COURSE GUIDE

ENT 304
LEADERSHIP AND CORPORATE GOVERNANCE

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COURSE GUIDE

INTRODUCTION: Course Description Leadership and corporate governance (ENT: 304) is a semester 2 credits unit course. It is designed for all 300 level students intending to obtain BS.C in Entrepreneurs studies. The course consists of three modules divided into 14 units which include concept and meaning of leadership, principles of leadership, types of leadership, qualities of leaders, leadership styles, servant leadership, leadership as agent of change, problems of leadership in Nigeria, meaning and objectives of corporate governance, why corporate governance matters, theories of corporate governance, responsibilities and function of board of directors, basic principles of OECD, good governance with value addition and duel process and corporate control designs around the world. This course material is designed for students of National Open University of Nigeria (NOUN) with the hope that a thorough understanding of the course will make the students efficient and effective in leadership practices.

COURSE AIM

The general aim of this course is to provide intellectual and professional training for would-be entrepreneur administration in order to make them effective and efficient in their day-to-day practice. Literature reveals that most head of educational institutions do not really understand the nitty-gritty of school management. As a result, it makes it difficult for them to achieve the goals of the respective institution they manage. Some entrepreneur or principal accidentally found themselves in the leadership position without adequate pre-requisite, hence experiencing what is termed the ‘peter principles’. With this course therefore, potentials school heads will be properly equipped to handle the challenges of institutional management in this ever dynamic society.

Course Objective At the end of this course you should be able to:

1. Explain clearly the differences between corporate governance and leadership.

2. Explain the different theories on leadership

3. Identify the various leadership styles and their shortcoming

4. Explain the major factors affecting leadership in both private and public sectors.

5. Explain how quality of leaders varies.

6. Explain the meaning and elements of effective corporate governance t

7. Identify how corporate governance matters on corporate theories

8. Explain clearly the responsibilities and function of a board of directors

9. Identify basic principles of OECD and good governance

10. Describe corporate control designs around the world

Working through this Course In order to complete this course, you are required to read each module, read the reference books and other materials provided by NOUN. Each module contains tutor-marked assignments and or self-assessment exercise. At points in the course, you are required to submit assignment for evaluation purposes.

Course Materials

This course consists of:

1. Course Guide

2. Study Modules

3. Assignment files

4. Relevant text books including the ones listed at the end of each unit.

Assessment this course will be assessed in two ways. The first is the Tutor-Marked Assignments while the second is the end of the semester written examination. You are expected to use the

information and knowledge gained during the course of study to answer the questions. There are 20 Tutor-Marked Assignments, your tutor will inform you of the one to submit. The assignment attracts 30% while the end of semester examination attracts 70%. A minimum of 75% at the tutorial and counseling session must be met. How to get the most from the Course Since this is a distance learning programme, face-to-face interaction with lecturers may not be possible, nonetheless, going through each module carefully can be of immense advantage. Your progress is determined by you, this flexibility enables you to work at your own pace, time and place. Each module has a common format. It starts with introduction, objectives, main content and tutor-marked assignments. The objectives and the questions at the end of the module should help you to get the most of the module and prepare you thoroughly for the assignment and examinations. Consider the following practical strategies for working through the course;

1. Read the course guide thoroughly
2. Organize a study schedule
3. Stick to your study schedule strictly
4. Start with module one and read the introduction and objectives for the modules
5. Assemble all study materials
6. Work through the modules
7. Do the assignment and convince yourself that you have mastered the modules
8. Move to the next modules
9. Do the same for other modules until you get to module nine.

Study Module There are three modules in this course, they are arranged in units in the following order:

The three of the module are:

MODULE ONE: CONCEPT OF LEADERSHIP

Unit One: Concept and meaning of leadership

Unit Two: Principles of leadership

Unit Three: Types of Leader

Unit Four: Qualities of Leaders

Unit Five: Leadership styles

MODULE TWO: SERVANT LEADERSHIP AND PROBLEM OF LEADERSHIP IN NIGERIA

Unit One: Servant Leadership

Unit Two: Leaders as Agent of Change

Unit Three: Problem of Leadership in Nigeria

MODULE THREE: CORPORATE GOVERNANCE

Unit One: Meaning, Objectives and Elements of Effective Corporate Governance

Unit Two: Why Corporate Governance Matters and Corporate Governance Theories

Unit Three: Responsibilities and Functions of a Board of Directors

Unit Four: Basic Principles of OECD and Corporate Governance in Practice

Unit Five: Good Governance with Value Addition and Duel process

Unit Six: Corporate Control Designs around the World.

Tutors and Tutorials: Your tutor will mark and comment on your assignments, keep a close watch on your progress and any difficulties you might have and also provide assistance to you during the course. Ensure that your tutor-marked assignment gets to you before the due date**.**

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MODULE 1:

UNIT 1: CONCEPT AND MEANING OF LEADERSHIP

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1.0 INTRODUCTION

History of leadership can be traced far back to the time of creation, when God created all creatures including human, and ordered Adam to oversee and named other animals (Gen.2:19-20),thereby making Adam the first leader in existence. History of research into the topic of leadership and leadership style can be broadly categorized into a number of important phases. Early studies on leadership (frequently categorized as 'trait' studies on leadership) concentrated on identifying the personality traits which characterized successful leaders (Argyris, 1955; Mahoney et al., 1960). Trait theories assume that successful leaders have certain innate qualities which distinguish them from non-leaders (Stodgill, 1948).

However, the difficulty in categorizing and validating these characteristics led to widespread criticism of this trait approach, signaling the emergence of 'style' and 'Behavioural' approaches to leadership (Stodgill, 1948). Style and Behavioural theorists shifted the emphasis away from the characteristics of the leader to the behaviour and style the leader adopted (Hemphill and Coons, 1957; Likert, 1961). The principal conclusion of these studies appears to be that leaders who adopt democratic or participative styles are more successful (see, for example, Bowsers and Seashore, 1966). In this sense, these early studies are focused on identifying the 'one best way of leading'.

Similarly to trait theories, the major weakness of style and Behavioural theories is that they ignore the important role which situational factors play in determining the effectiveness of individual leaders (Mullins, 1999). It is this limitation that gives rise to the 'situational' and 'contingency' theories of leadership (for example, Fiedler, 1967; House, 1971; Vroom and Yetton, 1974) which shift the emphasis away from 'the one best way to lead' to context-sensitive leadership. Although each study emphasizes the importance of different factors, the general tenet of the situational and contingency perspectives is that leadership effectiveness is dependent on the leader's diagnosis and understanding of situational factors, followed by the adoption of the appropriate style to deal with each circumstance. However, in an apparent return to the 'one best way of leadership', recent studies on leadership have contrasted 'transactional' leadership with 'transformational' leadership. Transactional leaders are said to be 'instrumental' and frequently focus on relationship with their subordinates (Bass and Avolio, 1993). In contrast,

transformational leaders are argued to be visionary and enthusiastic, with an inherent ability to motivate subordinates (Bycio et al., 1995; Howell and Avolio, 1993).

Empirical studies into the links between leadership and performance have been lacking. One notable exception is the detailed study of the impact of leadership on performance. Thorlindsson (1987) suggests that variations in the performance of different fishing ships, under identical conditions, can be accounted for by the leadership skills of captains. Over a three-year period, Thorlindsson (1987) revealed that the leadership qualities of the ship captains accounted for 35 to 49 per cent of variation in the catch of different crews. Other studies which examine the links between leadership and performance coincide with the re-emergence of the 'one best way to lead' debate. Of particular relevance is the resurgence of interest into charismatic leadership, which is frequently referred to as transformational leadership (Bass and Avolio, 1993). A number of researchers theorize that transformational leadership is linked to organizational performance (see, for example, Bycio et al., 1995; Howell and Avolio, 1993).

2.0 OBJECTIVES

At the end of this unit the learner should be able to:

(1) Define the term leadership

(2) Explain principles of leadership

(3) Explain type of leaders.

