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Corporate Governance System as Correlates of Innovativeness in Indigenous Oil Servicing Firms in Port Harcourt

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ABSTRACT
This study investigated corporate governance system as correlates of innovativeness a dimension of intrapreneurial orientation in indigenous oil servicing firms in Port Harcourt, Rivers State, Nigeria. The study adopted a cross-sectional research design. A total of 150 indigenous oil servicing firms with operational headquarters in Port Harcourt formed the sample size. The study adopted the survey approach; hence questionnaire was developed and distributed to the respondents in the 150 firms that took part in the study. The questionnaire was tested for validity and reliability. Results obtained showed that; there is a weak positive relationship between Corporate Governance System (CGS) and innovativeness; ownership structure has a weak negative relationship with innovativeness; CEO characteristics has a weak negative relationship with innovativeness. Based on the findings, three relevant recommendations were made which are; indigenous oil servicing firms should be willing to introduce newness and novelty through experimentation and creative processes aimed at developing new products and services, as well as expand capacity ahead of competitors.
Keywords: Corporate governance system, correlates, innovativeness, indigenous oil servicing firm.

INTRODUCTION
The importance of petroleum industry in Nigerian economy cannot be overlooked as the survival of the economy is dependent on sale of crude oil. In Nigeria, several studies have shown the importance of this industry (Odularu, 2008). It is estimated that billions of naira is spent annually in various activities of oil and gas servicing industry. Notable among them are logistics, pipeline welding and maintenance, offshore catering services, road and building construction, information technology, engineering design and seismic studies, drilling and well maintenance. The billions notwithstanding, only a small part of the profit is spent in Nigeria, while a substantial part is spent outside Nigeria to provide jobs for foreign citizens and boost their economy. This is due to lack of adequate technical skills and manpower to carry out these operations which the foreign firms perform or poor local content (LC).

Aneke (2002) and Heum *et al*. (2003) observed that Nigerian local content is low due to: poor technology infrastructure; inability to give credit facility by finance firms, incoherent policy/legislation that are not adequate, little or no infrastructures, poor business environment, inability of local firm to go into partnership with a foreign firm that have technical knowledge of petroleum industry.

Firms are faced with the problem of uncertainty in their daily operations with the ability to remain competitive and ahead of their rivals. This can be done through the board and executives' support and appetite for intrapreneurial activities. As observed by business researchers and scholars, firms are in a position to handle these issues by implementing good governance systems, to align with the firms' mission statement and objectives by way of composition of efficient board of directors, and innovative management. Thus, firms may take advantage of internal and external venturing opportunities thus enhancing the long-term competitive position of the organization to achieve sustainable growth (Gabrielsson2007).

Innovation is very relevant in firms, as it can be the source of additional revenues from new products or services, can help to save costs or improve the quality of existing processes (Khazanchi, Lewis, and Boyer 2007). Wang and Ahmed (2004) defined innovativeness as “an organizations’ overall innovative capability of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process”.

A firm’s innovativeness refers to firm’s openness to new ideas as part of a firm's culture (Hurley & Hult, 1998), and the preparedness of firms to adopt new ideas (Menguc & Auh, 2006; Woodside, 2005) that can be developed and launched as new products (Calantone, Cavusgil, & Zhao, 2002; Hurley & Hult, 1998; Tsai & Yang, 2013).

It is therefore, hoped that the present study provides added value to existing few studies in this area in Nigeria. However, this is the rationale behind this present study of corporate governance system (board composition, ownership structure, and CEO characteristics) as correlates of innovativeness dimension of intrapreneurial orientation in indigenous oil servicing firms in Port Harcourt, Rivers State, Nigeria.

LITERATURE REVIEW

Corporate Governance System

Corporate governance has many definitions. For investors, corporate governance is defined as both the obligation to make a fair return on capital investment and the commitment to operate a firm’s investment efficiently. The import of this definition is that corporate governance affects firms’ capability to go public. In their definition of corporate governance Shleifer and Vishny (1986) stated: the ways in which suppliers of finance to corporations assure themselves of getting a return to their investment.

