STAKEHOLDERS’ PERCEPTIONS ON CORPORATE GOVERNANCE CONSTITUTION AND THEIR IMPLICATIONS ON BOARD PERFORMANCE

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Thesis submitted to the Othman Yeop Abdullah Graduate School of Business Universiti Utara Malaysia, in fulfillment of the Requirement for the Degree of Doctor of Philosophy.
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Abstract

This study takes steps towards developing behavioral principle-based board process as success dimension to effective board role performance. In the literature, dominant corporate governance research that centered on rule-based board structure has so far yielded conflicting and ambiguous results. These could not transform effective corporate functioning, thus inconclusive. This study also stimulates debates about the extension of corporate governance literature in the stakeholder theoretical perspective, which incorporates both shareholders and non-shareholding stakeholders, as a comprehensible preference to the traditionally dominant agency model in an attempt to offer a more inclusive approach and strengthen the existing governance structure in Nigeria. This suggests having employee representatives and creditor seats on board to participate in firm’s top decisions. The study also examines factors responsible for reported weak enforcement in relations to board performance, with the broad objective of investigating if the combination of these factors constitute effective corporate governance and explain board performance. Based on survey perceptions of 154 respondents from the Nigerian capital market sampled participants, the study employs confirmatory factor analysis (CFA) in a structural equation modeling (SEM) approach. Thus, a model that relates board process and three stakeholders constructs to board performance is proposed. Building upon board process dimensions such as cognitive conflict, effort norms, use of knowledge and skills, and groupthink; this study finds that board process is significantly related to board performance. In addition, building upon the three stakeholder constructs, this study also finds creditor participation to be significantly related to board performance. However, employee participation and regulatory enforcement show insignificant relationship with board performance. The study concludes that combination of board process and creditor participation constitutes effective corporate governance.

Keywords: corporate governance, board process, board performance, contractual stakeholders, enforcement.
Abstrak


Kata Kunci: tadbir urus korporat, proses lembaga pengarah, prestasi lembaga pengarah, pihak berkepentingan kontraktual, penguatkuasaan
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<td>AGM</td>
<td>Annual General Meeting</td>
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<tr>
<td>ANAN</td>
<td>Association of National Accountants of Nigeria</td>
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<tr>
<td>BOD</td>
<td>Board of Directors</td>
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<td>BOFIA</td>
<td>Banks and Other Financial Institutions Act</td>
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<td>CAC</td>
<td>Corporate Affairs Commission</td>
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<td>CAMA</td>
<td>Companies and Allied Matters Act</td>
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<td>Economic and Financial Crimes Commission</td>
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<td>Institute of Chartered Accountants of Nigeria</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>Nigerian Accounting Standards Board</td>
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<td>NSE</td>
<td>Nigerian Stock Exchange</td>
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<tr>
<td>OECD</td>
<td>Organization of Economic Cooperation Development</td>
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<td>SEC</td>
<td>Securities and Exchange Commission</td>
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Chapter One
Introduction

1.1 Background of the Research

In the contemporary period, large corporations have emerged because of capital market integration that necessitates separating wealth owners from the control of their firms. Hence, investors in US can own large stakes in Asian and African corporations and vice versa without having to travel to the investing environments and skilled labor can be out-sourced across borders, making the entire world a global village. In this regard, vast literature on corporate governance have been documented, with focus mainly on outside shareholder protection, thus governance rules, which had thrived for centuries, seem to continue in the realms of contemporary literature in many different perspectives.

The dominant theory in the shareholder-oriented governance is the principal-agent model, which regards the central problem of corporate governance as self-interested managerial behavior, when the agent does not share the principal’s objectives (Fama & Jensen, 1983; Shleifer & Vishny, 1997; Gupta, Otley & Young, 2008; and Rashidah & Mohammad Rizal, 2010). They affirm that, managers of corporations who influence the firm’s decisions may act selfish at the detriment of the outside investors, and it is difficult for the principal to verify their agents’ integrity, which results in agency problems. In this respect, advocates of the Anglo-American governance arrangement identify the need to provide the outside investors with adequate protection. As a result, when principals attempt to ensure that agents act in their invested interests, agency cost
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