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CORPORATE GOVERNANCE: THE STAKEHOLDERS PERSPECTIVE

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ABSTRACT: *The wave of globalization and industrialization trends experienced all over the world has resulted in the emergence of large corporations as well as conglomerates. These large corporations contribute immensely to the social, economic development of their host nations. This paper explores the concept of corporate governance as well as the need for corporate governance. Also examined are the basic principles of corporate governance. The focus of this paper is on the external group of individuals (stakeholders) to the organization. This paper defines them as well as their roles in ensuring corporate governance and wealth creation for the business organization. It concludes by making recommendations on how businesses can strike a balance between achieving organizational goals and stakeholder needs.*

KEYWORDS: corporation, corporate governance, management, stakeholders.

INTRODUCTION

Over the past century, business organizations have moved from single ownership, structure and partnerships to more complex ownership and partnerships structures. This trend is expressly demonstrated by the term Corporation. A corporation simply put refers to a business organization having perpetual existence, powers and liabilities independent of its founders and members. Corporations have been seen to play a lot of significant roles in a nation's economy all over the world. This is as a result of the fact that these corporations contribute as well as invest resources – human, financial, technology etc which serve as a boot to the nation's economy where they exist.

Corporations over the years have been seen to gain strong influence in Nations by virtue of the extent of their wide spread activities and influence within nations. This thus implies that there is the need to pay detailed attention to these activities of corporations as they could potentially contribute positively or negatively to a given nation's social, political, environmental economic activities. On the other hand, governance means the establishment of a structure to enhance consistent, unified policies, processes and decision making with the sole aim of ensuring accountability.

It is therefore on this premise that the concept of corporate governance is founded. It becomes expedient that these corporate entities be made accountable for their actions and activities. Also serve to checkmate any form of excesses or tendencies that comes as a result of power and influence of the corporations' size and resources it possesses.

Sulaiman, (2003) opined that owners and managers in corporate organizations via choices made regarding ownership, and capital structure of firms as well as in the design and management of internal control processes could result in the creation or destruction of economic value. As a result, corporate governance has succeeded in attracting a lot of public interest due to its apparent importance for the economic health of corporations and society in general (Woghiren and Imade,2005). In order to enhance a proper understanding of the concept

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and significance of corporate governance, its various definitions, basic principles as well as groups of individuals who are involved in it are hereby explained.

Why corporate governance

It is necessary that we look into the importance of concept of corporate governance in order to enhance proper understanding about its relevance. Some of these reasons are outlined below:

i. Shareholders: These are the owners of the company who have entrusted the running of its affairs to management hence the interest in ensuring this privilege is not abused but utilized for the benefit of the organization.

ii. Investors: The practice of good corporate governance will attract investors as they will evaluate the current level of financial integrity and uprightness the organization in order to determine if their investments will be put to efficient use.

iii. Economies: Countries all over the world desire good corporate governance by business organizations as this in turn leads to a boost in the economy of the nation in which the business exists.

iv. Going concern: The practice of good corporate governance handles effectively the issue of bankruptcy and other forms of crisis. This is as a result of checks and balances that help curb any form of unethical behaviour.

Definitions of corporate governance

Corporate governance refers to formal systems developed by companies to ensure accountability, oversight, and control (Ferrell, Fraedrich and Ferrell, 2005).

Corporate governance is the term that describes the role of a corporation’s executive staff and board of directors in ensuring that the firm’s activities meet the goals of the firm’s stakeholders (Bateman and Snell, 2013).

Corporate governance is 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's objectives are set, and the means of attaining those objectives and monitoring performance." Organisation for Economic Co-operation and Development (OECD, April 1999).

Corporate governance is the structural system of institutional policies, implementing rules and business controls that make the framework for managing and operating inside the company (Ljubojevic and Ljubojevic, 2011).

Corporate governance includes the sets of mechanisms and processes that help ensure that companies are redirected and managed to create value for their owners while concurrently fulfilling responsibilities to other stakeholders. It is the combination of processes, structures and relationships through which corporations are directed and controlled.

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Basic principles of corporate governance

The concept of corporate governance applies to corporate businesses all over the world and there are certain principles that have become accepted as well as required to be followed (Oso & Semiu, 2012):

I. Rights and Equitable Treatment of Shareholders: This means the organization is bound to respect and uphold the fundamental rights of its shareholders as well as give freedom for the expression of their rights. Also a clear and proper interpretation should be given of their right ensuring their participation in the affairs of the corporation.

II. Interest of Stakeholders: This involves the organization clearly stating their legitimate stakeholders in their policies and incorporating them in their operations. In recognition of their legal, moral, social etc obligations which ought to be fulfilled.

III. Role and responsibility of the board of directors: Board members should be persons with the required knowledge having vast experience in handing challenges of management. The size of the board should be determined by the extent of responsibilities and duties required.

IV. Integrity and ethical behaviour: This entails being a responsible business enterprise. Guiding actions of directors and executives by established code of conduct to ensure ethical and responsible decision making.

V. Disclosure and transparency: The board and management are expected to clearly and truthfully inform shareholders information about the organization. Procedures and mechanisms should be put in place to ensure that the integrity of the organization is maintained. Some of these measures include engaging independent auditors, board members to checkmate unethical behaviour or actions within the organization.