Corporate governance is the system by which companies are directed and controlled (Cadbury, 1992). Corporate governance system may be described as the complex set of constraints that shape the ex-post bargaining over the quasi rents generated by the firm (Zingales, 1998). Corporate governance relates with performance as principals relate with agents. Principals-Agents relationships involve arrangement in which the principals employ the agents to carry out some specific duties which entail delegation of authority by the principals to the agents. When an outside investor is introduced in a business, owners of the business may be forced to release control of authority. Management ensures that interest of outside investor is well represented, although there may be impediments to achieving this.

There are three dimensions of corporate governance that can help minimize agency problem of the firm (Metrick & Ishii 2002). They are:

1. Composition of board
2. Structure of ownership
3. CEO characteristics

Composition of Board of Directors

This is often considered a major source of monitoring a firm’s conduct and performance. The board of directors’ duties include; the engagement of the appropriate management team, determination of their terms and condition of employment which include but not limited to salaries and allowances, tenure of CEO and other executive directors and conditions for termination of appointment. The board of directors are appointed or nominated by the shareholders to monitor the performance of management independently. The highly dispersed shareholders appear to have a more independent board of directors that is free from executive interference.

Jensen (1993) posits that: executive directors are not likely to effectively monitor the performance of the CEO because their career is closely tied to the incumbent CEO. Rosenstein and Wyatt (1990) agreed that membership of a board relates to various agency problems in an organization. As the number of external directors’ increase, there is a tendency for:

(i) Appointment of an outsider as chief executive officer.
(ii) Dismissal of chief executive officer that does not perform well.
(iii) More shares will be purchased and price of shares will rise.

Ownership Structure

The free-rider problem is minimized and internal constraints on managerial discretion can probably be imposed if ownership is concentrated in the hands of a large block of shareholders, be they individuals, organizations or investment funds. In this event, the returns to monitoring will increase monitoring activity, which may also be subject to economies of scale. Moreover, large shareholders are more likely to dictate management behaviour by use of majority votes, though, as Shleifer and Vishny (1986) noted, approval is required by voting rights of shareholders. It is likely that corporate governance will be influenced by extended shareholding as evidenced by study of developed market economy.

Franks and Mayer (1994) studied some private enterprise in Germany and found concentrated share ownership is associated with high rates of turnover of directors. The effect of performance on ownership structure has variously been discussed with diverse opinion. For some developed countries, firms that have large ownership structures that are not concentrated perform poorly as compared to firms with concentrated structures, but reversal holds in other countries (Gugler, 1998). The amount of debt (leverage) of a firm may be a determining factor on the control by other stakeholders.

Frydman *et al.* (1997) in their study of effect of private ownership structure on corporate performance in transition economy concluded that private ownership has great improvement on corporate performance in the countries undergoing post-Communist transition. Furthermore, the study also reports that external – ownership concentrated firms perform better than internal-ownership concentrated firms on most performance measures. Jensen and Meckling (1976) posit agency costs can be reduced through the concentration of ownership and control within a single owner-manager. However, the possibility of interplay between incentive alignment effect and entrenchment effect suggest a non-monotonic relationship between managerial stock ownership and firm value.

CEO Characteristics

The relationship between characteristic of chief executive officer and performance of large firms has been investigated (Jarymiszyn, Clark & Summers 1985). Abowd (1990) studied the impact of compensations of chief executive officer on the performances of firms while Myerson (1992) examined the impact of compensation on ownership structures and executives in a number of firms in Sweden. Friedlander, Berndt and McCullough (1992) carried out a detailed study of effect of management characteristics, and ownership structures on a firm’s performance, they found some interesting results: First, the quantitative effects of age, tenure in the company or tenure as an executive are small. Second, education has a negative effect on all indexes of performance. Third, background of the CEO in the area of operation of the firm has a positive impact on performance. In contrast, internal promotion has negative effects on all cases. Fourth, measures of firms' governance such as number of company management officials serving on the company’s board of executives, total number of members on the company’s board of directors, and whether the CEO position is combined with that of the executive chairman have no appreciable impact on corporate performance.

