



Corporate Governance System and Proactiveness in Indigenous Oil Servicing Firms in Port Harcourt

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ABSTRACT

This study examined the relationship between Corporate Governance System and proactiveness, a measure of intrapreneurial orientation in indigenous oil servicing firms in Port Harcourt. 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. Results obtained showed that; there is a significant strong positive relationship between board composition and proactiveness; there is a weak negative relationship between ownership structure and proactiveness; there is a weak negative relationship between CEO characteristics and proactiveness. Based on the findings, two relevant recommendations were made which are that; Corporate directors and management in indigenous oil servicing firms must develop a willingness and strategy to be proactive in business ventures; 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.

Key words: Corporate governance system, proactiveness, oil servicing firm

INTRODUCTION

Corporate Governance is a voluntary code of conduct that the Board of Directors particularly Chief Executive Officer of the business is expected to follow in operating the business. Corporate governance basically addresses the need for a company’s shareholders (the owners) and their elected representatives (the board of directors) to ensure that the firm’s executives (the management team) strive to maximize long-term shareholder value. It is basically about fair management, transparency, disclosure, responsibility and accountability in governing the affairs of the firm. Proactiveness is the ability to anticipate future occurrences and act in advance rather than react after the occurrences. A proactive firm is one that places greater emphasis on forward-thinking strategic planning as opposed to reactive strategies to deal with problems or to approach opportunities as they arise.

Researchers have tried to identify the relationship between proactiveness, a measure of intrapreneurial orientation (IO) and corporate governance system (CGS), for example, Fiegnener (2005) and Beaver, Davies and Joyce (2007), point out that research on CGS and corporate entrepreneurship have been focused on agency problems, ownership structure, board composition and shareholders interest. There is however, no major studies found that prove the relation of governance structures and IO. The CGS is seen to be greatest regulator that relates executives and shareholders (Zahra, 1996). At the same time these systems have the ability to shape managers commitment to proactiveness through strong boards and involvement from executives in monitoring and managing the decision controls that support intrapreneurial initiatives. Thyl and Young (2010) observed a need for perspective and a model of governance, particularly one that recognizes and relates to proactiveness, as an important part of the

organization's internal and external systems that will bring about a competitive advantage for growth and sustainability in the organization.

The indigenous oil servicing firms in Port Harcourt have gone, and are still going through a series of transformation in proactiveness and corporate governance systems. However, this present study investigates the extent corporate governance system relates to proactiveness, a measure of intrapreneurial orientation in indigenous oil servicing firms in Port Harcourt, Rivers State, Nigeria.

LITERATURE REVIEW

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.

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 of directors
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 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. Jensen and Meckling (1976) posit agency costs can be reduced through the concentration of ownership and control within a single owner-manager.

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.

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).

Proactiveness

Proactiveness refers to an on-going perspective where a firm actively seeks to anticipate and take advantage of opportunities to develop and introduce new products and implement changes to existing firm's strategies and tactics. It also involves the ability to detect future market trends while securing first-mover advantage in the short-term and shaping the direction of the market environment in the long-term (Lumpkin & Dess, 1996, Lyon, Lumpkin and Dess 2000; Lumpkin and Dess 2005; Hughes and Morgan 2007). Henderson and Cool, (2003) observed that managers decision making to be the first-mover may be affected by biases, and if the firm's governance structures do not support proactiveness, they may fail to consider developing uniqueness in new product development that their rivals may find difficult to copy. Lumpkin and Dess (2005), argue that being an industry leader does not bring about economies of scale and that firms act proactively in two ways by; introducing new products or technological capabilities ahead of their competitors and continuously seeking out new products or service offerings.

Chang *et al.*, (2007), postulate that a proactive firm does things ahead of their rivals rather than after. They lead in the development of new technologies, products and services as well as capacity building to enhance growth, while Keh *et al.*, (2007) argue that proactive orientation enables firms to be innovative and utilizes internal sharing of knowledge and information to exploit competitors' novelty. Trying to be a "first mover" to gain advantage of pioneer industry is a process that deals with the ability managers have to implement organizational core competence in relation to strategies set out for intrapreneurial activities through creative initiatives, as opposed to the traditional norms present within the organization (Green *et al.*, 2008), which involves considerable perseverance, adaptability, and a willingness to assume responsibility for failure. Frishammar and Horte (2007), argue that proactiveness should impact positively on new product development allowing high growth, in the absence of competing products. In the same way, Li, Huang and Tsai (2009), emphasized that intrapreneurial organizations act proactively to obtain knowledge and information from customers and competitors and tend to use it to undo their competitors.