(4) Qualities of leaders

3.0 MAIN CONTENT

3.1 Concept and Meaning of Leadership

Several authors have defined leadership in different dimensions. Among which include:

"Leadership is a development of a clear and complete system of expectations in order to identify evokes and uses the strengths of all resources in the organization the most important of which is people, (Batten, 1989:35)".

“Leadership is a function of knowing yourself, having a vision that is well communicated, building trust among colleagues, and taking effective action to realize your own leadership potential, (Bennis,1997)”.

“Leadership is a process of giving purpose (meaningful direction) to collective effort, and causing willing effort to be expended to achieve purpose (Jacobs & Jacques, 1990: 281)”.

“Leadership is a process of influence between a leader and those who are followers”. Hollander (1978, p.1)

“Leadership is a process whereby an individual influences a group of individuals to achieve a common goal”. Northouse (2004, p 3)

“Leadership is an attempt at influencing the activities of followers through the communication process and toward the attainment of some goal or goals” Donelly et al (1985 p362.).

“Leadership is an influence process that enable managers to get their people to do willingly what must be done, do well what ought to be done” Cribbin (1981).

“Leadership is defined as the process of influencing the activities of an organized group toward goal achievement.” Rauch & Behling (1984, p.46)

“Leadership is discovering the company's destiny and having the courage to follow it.” Joe (1996)

“Leadership is the ability to not only understand and utilize your innate talents, but to also effectively leverage the natural strengths of your team to accomplish the mission. There is no one-size fits all approach, answer key or formula to leadership. Leadership should be the humble, authentic expression of your unique personality in pursuit of bettering whatever environment you are in” – Katie Christy, founder, Activate Your Talent

“Leadership is about having a selfless heart and always being willing to reach out and lend a helping hand” – Bob Reina, CEO and founder, Talk Fusion

“Leadership is about playing to strengths and addressing weaknesses in the most productive and efficient way possible. It's about knowing your team and yourself, and doing your best job to set both up for success”– Sammy Cohen, co-founder, Neon Bandits

“Leadership is the ability to see a problem and be the solution. So many people are willing to talk about problems or can even empathize, but not many can see the problem or challenge and rise to it. It takes a leader to truly see a problem as a challenge and want to drive toward it. That is what causes people to want to follow, and a true leader has a following” – Andrea Walker-Leidy, owner, Walker Publicity Consulting

“Leadership is having the humility to put your employees first so that the company can grow. Leaders should invest time [in] employees and make sure that they feel comfortable in the workplace. This increases the functionality and efficiency of the company” – Matthew Adams, director of communications, Tru-Colour Bandages

“A leader is someone [who] leads by example and has the integrity to do the right thing even when it is not popular. A good leader has positive influence over others, inspiring them to become a better person and example for others to model their life against, as well” – Mark Little, founder and president, Diversified Funding

“Leadership is serving the people that work for you by giving them the tools they need to succeed. Your workers should be looking forward to the customer and not backwards, over their shoulders, at you. It also means genuine praise for what goes well and leading by taking responsibility early and immediately if things go bad” – Jordan French, president, BNB Shield

“Leadership is the ability to unapologetically express and see out your business vision. Leadership is using your intuition to guide you, and inspiring your team to come along for the ride. Leadership is listening to that ‘inner voice’, even when it is risky, scary, and challenging the status quo” – Makenzie Marzluff, founder, Delighted By

“Leadership is the ability to help people achieve things they don't think are possible. Leaders are coaches with a passion for developing people, not players; they get satisfaction from achieving objectives through others. Leaders inspire people through a shared vision and create an environment where people feel valued and fulfilled” – Randy Stocklin, co-founder and CEO

“Leadership is having a vision, sharing that vision and inspiring others to support your vision while creating their own” – Mindy Gibbins-Klein, founder, REAL Thought Leaders

“Leadership is the ability to guide others without force into a direction or decision that leaves them still feeling empowered and accomplished” – Lisa Cash Hanson, CEO, Snuggwugg

“Effective leadership is providing the vision and motivation to a team so they work together toward the same goal, and then understanding the talents and temperaments of each individual and effectively motivating each person to contribute individually their best toward achieving the group goal” – Stan Kimer, president, Total Engagement Consulting by Kimer

“Leadership is the art of serving others by equipping them with training, tools and people as well as your time, energy and emotional intelligence so that they can realize their full potential, both personally and professionally” – Daphne Mallory

“Leadership is being bold enough to have vision and humble enough to recognize achieving it will take the efforts of many people — people who are most fulfilled when they share their gifts and talents, rather than just work. Leaders create that culture, serve that greater good and let others soar”. – Kathy Heasley, founder and president, Heasley & Partners

“My perspective of a leader is an individual who knows the ins and outs about the business so they can empathize with followers. In addition to being a positive influence on the people they are leading, leadership is about setting the tone, motivating, inspiring, thinking big, and never [giving] up when others feel like quitting” – Alexis Davis, founder and designer, Hoo-Kong by Alexis Davis

“A true leader is secure in creating a framework that encourages others to tap into their own skills and ideas and freely contribute to the whole of the project or company.” – Judy Crockett, owner, Interactive Marketing & Communication

“In my experience, leadership is about three things: To listen, to inspire and to empower. Over the years, I've tried to learn to do a much better job listening actively, making sure I really understand the other person’s point of view, learning from them, and using that basis of trust and

collaboration to inspire and empower. It's about setting the bar high, and then giving them the time and resources to do great work." – Larry Garfield, president, Garfield Group

"Leadership is knowing when to be in front to lead and guide a team during the journey, and when to step back and let others take the lead. Much like an athlete who knows exactly what position to move to on the field at any given time, a true business leader understands the delicate balance of how to help others become leaders, fuel career ambitions, then give them the chance to shine." – Dan Schoenbaum, CEO, Redbooth

"Too many people view management as leadership. It's not. Leadership comes from influence, and influence can come from anyone at any level and in any role. Being open and authentic, helping to lift others up and working toward a common mission, build influence. True leadership comes when those around you are influenced by your life in a positive way" – Kurt Uhlir, CEO and co-founder, Sideqik

"Leadership is when someone is willing to stand up front to be either the target or the hero to take responsibility for the success or failure of a given goal. Not everyone has the guts to be a leader and [take] personal risks that they may encounter." – Darlene Tenes, founder and designer, CasaQ

"Leadership is stepping out of your comfort zone and taking risk to create reward" – Katie Easley, founder, Kate Ryan Design

"A leader is someone who has the clarity to know the right things to do, the confidence to know when she's wrong and the courage to do the right things even when they're hard" – Darcy Eikenberg, founder, RedCapeRevolution.com

"Leadership is the behavior that brings the future to the present, by envisioning the possible and persuading others to help you make it a reality." – Matt Barney, founder and CEO, LeaderAmp

"Leadership is caring more about the cause and the people in your company than about your own personal pain and success. It is about having a greater vision of where your company is trying to go while leaving the path open for others to grow into leaders." – Jarie Bolander, COO and co-founder, Lab Sensor Solutions

“A leader is a person who takes you where you will not go alone.” – Susan Ascher, CEO, founder and president, SusanAscher.com

“Leadership means using one's influence to help guide others in successfully achieving a goal without desire for recognition, without worry of what others think and with awareness of issues, internal or external, that might change the results sought." – Marie Hansen, dean of the college of business, Husson University

“Leadership is not about finding ways to lead better or to motivate your team. It's about being there from the beginning as equals and becoming a mentor when they need you to be one." – Michael Womack, co-founder, hovelstay.com

"Leadership styles differ, but at the core, good leaders make the people they are leading accomplish more than they otherwise would. The most effective leaders do this not through fear, intimidation or title, but rather by building consensus around a common goal." – Tom Madine, CEO and president, Worldwide Express

"Leadership is inspiring others to pursue your vision within the parameters you set, to the extent that it becomes a shared effort, a shared vision and a shared success." – Steve Zeitchik, CEO of Focal Point Strategies

"For me, leadership is an act — a decision to take a stand, or step, in order to encourage, inspire or motivate others to move with you. What's more, the most effective leaders do not rely on their title, or positional power, to lead. Rather, their ability to use their own personal power combined with their use of strategic influence are what make them effective." – Kendra Coleman, consultant, Sheppard Moscow