Berger, Ofek and Yermack (1997) examined the relationship between managerial entrenchment and capital structure decisions. The study came up with a number of useful findings that have implications on firms' values. First, they found lower leverage in firms whose CEOs have several characteristics of entrenchment, including a long tenure in office and compensation that has low sensitivity to performance. Leverage is also significantly lower when CEOs do not face strong monitoring as when the board of directors is large or has a low fraction of outside directors, and when the firm has no major stockholders. Demographic CEO characteristics have been researched in relation to strategic change, strategy and performance. Chief executive characteristics mostly discussed are age, executive tenure, functional expertise and education (Glunk, Heijltjes & Olie, 2001).

Innovativeness

Innovation can be considered as a necessary ingredient for firms simple wanting to remain competitive (Darroch & McNaughton, 2002). Covin and Miles (1999) suggested that intrapreneurship would not exist without innovation. They defined innovation as the individual’s tendency to seek for new ideas and experiment those creative ideas earlier than competitors. Damanpour (1991) observed that corporate innovation is a broad concept that generally includes the generation, development, and implementation of new ideas or behaviour in an existing firm. This is supported by Tidd, Bessant and Pavitt (2001) who defined innovation as a process of thinking creatively and successfully implementing the creative ideas in the organizational goal. A willingness to introduce newness and novelty through experimentation and creative processes; aimed at developing new products and services, as well as new processes within existing firms is important (Lumpkin & Dess 2005).

The managing of innovativeness can be quite challenging and for a firm to be in a position to continually initiate intrapreneurial innovation, they have to depart from existing technologies and practices, and venture beyond (Lumpkin & Dess 2005) through inventions and creative novel ideas for effectively producing, assimilating, and exploiting for achieving competitive advantages. Guth and Ginsberg (1990) developed a view of corporate entrepreneurial innovation where they argue that radical changes in production and process innovativeness are made by successful organizations than unsuccessful organizations. Furthermore, this is consistent with Lumpkin and Dess (2005), and Avlonitis and Salavou (2007), who found that firms with a strong tendency to innovate may facilitate their capability to accelerate the development of new products, increase product variety, and adjust production volume fast.

The probability of engaging and supporting new ideas, novelty, experiment, lead in technology, R&D, and creative process (Hughes & Morgan 2007), that may result in new products, services, or technological processes to create differentiation and develop solutions that undermine those of competitors can be complex if the decision making processes within the firm does not support managers preferences to act intrapreneurially.

According to Morris *et al.* (2008), intrapreneurial innovation is aligned within the corporate environment and systems as is broadly seen as the introduction of new product or services, a systematic or administrative change (new way of doing things) or a new plan or program related to organizational structure. The oil and gas service firm in Nigeria is categorized as a technological, innovative driven sector and firms within this industry (Urban, 2008) are classified based on the use of technology-driven and innovativeness in achievement of competitive advantage and the firm’s objective. It is observed that the processes of innovation and technological transformation differs from firm to firm (Wu, 2008), while some firm adapts rapid and radical innovations others follow minimal incremental innovation and technological transformation.

Innovation could be one source to achieve firm’s growth and progress with strong support from the decision-making process (Lumpkin & Dess, 2005). A long-term commitment to invest in new technology, R&D, and continuous improvement in innovative initiatives, that are hard for firms to imitate successfully, will be rewarding to the firm. In this view, Voss *et al.*, (2005), found that innovativeness has a positive and significant association with creative support from firms’ intrapreneurial decision makers. Similarly, Gabrielsson, and Diamanto (2006), found that board involvement in decision controls may promote innovative creative initiatives but that different kinds of decision controls influence different forms of corporate innovation and also recognize that the concept of innovation consists of numerous firms’ activities that promote long-term value creation.