Internal and external stakeholders

There exist various groups of individuals that play important roles as well as have an impact on corporate governance. These groups of individuals are referred to as internal and external stakeholders to the organization. These internal groups of individuals according to level of authority include:

1. Shareholders: These are the owners of the firm whose primary concern is that their investment in the firm yields maximum returns.

2. Board of directors: These are representatives appointed by the shareholders to pilot the affairs of the organization

3. Management: These are those tasked with the responsibility of running the day-to-day affairs of the organization.

The external groups of individuals include:

1. Employees: These are individuals that make up the workforce of an organization. They are the manpower resources that an organization engages in its effort to achieve its goals and objectives.

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2. Customers: These are the categories of persons who represent the reason for the existence of the business. They are those whose needs the business seeks to profitably meet.

3. Creditors: They make available finance which the organization utilizes for growth and expansion.

4. Supplier: This refers to those who make available various inputs required by the organization to ensure its smooth running.

5. Investors: These are individuals or group of individuals having capacity to invest resources in an organization. These resources could be financial, technical, manpower etc.

6. Government regulatory authorities: These are group of individuals with delegated authority from government to formulate laws and codes and also to monitor and control activities of business organizations.

7. Host community: This refers to the people and area where the corporation is situated i.e. the geographical location of the organization.

OECD (2004:46) asserts that the corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises".

Farrell et al. (2005) agrees that although a company has a responsibility to its shareholders, it is also answerable to its stakeholders with whom it interacts. They assert that owing to limited resources companies must determine its primary stakeholders and consequently creating a governance system that incorporates stakeholder welfare and corporate needs and interests. The organization can prioritize its stakeholders in order of importance with a view to decide the strategic choices in the management of these relationships. This can be achieved by recognizing and categorizing the stakeholders according to the level of power and legitimacy which they exert on the organization. Kazmi (2008) attest that the value of stakeholders to the organization can be evaluated by effect of the intensity and quality of support or opposition the particular stakeholder has on the organization.

The role of stakeholders' in corporate governance

The stakeholders though external to an organization cannot be ignored as insignificant due to the various roles they play as well as their impact on the activities of the organization. In agreement with this assertion, John and Sebet (1998) opined corporate governance as dealing with the mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management to ensure that their interests are protected. It is therefore important that organizations be acquainted with the rights of stakeholders as established by law. The organization should also engage in active co-operation with its stakeholders in creation of wealth, jobs and a financially sound enterprise.

Having established the importance of stakeholders to the corporation, it becomes necessary to portray the role they play in ensuring corporate governance. Freeman, (2008) suggests that a stakeholders' approach to corporate governance helps to provide answers to the important issue

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of priorities in relationships among stakeholders as well as how to manage these relationships. In 2009, Zollinger argued that stakeholders are characterized by their relationship with the company as well as interest, needs and concerns that arise, thus becoming the focal point of the engagement process with the organization. The author further posits that these roles include but are by no means limited to the following:

1. Experts: knowledgeable experts in diverse fields of endeavour are useful in offering strategic advice to the company's board when invited.

2. Technical advisers: This refers to individuals who possess expertise in technological and scientific developments can offer well informed advice on scientific and ethical panels on the social and environmental risks associated with such developments especially in science-related industries

3. Representatives of special interests: the review of company performance and or reporting practices can be carried out by its employees, local communities etc as they meet as stakeholders panel upon invitation.

4. Co-implementers: This situation arises when an external body for instance a Non-Governmental Organization (NGO) partner with the company to jointly provide solution to an issue or address a shared challenge.

5. Co-monitors: This situation arises when the impacted communities having entered an agreement with the company become jointly responsible for the monitoring of the company's sustainability projects.

Stakeholders' contribution to company wealth

Every corporation is ultimately in business to increase wealth for its shareholders or owners. It is therefore important that necessary attention be given to factors that have any form of influence on its achieving this goal. The stakeholders of a corporation have various roles which when utilized enhance wealth creation for the business organization as shown below:

Table 1: Instances of stakeholders' contribution to organizational success

Stakeholder group	Contributions
Investors and lenders	Capital ,equity and or debt ratio Financial market recognition (reducing borrowing costs and risks)
Employees	Development of human capital Collaborative workplace relations
Unions	Workforce stability Conflict resolution
Customers or Consumers	Brand loyalty and reputation Repeated or related purchases Collaborative design, development and problem solving
Supply chain	Network and value chain efficiencies Collaborative, cost reducing processes and technologies
Joint venture partners and alliances	Strategic resources and capabilities
Local communities	License to operate

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	Mutual support and accommodation
Government	Macroeconomic and social policies
Regulatory authorities	Validation of product or service characteristics or quality levels

SOURCE: Zollinger, P (2009). Stakeholder engagement and the board: Integrating best governance practices, Global corporate governance forum, focus 8, p22

CONCLUSION

Corporate governance is a vital issue where a corporate organization is concerned and cannot be overlooked or played down upon. This is because good corporate governance is in the interest of the organization's smooth running and profitability in the long run. The stakeholders who are external to the corporation form an important aspect knowing they exert considerable influence to the corporation. However, the corporation should determine its primary stakeholders (according to their level of power and influence they exert on the organization) so as to prioritize its level of attention on those ones of strategic importance to the organization. It is important that the organization realize that it is impossible to satisfy all stakeholders hence it is best to create a balance between meeting organizational objectives and that of its stakeholders.

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