"Leadership is the ability to take an average team of individuals and transform them into superstars. The best leader is the one who inspires his workers to achieve greatness each and every day." – Jonas Falk, CEO, OrganicLife

"Leadership is influencing others by your character, humility and example. It is recognizable when others follow in word and deed without obligation or coercion." – Sonny Newman, president, EE Technologies

"Leadership is the collective action of everyone you influence. Your behavior — your actions and your words — determines how you influence. Our job as leaders is to energize whatever marshals action within others." – David Casullo, president, Bates Communications

3.2 Principles of Leadership

To help you be, known, and do; (U.S. army, 1983) follow these eleven principles of leadership:

- **Know yourself and seek self-improvement** - In order to know yourself, you have to understand your be, know, and do, attributes. Seeking self-improvement means continually strengthening your attributes. This can be accomplished through self-study, formal classes, reflection, and interacting with others.
- **Be technically proficient** - As a leader, you must know your job and have a solid familiarity with your employees' tasks.
- **Seek responsibility and take responsibility for your actions** - Search for ways to guide your organization to new heights. And when things go wrong, they always do sooner or later -- do not blame others. Analyze the situation, take corrective action, and move on to the next challenge.
- **Make sound and timely decisions** - Use good problem solving, decision making, and planning tools.
- **Set the example** - Be a good role model for your employees. They must not only hear what they are expected to do, but also see. We must become the change we want to see - Mahatma Gandhi.
- **Know your people and look out for their well-being** - know human nature and the importance of sincerely caring for your workers.
- **Keep your workers informed** - know how to communicate with not only them, but also seniors and other key people.

- **Develop a sense of responsibility in your workers** - help to develop good character traits that will help them carry out their professional responsibilities.
- **Ensure that tasks are understood, supervised, and accomplished** - communication is the key to this responsibility.
- **Train as a team** - Although many so called leaders call their organization, department, section, etc. a team; they are not really teams...they are just a group of people doing their jobs.

3.3 Type of Leaders

According to Mullins L.J (1985) the following have been identified as notable six types of leaders. These include**:**

- **Charismatic leader:** This is a leader who gains influence mainly from strength of personality. The difficulty with charismatic leadership is that few people possessed the exceptional qualities required to transform all around them into willing followers. Another issue is that personal qualities or traits of leadership cannot be acquired by training; they can only be modified by it.
- **Traditional leader**: This is a leader whose position is assured by birth e.g. kings, queens and tribal chieftains. This is another category to which few people can aspire. Except in the small family business, there are few opportunities for traditional leadership at work.
- **Situational leader:** This is a leader whose influence can only be effective by being in the right place at the right time. The kind of leadership is temporary in nature to be of much value in a business. What is looked for is someone who is capable of assuming a leadership role in a variety of situations over a period of time.
- **Appointed leader**: This is a leader whose influence arises directly out of his position e.g. most managers and supervisors. This is the bureaucratic type of leadership where legitimate power springs from the nature and scope of the position within the hierarchy. The problem here is that, although the powers of the position may be defined, the job-holder may not be able to implement them because of weak personality, lack of adequate training or other factors.

- **Functional leader:** This is a leader who secures their leadership positions by what they are. In other words, functional leaders adapt their behaviour to meet the competing needs of the situation.
- **Principle-Centered leader:** This is a leader, whose approach to leadership is influenced by moral and ethical principles, involving consideration of equity, justice, integrity, honesty, fairness and trust.

3.4 Qualities of leaders

Research shows that there is a consistent set of traits, characteristics and qualities of good leadership that people look for in their leaders. 75,000 people, on six continents over a period of 15 years were asked to identify the characteristics and qualities of good leadership (J M Kouzes & B Z Posner, 2002, San Francisco: Jossey-Bass). These were the results:

- **Honesty:** The number one quality identified by this researchers is honesty. The respondents explain that a good leader must be honest to the oath of office that saw him to power and also to his numbers of followers. They added that a good leader must be morally upright, unpretentious, reasonable in situations and impartial.
- **Forward Oriented:** A good leader must be forward oriented. He must always see the goal to be achieved and the challenges ahead. He must have the "Can Do" behaviour within him. This quality is very close in comparison with the Conceptual skill of leadership. This means seeing things before others and the ability to predict or forecast what tomorrow will bring.
- **Competence:** A good leader must be competent technically, human relation wisely. He must not be a specialist in a field but a generalist. He must be able to lead others to the very rightful part. He must have the ability to propel others to achieve results.
- **Inspiring:** A good leader must be able to inspire his followers to attain goal and objectives. He must be able to stimulate others to do things and make things happen.
- **Intelligent:** A good and effective leader must be intelligent. He must be sensible and rational. He must be a first class decision maker; he must be able to correct anomalies within his team.

- **Fair Minded:** He must be able to keep a par between rigidity and flexibility. That is, he must not be too hard in his policies and decision and not be too easily discourage to change his painstakingly predetermined made decisions.
- **Broad -Minded:** A leader must be vast in thought and deed. He must be wide and expose to both challenges and opportunities ahead.
- **Self -control:** Another very important quality of a good leader is self control or self-discipline. He must train himself to have a comfortable and proper behaviour which will carry others along and sustain the module operandi of the organization.

4.0 CONCLUSION

This unit provides a comprehensive understanding on the subject of leadership, styles of leading, qualities of good leaders and principles guiding leadership. While the use of force (autocratic) is viewed as the best of leading to many, leading through others (democratic) is much appreciated by others. It has also been discovered that great leaders abound in every stage in life and that leadership does not only exist in the top organizational hierarchy. The emphasis of leadership is on interpersonal behaviour in a broader view.

5.0 SUMMARY

Leadership is the act of commanding obedience of others. This act is often exhibited through democratic, autocratic or laissez-faire ways. Additionally, there are several other ways of describing leadership such as, dictatorial, unitary, charismatic, benevolent, consultative and participative. The major leadership styles can be classified into three broad categories: autocratic (authoritarian) style, democratic style and genuine laissez-faire style.

In addition, major qualities of a great leader include: broad mindedness, self-control, self-confidence, intelligent, inspiring and determined will. However, from this review, it has been discovered that there is no best way of leading people or subordinates and that there is no best leadership style that can be apply to all situation in an organization. Therefore, contingency approach to leadership should be applied.

6.0 TUTOR-MARKED ASSIGNMENT

1. What do you understand by the term leadership?
2. State five qualities of leadership?
3. Explain three types of leadership principles known to you?
4. Explain the type of leaders you know?

7.0 REFERENCES/FURTHER READING

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UNIT 2: LEADERSHIP PROCESS, ASPECT AND SOURCES OF POWER

CONTENTS

7.0 References/Further Reading

1.0 INTRODUCTION

This unit is concern about the process of leadership. It explains how true leaders emerge. In other words, this unit provide student with comprehensive explanation on how true leaders emerges.

2.0 OBJECTIVES

At the end of this unit the learner should be able to:

(1) Explain roadmap to leadership

(2) Explain leadership aspect

(3) Explain Leadership power and sources

3.0 MAIN CONTENT

3.1 Roadmap to Leadership

The road to great leadership (Kouzes & posner, 1987) that is common to successful leaders:

(1) Challenge the process - first, find a process that you believe needs to be improved the most.

(2) Inspire a shared vision - Next, share your vision in words that can be understood by your followers.

(3) Enable others to act - Give them the tools and methods to solve the problem.

(4) Model the way - When the process gets tough, get your hands dirty. A boss tells others what to do; a leader shows that it can be done.

(5) Encourage the hearts - Share the glory with your followers' hearts, while keeping the pains within your own.

3.2 Leadership Aspect

Leadership has been defined as the ability to inspire other people to accomplish a preset objective. A leader has the ability to make people feel good about what they are doing and helps people feel like the work they are accomplishing is working towards the larger goal of the

corporation. According to Kouzes J.M (2002) the following are the three leadership aspects identified:

(1) Challenge the process – A leader looks for easier, more efficient ways to accomplish goals, rather than settling for the age-old way of doing something. Leaders are innovative and experimental to find new ways of doing things (Kouzes, 4).