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 intrapreneurial 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 proactiveness. Proactiveness is done through new market and product development (Henderson & Cool 2003; Urban 2008), where challenges face many firms in today's business environment.

According to Diochon (2010), firms who are effective and efficient in setting strategic goals and championing novel initiatives have a higher level of intrapreneurial intensity through board and executive encouragement than those firms that adopt an attitude of 'wait and see' posture.

METHODOLOGY

The study is a 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. Using descriptive and inferential statistical methodology, an actual determination of the relation between the three theoretical dimensions of CGS and proactiveness dimension of IO, were made. Specifically, the independent variables of board composition, ownership structure, and CEO characteristics related or linked to the dependent variable proactiveness measure of intrapreneurial orientation.

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 proactiveness of indigenous oil servicing firms?*

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

Table 1: Composition of Board of Directors and Proactiveness

Correlations		Composition of Board	Proactiveness
Composition of Board	Pearson Correlation	1	.594**
	Sig. (2-tailed)		.000
	N	128	128
Proactiveness	Pearson Correlation	.594**	1
	Sig. (2-tailed)	.000	
	N	128	128

** . Correlation is significant at the 0.01 level (2-tailed).

Source-; *SPSS Output/Research Desk, 2016.*

From table 1, the correlation coefficient (r) value of .594 indicates that Composition of Board of Directors has a strong positive relationship with proactiveness and the relationship is said to be significant with a p-value of .000 which is <0.05.

Research Question 2: *To what extent does ownership structure relate to proactiveness of indigenous oil servicing firms?*

Ho2: Ownership structure does not significantly relate to proactiveness of indigenous oil servicing firms.

Table 2: Ownership Structure and Proactiveness

Correlations		Ownership Structure	Proactiveness
Ownership Structure	Pearson Correlation	1	-.297**
	Sig. (2-tailed)		.001
	N	128	128
Proactiveness	Pearson Correlation	-.297**	1
	Sig. (2-tailed)	.001	
	N	128	128

** . Correlation is significant at the 0.01 level (2-tailed).

Source-; *SPSS output/ research desk, 2016.*

From table 2, the correlation coefficient (r) value of -.297 indicates that Ownership Structure has a weak negative relationship with proactiveness and the relationship is said to be significant with a p-value of .001 which is <0.05.

Research Question 3: *To what extent do CEO characteristics relate to proactiveness of indigenous oil servicing firms?*

Ho3: CEO characteristics do not significantly relate to proactiveness of indigenous oil servicing firms.

Table 3: CEO Characteristics and Proactiveness

Correlations		CEO Characteristics	Proactiveness
CEO Characteristics	Pearson Correlation	1	-.361**
	Sig. (2-tailed)		.000
	N	128	128
Proactiveness	Pearson Correlation	-.361**	1
	Sig. (2-tailed)	.000	
	N	128	128

** . Correlation is significant at the 0.01 level (2-tailed).

Source: *SPSS output/ research desk, 2016.*

From table 3, the correlation coefficient (r) value of -.361 indicates that CEO Characteristics have a weak negative relationship with Proactiveness and the relationship is said to be significant with a p-value of .000 which is <0.05.

DISCUSSION OF FINDINGS

From the test of hypothesis one, the correlation coefficient (r) value of .594 indicates that Composition of Board of Directors has a strong positive relationship with Proactiveness and the relationship is said to be significant with a p-value of .000 which is <0.05. This present finding supports the view of Daily and Dalton (1992), Neubaum and Gabrielsson (2005), Frishammar and Horte (2007), as well as Javalgi and Todd (2010).

From the test of hypothesis 2, the correlation coefficient (r) value of -.297 indicates that Ownership Structure has a weak negative relationship with proactiveness and the relationship is said to be significant with a p-value of .001 which is <0.05. From test of hypothesis 3, the correlation coefficient (r) value of -

.361 indicates that CEO Characteristics has a weak negative relationship with proactiveness and the relationship is said to be significant with a p-value of .000 which is <0.05 .

Most of the CGS and proactiveness 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 proactiveness in indigenous oil servicing firms in Port Harcourt.

CONCLUSION

The study revealed that there is a negligible negative relationship between Corporate Governance System (CGS) and proactiveness except for Board Composition (CGS) and proactiveness which showed a strong positive relationship.

RECOMMENDATIONS

The following recommendations were made:

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