the positive roles of ethnicity on corporate governance.

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