(2) Inspiring – Leaders effectively communicate organizational goals to employees so people know what is expected of them. They give people a good reason to do their jobs by expressing how important their work is and how it helps the organization as a whole. They motivate and energize workers and give them confidence to do their job (Kouzes, 2014).

(3) Modeling – An effective leader teaches by example. Leaders work with the highest standards and expect others to work to those standards as well. They put forth a high quality effort and expect a high quality effort from those around them (Kouzes, 5).

3.3 Leadership Power and Sources

Power generally refers to the ability to commands people's obedience. Many attempts have been made to identify the courses of power through which one individual may influence another. One of the most useful frameworks for understanding these bases of influences has been developed by French and Raven (1990).These authors have distinguished five sources of power, which include:

(1) **Legitimate power**: This is based on one's hierarchical position the corporation president has greater legitimate power than the vice-president of manufacturing to speak on issues of corporate policy; by the same token, the vice-president of manufacturing has more legitimate power than the first line supervisor to decide on issues of capital expenditures, work floe, inventory levels etc.

(2) **Reward power**: This stems from the control of rewards valued by subordinates. Subordinates who act as their supervisors tell them to do so in past because they believe that their behavior will be rewarded.

(3) **Coercive power**: This is based on fear. If subordinates alter their behavior because they believe that a failure in company with orders from a superior will lead to punishment, they are responding to coercion.

(4) **Reference power**: This is based on the followers' identification with the leader. This identification may be based on personal admiration and usually includes a desire by the followers to be like the leader.

(5) **Expert power**: This stems from the perceived and demonstrated competencies of leaders to implement, analyze, evaluate and control the tasks assigned to their group.

4.0 CONCLUSION

The unit concludes that while some powers are available to leaders based on the position they occupy in an organisation, some power are given based on competency and intellectual capabilities. However, irrespective of how power is come about, an individual becomes powerful only if he/she is able to use such privilege positively towards common good or betterment of others' life.

5.0 SUMMARY

This unit has been able to look at the various roadmaps to leadership, leadership aspects and a leader's sources of power. Major identified process to leadership includes: Challenge the process, inspire a shared vision, enable others to act, model the way and encourage the hearts while major aspects of leadership are challenge the process, inspiring and modeling.

Also, this unit provides a comprehensive explanation on sources of power available to leaders. Among which includes: expert power, legitimate power, reference power, coercive power and reward power.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the major sources of power available to political or organisational leaders?
2. What are the processes or roadmaps of leadership in you?

3. Explain various aspects of leadership you know?

7.0 REFERENCES/FURTHER READING

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UNIT 3: THEORIES OF LEADER

CONTENTS

1.0 INTRODUCTION

This unit provides a comprehensive analysis on the first generational theories of leadership. From trait theory of leadership to the contingency approach.

2.0 OBJECTIVES

At the end of this unit, student should be able to understand the conventional theories of leadership:

(1) The trait Theory
(2) The functional or group Approach
(3) The action-centered leadership
(4) The Behavioural Approach to leadership
(5) The Managerial Grid
(6) Likert's leadership Theory
(7) Ohio State Leadership Studies
(8) The Situational Theory of Leadership
(9) The Contingency Approach
(10) The Path- Goal Theory of Leadership
(11) The Participatory Theory of Leadership

3.0 MAIN CONTENT

3.1.1 Conventional Theories of Leadership

There are a number of approaches to understanding leadership, ranging from the traditional view that leaders are born and not made, to the relatively recent view that leadership is more to do with the situation than to any universally desirable set of attribution. There are several theories of leadership that scholars and philanthropist have over the years identified. Among which include:

3.1.2 The Trait Theory

The first systematic effort by researchers to understand leadership was the attempt to identify the personal characteristics of leaders. It has been argued that there is a predisposition to consider leaders as naturally braver, more aggressive, more decisive and more articulate than other people, so that they stand out in terms of physical characteristics, personality and intelligence. One popular myth is that natural leaders are tall and stand above the crowd like Charles De Gaulle or Abraham Lincoln.

A complicating factor in this trait theory is the question of cultural bias. If there is a bias towards tall leaders, then most leaders will be tall because they are the ones who will be chosen. In the

same way, the so called ‘glass ceiling’ prevents women from becoming senior managers in some companies and therefore they do not emerge as leaders. When women do become senior managers, research shows that they can be just as effective leaders as men. Research has also shown that male and female managers are judged to be equally effective by their subordinates (Donnell and Hall, 1980). The research into personality traits, or a set of qualities that can be used to discriminate leaders from non-leaders, has failed to produce any consistent position. It appears that no trait or combination of traits guarantees that a leader will be successful or not.

3.1.3 **The Functional or Group Approach**

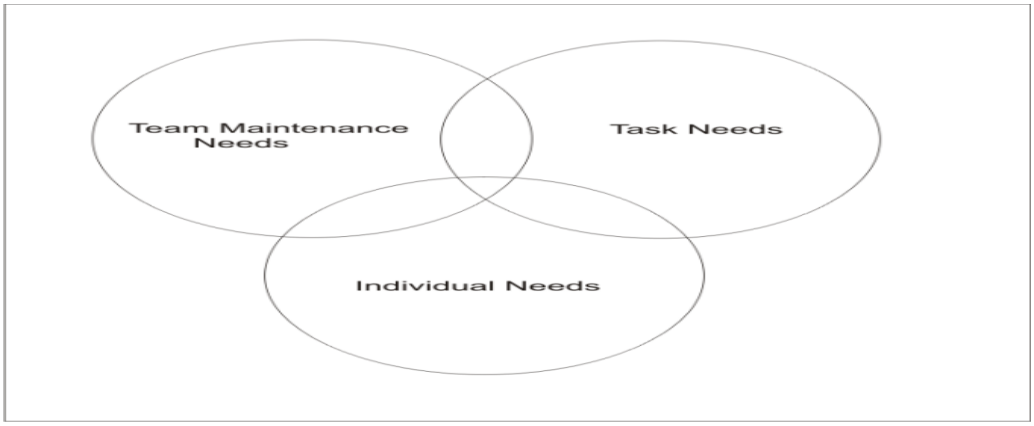
This approach neither focuses attention not on the personality of the leader nor on the man in the job per se but on the functions of leadership, is always present in any group engaged in a task. The functional approach views leadership in terms of how the leader’s behaviour affects and is affected by the group of followers. As such, it concentrates on the nature of the group of followers or subordinates. It thus focuses on the content of leadership.

The functional approach believes that the skills of leadership can be learnt, developed and perfected. Kotler (1990), successful companies seek out people with leadership potential. With careful selection, motivation and encouragement, a reasonable percentage of people can play important leadership roles in business organization.

3.1.4 Action –Centered Leadership

The general theory on the functional approach is associated with the work of John Adair (1984), and his ideas on action-centered leadership. According to him the effectiveness of the leader is dependent upon meeting tree areas of need within the work group- the need to achieve the common task, the need for team maintenance and the individual needs of group members. He symbolizes these needs by three overlapping circles.

Figure 1: Interaction of Needs within the Group:



Source: *Adair (1984)*

❖ **Task Functions:**

- Achieving the objectives of the work group.
- Defining group task.
- Planning the work.
- Allocation of resources.
- Organization of duties.
- Controlling quality and checking performance.
- Reviewing progress.

❖ **Team Maintenance Functions:**

- Maintaining moral and building team spirit.
- Ensuring the cohesiveness of the group.
- Setting standards and maintaining discipline.
- Establishing systems of communication.
- Training the group.
- Appointment of sub-leaders.

❖ **Individual Functions:**

- Meeting the needs of members individually.
- Attending to personal problems.
- Giving praise and status.

- Reconciling conflict between group needs and needs of the individual.
- Training individual.

The action of the leader in any one area of need will affect one or both all other areas of need. The ideal position is where complete integration of the three areas of need is achieved.

3.1.5 The Behavioural Approach to leadership

When it becomes evident that effective leaders did not apparently have any distinguishing traits or qualities, researchers tried to understand how successful and unsuccessful managers behave differently. Instead to find out what effective leaders were, researchers finds out what effective leaders did. The importance of arriving at this conclusion is that it meant to correct actions and behaviour could be learned and training could be provided for leadership.