CGS and Innovativeness

According to Daily and Dalton (1992), theories of business literature suggests strong linkages between CGS and intrapreneurial activities within the organization. In the same way, practitioners, business researchers and scholars have continued to pay more attention to the role of boards and executives in innovative initiatives in the firm. For example, Barringer and Bluedorn (1999) reported that: intrapreneurial attitude and behaviours are necessary for organizations of all sizes to grow and be sustainable. However, there is limited empirical evidence on how this relationship influences and impacts on management support and, or disposition for innovativeness.

Other studies suggest a strong link between innovativeness and CGS. For instance, Gabrielsson (2007), posit an active board and executives can have a strong influence on the organizations value-creation ability through their commitment to take an intrapreneurial posture strategy for goal achievement. Voss *et al.* (2005) seeks to integrate stakeholders’ theory with the innovativeness to explore distinct relationships and documents that different stakeholders including shareholders, board and executives support innovativeness in unique and sometimes unexpected ways.

According to Diochon (2010), firms who are effective and efficient in setting strategic goals and championing novel initiatives have a higher level of innovative intensity through board and executive encouragement than those firms that adopt an attitude of 'wait and see' posture. However, irrespective of the expanded literature on the relationships between innovativeness and Corporate Governance, there are still arguments on the basis of mixed and inconclusive findings over how best to conceptualize these relationships.

METHODOLOGY

The cross-sectional research design that involves descriptive studies of the selected respondents' characteristics in terms of age, gender, marital status, academic levels, type of business, age of the business, number of employees, board size and board membership was adopted for the study.
The current study targeted decision makers in the indigenous oil servicing firms in Port Harcourt. The target population consisted of 150 indigenous oil service firms actively operating in Port Harcourt, represented by boards or senior decision-makers across the firms which may be either executive/ non-executive director or CEO. Because of the size of the target population, there was no need for random sampling to determine the sample size. The unit of analysis of this study is the firm.
The sample size of this research comprised of 150 indigenous oil servicing firms in Port Harcourt selected from oil and gas directory website and confirmed by Nigerian Content Development & Monitoring Board. (*www.portharcourtdirectory.com/oil_and_gas/services2*)
In selecting the target population, foreign firms operating in the industry were excluded and furthermore, all major oil producing companies were also excluded. Selection criteria after exclusion led to a final sampling frame of 150 indigenous oil servicing firms in Port Harcourt, represented by executive/non-executive director or CEO.
Reliability of the instrument was determined using Cronbach Alpha values while validity of the instrument was determined by face value of the questionnaire administered and regular reference to related and relevant literature. Pearson Product Moment Correlation Coefficient for a sample represented by (r) was used to answer the research questions while the r coefficients were subjected to critical probability alpha level of significance of .05 to test the null hypotheses. All data analysis was conducted using SPSS (data analysis software system), version 20.

DATA ANALYSIS

Research Question 1: *To what extent does board composition relate to innovativeness of indigenous oil servicing firms?*

Ho1: Board composition does not significantly relate to innovativeness of indigenous oil servicing firms.

Table 1: Composition of Board of Directors and Innovativeness

Correlations

		Composition of Board	**Innovativeness**
Conposition of Board	Pearson Correlation	1	.096
	Sig. (2-tailed)		.283
	N	128	128
Innovativeness	Pearson Correlation	.096	1
	Sig. (2-tailed)	.283	
	N	128	128

From table 1, the correlation coefficient (r) value of .096 indicates that Composition of Board of Directors has a weak positive relationship with Innovativeness and the relationship is said to be insignificant with a p-value of .283 which is >0.05.