Stodgill et. al., (1957) at Ohio State University during the 1940s concluded that there were two principal dimensions to leader behaviour. On the one hand there was a concern for people, and on the other a concern for production.

(1) **A concern for people:** This behaviour involves a manager's concern for developing mutual trust with subordinates. This was seen as an employee-oriented approach characterized by managers concern for their employees. The manager's behaviour encourages mutual trust and two –way communication.

(2) **A concern for production:** This behaviour involves managers concern for directing subordinates in order to achieve production targets. It is a task oriented approach, where managers tend to be highly directive and emphasize completing a task according to plan.

The research discovered, as might be expected, that employee turnover rates were lowest and employee satisfaction highest under leaders who were rated high in consideration of people. Conversely, high grievance rates and high turnover were associated with leaders who were rated low consideration on people and high in task orientation. However, it was not, of course , quite as simple as this . The researchers found that subordinates ratings of their leaders effectiveness depended not so much on the particular styles of the leader as on the situation on which the style was used.

3.1.6 The Managerial Grid

Robert Blake and James Mouton (1964) researched into leadership behaviour has shown that it is multidimensional. The management grid identifies a range of management behaviour based on various ways that task-oriented and employee-oriented styles can interact with each others. There are 81 possible interactions, but to attempt to define everyone would not be productive.

However, Blake and Mouton (1964) described five extreme positions:

(1) **Country Club Management:** Scores high on concern for people and low on concern for production. This management style may be based on a belief that the most important leadership activity is to secure the voluntary co-operation of group members in order to obtain high levels of productivity. Subordinates of these managers reports generally high level of satisfaction, but managers may be considered too easy going, soft mind and unable to make strict decisions.

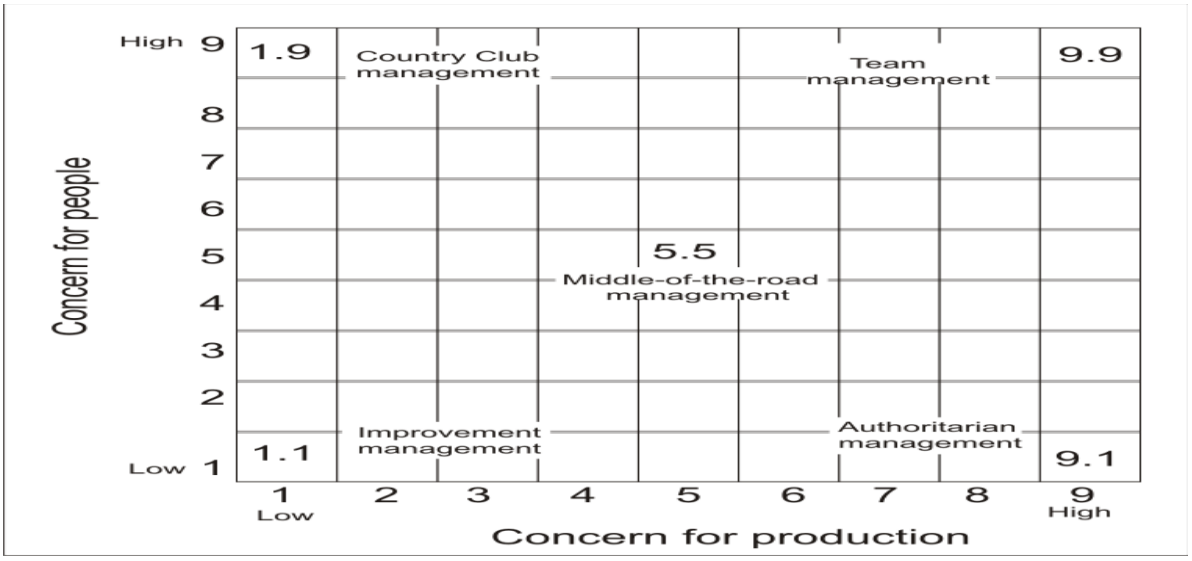
(2) **Authoritarian Management:** Scores a high concern for production and efficiency and a low concern for people. This management style is task- oriented and stresses the quality of the decision over the wishes of subordinates. Such managers believe that group-centered action may achieve mediocre results. They can be conscientious, loyal and personally capable , but can become alienated from their subordinates who may do only enough to keep themselves out of trouble.

(3) **Impoverished Management:** Scores a low concern for both people and production. This management style does not provide leadership in a positive sense but believes in laissez-faire approach, relying on previous practice to keep the organization going.

(4) **Middle-of-the –Road Management:** Scores a moderate amount of concern for both people and production. Managers applying this believe in compromise, so that decisions are taken but only if endorsed by subordinates. These managers may be dependable and support the status quo, but are not likely to be dynamic leaders and may have difficulty facing up to innovation and change.

(5) **Team Management**: Scores high on concern for both people and production. Blake and Mouton argue that this management style provides the most effective leadership. These managers believe that concern for people and for tasks are compatible. They believe that tasks need to be carefully explained and decisions agreed with subordinates to achieve a high level of commitment.

Figure 2: Blake and Mouton (1964) Managerial Grid:



Source: *Yalowku,2010*

Blake and Mouton (1964) also explain the positions on their managerial Grid. These ranges from position 9.1 to 9.9 as put below:

- **9.1-** The attitude of the manager or the leader is autocratic. He or she could be rightly called the stern task master. Their concern is not for people but for production. Such managers would not care much if workers go to hell so long as production targets are achieved.

- **1.9-** The attitude of the leader or manager is democratic. In this angle at the left of the grid, there is low concern for production but high interest in taking care of workers. Participative approach is employed here. Rigidity and control is avoided as far as possible. Here communication is not a one-way traffic rather a two-way traffic.

- **1.1-** The attitude here is laissez-faire or impoverished. There is both low concern for production and people. Here nobody is in charge because everybody is in charge. Responsibilities are shifted. Managers and leaders here are not as such interested in taking decisions. They prefer to get minimum work done.

- **5.5-**The leadership style here is the middle of the road or practical leadership whereby concern, support and recognition is given to both production or task and people. Equal recognition is given to both work and the people doing the work. In as much as work is important, the people doing the work are equally important.

- **9.9-**Team management, team meaningful leadership style. The attitude here is a high concern for people with high concern for production. Managers involve people so much in the daily running of the organization. Delegation of authority and responsibility is carried as far as possible. Employees are recognized and they in turn give their best to the organization. Here interdependence is an opportunity as well as a challenge for both management and workers. His approach is recommendable.

3.1.7 Likert's leadership Theory

Likert's System of Management (1967): Rensis Likert, Director of the institute for social Research at the University of Michigan developed a universal theory of leadership. Likert's theory consists of a Continuum of styles ranging from autocratic to participative. Four basic styles of Likert's systems of management were identified and they are as follows:

(1) Explosive Autocratic: Managers make all decisions. They decide what is to be done, who will do it and how and when it is to be accomplished. Failure to complete work as assigned will result in threats or punishment. Under this system, management exhibits little confidence or trust in employees.

(2) Benevolent Autocratic: Managers still make the decision, but employees have some degree of freedom and flexibility in performing their jobs so long as they conform to the specified procedures.

(3) Consultative: Managers consult with employees prior to establishing the goals and making decisions about the work. Employees have a considerable degree of freedom in making their own decisions as how to accomplish the work.

(4) Participative team: This is Likert's recommended system or style of management. The emphasis of the participative team is on a group participative role with full involvement of the employees in the process of establishing goals and making job related decisions. Employees feel free to discuss matters with their manager who displays supportive rather than condescending or threatening behavior.

3.1.8 Ohio State Leadership Studies

The key concern of the Ohio state leadership studies was the leader's behavior in directing the efforts of others toward group goals. After a considerable number of studies had been completed, two important dimensions of leader's behavior were identified.

(1) Initiating Structure: The extent to which the leader establishes goals , defines and structure their roles and the roles of subordinates towards the attainment of goals.

(2) Consideration: The extent to which leaders have relationship with subordinates, characterized by mutual trust, respect and consideration of employees' ideas , feelings, warmth, support and consideration for subordinates. The Ohio State Leadership theorists come about four types of leadership behaviour. Consideration and initiating structure are found to be uncorrelated and independent dimensions. They are separate behavioural categories and give rise to four types of leadership behaviours. On these bases, leaders may be:

(a) Low on consideration and low on structure.

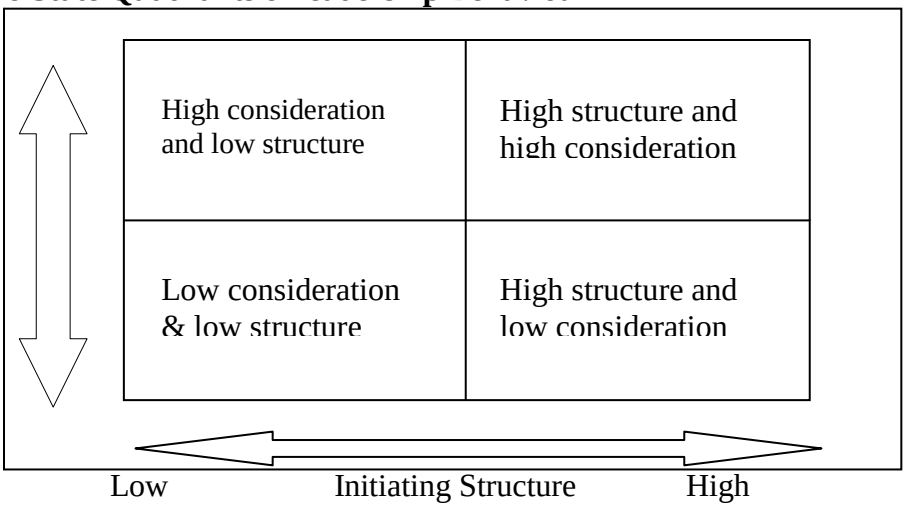
(b) Low on consideration and high on structure.

(c) High on consideration and high on structure.

(d) High on consideration and low on structure.

Research into the effects of these four types of leadership behaviour suggests that some balance is needed between consideration and structure in order to satisfy both individual needs and organizational goals.

Figure 3: Ohio State Quadrants of leadership Behaviour



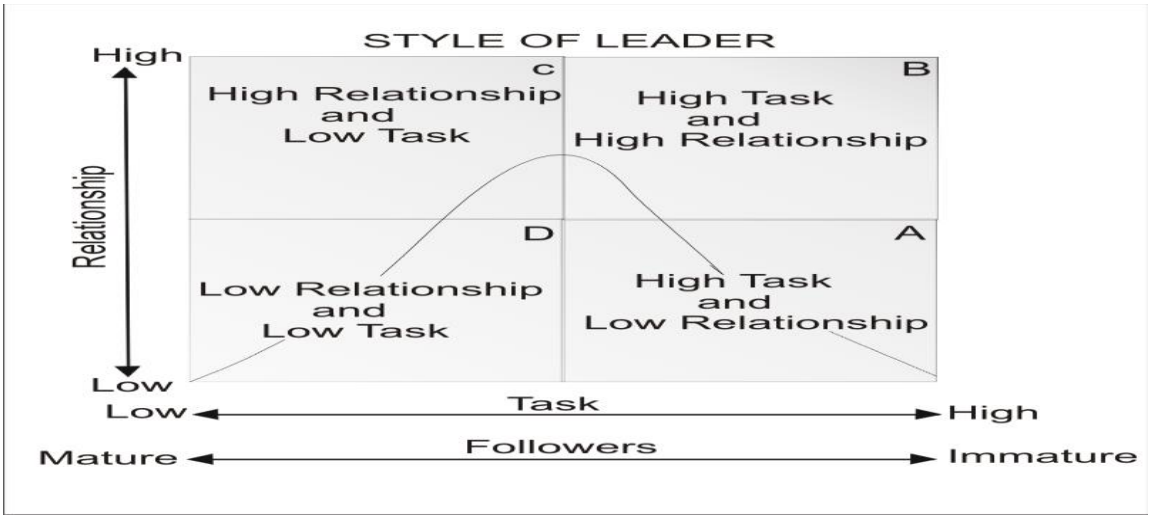
Source: *Yalowku,(2010)*

Initiating structure and consideration were identified as separate a distinct dimensions of leadership behavior. As illustrated in the figure 3 above, there are four basic leadership styles representing different combinations of leadership behavior. A manager can be high in both consideration and initiating structure, low in both or high in one leadership behavior, the one effective combination that meets the model. Rather, there combination or appropriate was determined was determined by the demands of the situation.

3.1.9 The Situational Theory of Leadership

Blanchard (1982) developed the view that leadership approaches depended very much on the 'maturity' of their subordinates. He defined 'maturity' as a desire for achievement and willingness to accept responsibility. He developed the theory that the relationship between leaders and followers moves through phases as subordinates 'mature' , and that managers need to very their leadership style with each phase.

Figure 4: Situational Theory of Leadership



Source: *Blanchard (1982)*

Explaining Figure 4 above: the initial phase, when employees first join an organization, a high task orientation is most appropriate (A). New employees have to be instructed in their task and in the organization's rules and procedures. At this stage a non-directive manager can cause anxiety in the new employee and confusion about what is to be done. As new employees become familiar with task and procedures, a more employee-oriented style can be introduced. **(B)** as employees become familiar with the work and culture of the organization they may seek greater responsibility and the leadership style can become participatory. **(C)** a point may be reached

when a high level of delegation can be achieved. (D) at this point , a low relationship and low task exists between leaders and their followers.

3.1.10 Fieldler (1971) Situational Theory of Leadership

Research carried out by Fiedler (1971) was based on the view that managers have difficulty in altering the style which has helped them to achieve success, and that in fact they are not very flexible. It follows from this that trying to change a manager's style to fit the situation may be both useless and inefficient and, therefore, effective group performance could best be achieved by matching the manager to the situation or by changing the situation to match the manager. For example, an authoritarian manager can be selected to fill a post that enquires directive leadership, or the job could be changed to give an authoritarian manager more formal authority over employees.

Fieldler argued that successful and effective leadership depended on three factors:

(1) **Leader- member relation:** This is the most important factor in leader's effectiveness. The degree to which leaders have the acceptance, confidence, support and loyalty of subordinates is an essential feature of leader effectiveness. When these relations are strong the leader has a firm base from which to influence behaviour of subordinates. When the leader- subordinate relation is weak, the influence of leaders is only through the impersonal authority provided by their position in the organization.

(2) **Task Structure:** This is measured by the complexity or simplicity of the job to be carried out in an organization. Managers have considerable power where the work of employees is highly structured and routine, because, it is possible in these circumstances to establish very specific criteria to enforce a desired level of performance. Managers will usually need to adopt a democratic, consultative leadership style if the work of an organization is complex and employees have problem –solving responsibilities which are not routine.