Research Question 2: *To what extent does ownership structure relate to innovativeness of indigenous oil servicing firms?*
Ho2: Ownership structure does not significantly relate to innovativeness of indigenous oil servicing firms

Table 2: Ownership Structure and Innovativeness

Correlations

		Ownership Structure	Innovativeness
Ownership Structure	Pearson Correlation	1	-.104
	Sig. (2-tailed)		.245
	N	128	128
Innovativeness	Pearson Correlation	-.104	1
	Sig. (2-tailed)	.245	
	N	128	128

From table 2, the correlation coefficient (r) value of -.104 indicates that Ownership Structure has a weak negative relationship with Innovativeness and the relationship is said to be insignificant with a p-value of .245 which is >0.05.
Research Question 3*: To what extent do CEO characteristics relate to innovativeness of indigenous oil servicing firms?*
Ho3: CEO characteristics do not significantly relate to innovativeness of indigenous oil servicing firms.

Table 3: CEO Characteristics and Innovativeness

Correlations

		CEO Characteristics	Innovativeness
CEO Characteristics	Pearson Correlation	1	-.100
	Sig. (2-tailed)		.259
	N	128	128
Innovativeness	Pearson Correlation	-.100	1
	Sig. (2-tailed)	.259	
	N	128	128

From table 3, the correlation coefficient (r) value of -.100 indicates that CEO Characteristics has a weak negative relationship with Innovativeness and the relationship is said to be insignificant with a p-value of .259 which is >0.05.

DISCUSSION OF FINDINGS

From the test of hypothesis one, correlation coefficient (r) value of .096 indicates that Composition of Board of Directors has a weak positive relationship with Innovativeness and the relationship is said to be insignificant with a p-value of .283 which is >0.05. Therefore, with a p-value of .283, the null hypothesis that Composition of Board of Directors does not significantly relate to Innovativeness of indigenous oil servicing firms was accepted. This present finding is in contrast with the view of Daily and Dalton (1992), which states that theories of business literature suggest strong linkages between CGS and innovativeness dimension of intrapreneurial activities within the organization.
From the test of hypothesis 2, the correlation coefficient (r) value of -.104 indicates that Ownership Structure has a weak negative relationship with Innovativeness and the relationship is said to be insignificant with a p-value of .245 which is >0.05. Therefore, with p-value 0.245, the null hypothesis that Ownership Structure does not significantly relate to Innovativeness in indigenous oil servicing firms was accepted.
From test of hypothesis 3, the correlation coefficient (r) value of -.100 indicates that CEO Characteristics has a weak negative relationship with Innovativeness and the relationship is said to be insignificant with a p-value of .259 which is >0.05. Therefore, with p-value of 0.259, the null

hypothesis that CEO characteristics do not significantly relate to Innovativeness in indigenous oil servicing firms was accepted.

Most of the CGS and innovativeness tested relationships were weak because this study focused on indigenous oil servicing firms that have narrow ownership structure concentrated on family members as opposed to large shareholders that are widely dispersed as noted by Shleifer and Vishny (1986), Frydman *et al* (1997). In most of these indigenous oil servicing firms, the CEO doubles as the chairman of board of directors and as posited by Friedlander, Berndt and McCullough (1992), this and other CEO characteristics like level of education account for the weak relationship between CGS and innovativeness in indigenous oil servicing firms in Port Harcourt.

CONCLUSION

The study revealed that there is a weak positive relationship between composition of board of directors and innovativeness; ownership structure has a weak negative relationship with Innovativeness; CEO characteristics has a weak negative relationship with innovativeness.

RECOMMENDATIONS

The following recommendations were made:

(1) Indigenous oil servicing firms should be willing to introduce newness and novelty through experimentation and creative processes aimed at developing new products and services, as well as expand capacity ahead of competitors.

(2) Corporate directors and management in indigenous oil servicing firms must develop a willingness and strategy to be innovative in business ventures.

(3) An intrapreneurial oriented indigenous oil servicing firm should seek a "first mover" posture and enjoy advantages of early starter, and also introduce new products or technology before the competitors.

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