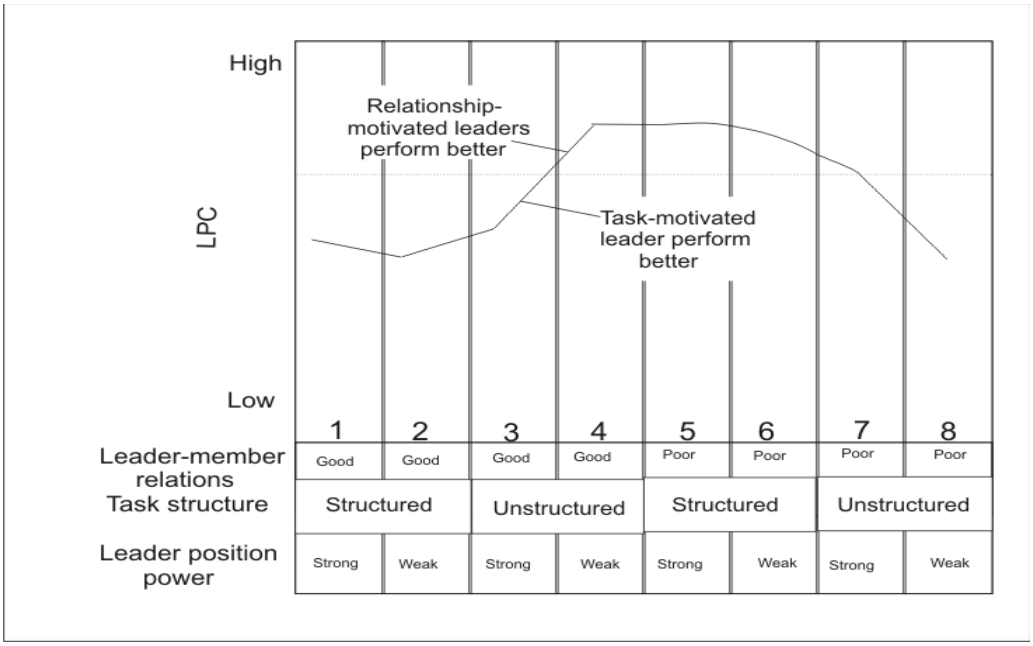
(3) **Leader's position power:** The extent of formal or informal power which a manager is able to exert may be conferred on them by the organization in which they work and the position they hold in it. The chief executives or managing directors of a company will have a great deal of authority because of their position in a commercial organization.

People in these positions can exert an autocratic style of leadership. Managers lower down the hierarchy of a company may have to be more democratic or laissez faire.

The leadership style contrasted by Fieldler (1971) are similar to the employee-centered and task-oriented approaches ; Fielder's model , however , uses a simple scale to measure leadership style to indicate the degree to which a man described favourably or unfavourable his least preferred co-worker. This was the employee with whom the person could work least well. Fieldler's theory was that managers who had great concern for human relations. These are described as relationship-oriented leaders who relatively permissive and considerate of the feelings of employees.

On the contrary, it is argued that managers who describe their LPC in an unfavourable manner tend to be task-oriented leaders who are less concerned with human relations and are relatively autocratic in their leadership style. These low LPC managers want to achieve the completion of a task, and the reaction of subordinates to their leadership style is of lower priority to them than the need to maintain production. This approach is a method of measuring the location of managers on the leadership style continuum.

Figure 5: Situational Determinants of Effective leadership:



Source: *Okenwa and Ugbo (2001)*

Combinations 1, 2, 3 and 8 are most likely to prove successful for task –motivated leaders. The situation in combination 1 is very favourable to the leader and followers will accept directives in order to maintain their good standing with the leader. Although, the leader's organization power is diminished in combination 2, the strength of the leader's personal power, combined with the limited discretion allowed by a structure task, provide considerable opportunities for the task –oriented manager. In combination 3, the strength of the leader's personal and organizational power makes forceful leadership possible. In combination 8, the situation facing the leader is so unfavourable that a forceful, directive approach offers the most promising option.

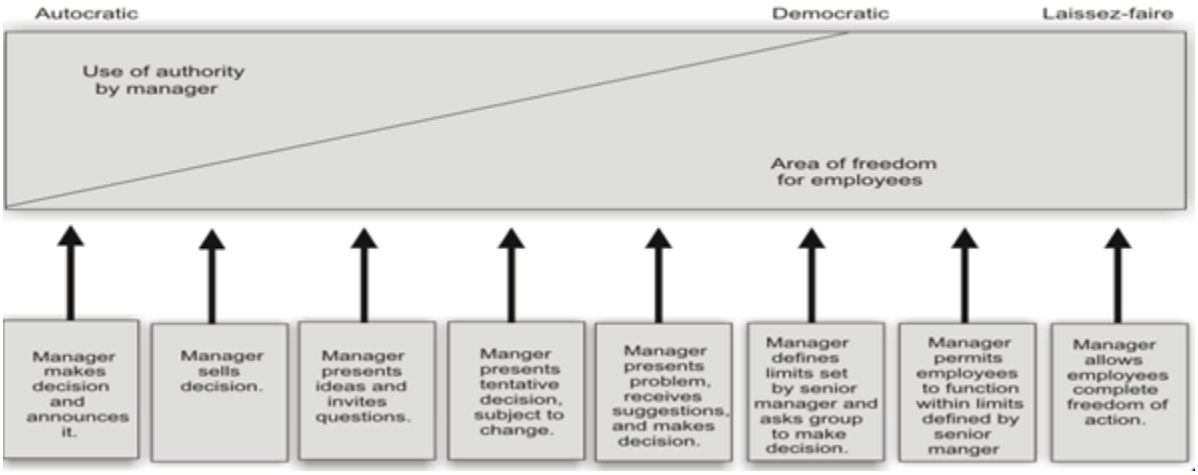
In the other four combinations (4, 5, 6 and 7) a relationship –oriented style is likely to be most effective. These situations require a wide variety of skills and knowledge that can only be provided by encouraging the abilities of a number of people.

3.1.11 The Contingency Approach

Research into trait and Behavioural approaches to effective leadership shows that it depend on many variables, in terms of individual personality, management style, corporate culture and the nature of the task to be performed. There is not one trait or approach which is effective in all situations. The contingency approach focuses on the situational factors which influence leadership. Robert Tannenbaum and Warner Schmidt (1973) were among first researcher to describe various factors which influenced a manager's choice of leadership style. They took into account that managers need to consider practical considerations before deciding how to manage. They concluded that there were three main 'forces' on a manager's mind in deciding a leadership style.

(1) **Personal Forces:** the managers own background , experience ,confidence and leadership inclinations;
(2) **The characteristics of subordinates:** the managers need to consider subordinates relative willingness or unwillingness to accept responsibility and take decisions;
(3) **The Situation:** The managers need to recognize the situation in which they find themselves , in terms of corporate culture , their colleagues style of work the nature of the tasks to be performed and time pressures.

Figure 6: Tannenbaum and Schmidt's (1973) combined these 'Forces' into a leadership continuum:



Source: *Tannenbaum and Schmidt (1973)*

The above continuum suggests that a manager should consider a full range of options before deciding how to act, from a very autocratic leadership style to a very democratic one. Some problems, for example, which involve everybody, may be best dealt with through laissez-faire leadership. If all employees are accountable and influential in the decision –making process, the best role for the leader may be to follow a 'hands-off' approach.

The point about leadership style is that shifts the focus from the individual leader to the functions that leaders perform within an organization. In order for any group to operate effectively, both tasks and problem –solving functions have to be performed and, at the same time, group-maintenance or 'social' functions. It can be argued that any group of people needs to have leadership in both functions, so that, on the one hand, decisions are made, and on the other hand, the ideas and feeling of the whole group are considered. The social functions can develop the cohesion of the group and may be carried out by encouragement and support, by recognizing the importance of all members of the group to its smooth operation.

3.1.12 The Path- Goal Theory of Leadership

This theory was developed by Robert House (1971) and others as an approach to understanding and predicting leadership effectiveness in different situations. The Theory focuses on the leader as a source of rewards and attempts to predict how different types of rewards and different leadership styles affect the performance of subordinates, based on the view that an individual's motivation depends both on the expectation and the attractiveness of the rewards available. The manager identifies the 'goal' and rewards which are available and the 'paths' to be taken to reach them.

- **The Process of Effective Leadership:**

(1) Identifies and communicates to subordinates the path they should follow in order to achieve personal and organizational objectives;
(2) Helps subordinates along this path;
(3) Helps to remove obstacles on the path that might prevent the achievement of these objectives.

The manager's leadership style will influence the perception of the rewards available and what has to be achieved to earn them. An employee- centered manager will offer a wide range of rewards and also be sensitive to individual needs. The rewards may be in terms of pay and promotion, but will also include support, encouragement and recognition.

On the other hand, a task-oriented manager will offer a more limited set of rewards which will be less concerned with individual needs. However, people working for this type of manager will know precisely what they have to do in order to obtain the particular rewards available. So the path-goal theory suggests that the most effective leadership style will depend on the personal characteristics of employees and on the situation in the workplace.

This suggests that managers need to consider the characteristics of their employees and the work to be carried out, before deciding on their leadership style. Vroom and Jago (1988) have criticized the path-goal theory as incomplete because it fails to take into account the characteristics of the type of decision with which they are faced and the situation in which the

decision is being made. This can be seen as a further theory of leadership based on the level of participation between managers and employees.

3.1.13 The Participatory Theory of Leadership

Vroom and Yetton (1973) developed a model of situational leadership in order to help managers decide when and to what extent they should involve employees in solving a particular problem. They suggested that managers needed to ask themselves a number of questions before deciding on an appropriate leadership style.

(1) Is it necessary to make an objective decision with which employees may disagree?
(2) Do the managers have sufficient information or skill to solve the problem on their own?
(3) Is the problem structured?
(4) Is the acceptance of the employees critical for the success of the decision?
(5) If the decision was made by management, would it be accepted by the employees?
(6) Do employees share the achievement of the same objectives in solving the problem?

Once these questions have been answered, it is then possible to select a leadership style, although there may be further choices to be made. Vroom and Yetton defined five leadership styles in terms of the degree of participation by subordinates in the decision –making process.

(1) **Autocratic I (AI) -** Managers solve the problem or make the decisions themselves, using available information.
(2) **Autocratic II (AII) -** Managers obtain information from subordinates before making a decision, and then decide on the solution to the problem themselves. The role of subordinates is to provide information for decision making and they may or may not have been told what the information is for or what the problem is that needs to be solved.
(3) **Consultative I (CI**) - Managers share the problem with the relevant subordinates individually and obtain their ideas and information. Managers then make the decision, which may or may not be influenced by the subordinate's opinion.
(4) **Consultative II (CII)-**Managers share the problem with the relevant subordinates as a group and obtain their ideas and information. These may or may not be used in decision making.

(5) **Group Participation (G)** - Managers' share a problem with subordinates as a group. The managers and subordinates together analyze the problem and consider alternative solutions. Managers act as co-coordinators in order to enable the group to reaches consensus, which is then accepted and implemented.

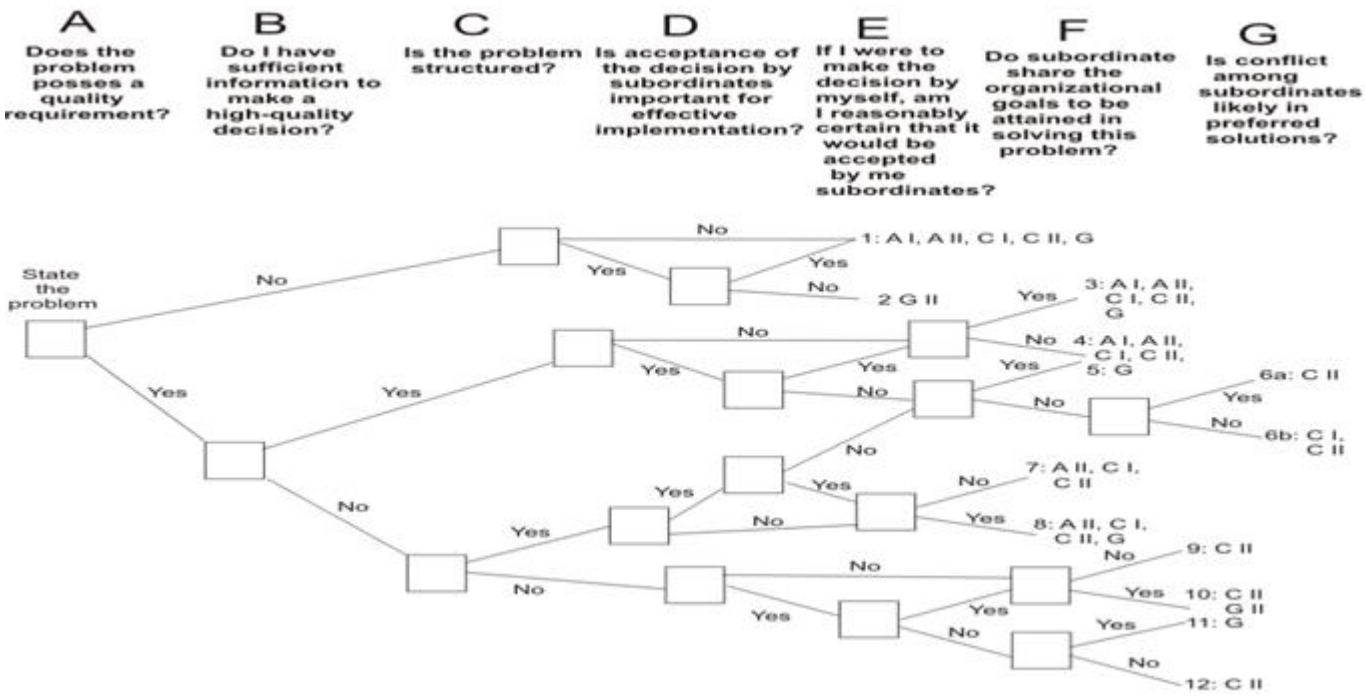
It can be argued that the effectiveness of any decision depends on:

- The quality of the decision ;
- The commitment made to the decision maker.
- The time taken to make a decision.

There is a cost factor, certainly in terms of time, in making effective decisions which has to be balanced against the time lag between identifying a problem and solving it. Equally taking a reasonable amount to time may help to develop the ability of other people to analyze problems and arrive at solutions. with fundamental and important decisions it is usually essential , in order to obtain the best results, for the people responsible for implementing the decision to feel that they have participated in arriving at it. Even if the final decision is not quite the one some people would have chosen, if they have been consulted they may still be able to give it their full support.

By working through the question A to G (in Figure 7 below): managers can arrive at the appropriate level at which to involve their subordinates in the decision under consideration.

Figure 7: Participatory Leadership Model



Source: *Vroom and Yetton (1973)*

Figure 7 shows that, if managers are attempting to decide about buying a new piece of equipment they may answer 'No' to question B, 'Yes' to D , 'No' to E and 'No' to F. This means that the managers do not have sufficient information to make a high quality decision; the acceptance of the decisions by subordinates is important for effective implementation; if managers make the decision by themselves it would not necessarily be accepted to subordinates (perhaps because they have to operate the new equipment); and the subordinates do not necessarily share the organizational goals to be attained in solving the problem.

4.0 CONCLUSION

Based on the review several conventional theories of leadership in the unit, the unit conclude that there is no one best way of leading people. The act of leading is often based on what the environment and situation around provides. The unit reviewed:

(1) The trait Theory
(2) The functional or group Approach
(3) The action-centered leadership
(4) The Behavioural Approach to leadership
(5) The Managerial Grid

(6) Likert's leadership Theory

(7) Ohio State Leadership Studies

(8) The Situational Theory of Leadership

(9) The Contingency Approach

(10) The Path- Goal Theory of Leadership

(11) The Participatory Theory of Leadership

However, recognition of inadequacies of conventional leadership models (Cheng, 2002) led to the emerging theories of leadership which was supposed to synthesize all the main concepts and address all noted weakness but, with one major difference. Emerging leadership theorists belief are driven by a noble and morale purpose. Among their numerous characteristics, they are charismatic, visionaries, change agents, inspire commitment and trust, sustain and manage culture of excellence, risk-takers, share power, champion the needs of followers, goal oriented, manage conflicts, inspirational motivators, behaviour mirrors beliefs (Fullan, 2001).

5.0 SUMMARY

The unit looks at various conventional leadership theories such as; the trait theory, the functional or group approach, action –centered leadership, the behavioural approach to leadership, the managerial grid, Likert's leadership theory, Ohio state leadership studies, the situational theory of leadership, the contingency approach, the path- goal theory of leadership, the participatory theory of leadership and concludes that there is no one best way of leading. Instead, the style of leading is dependent on the leader and the circumstances surrounding him/her in making the decision as its affects his/her subjects.

More so, the theories examined in this unit are traditional which may not be able to answer the leaders' need in the new ever dynamic world of business and politics. Hence, the emerging theories (core of next unit) become inevitable.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and explain five conventional leadership theories as explained in this unit?

2. What are the major differences between trait theory of leadership and contingency leadership theory?

3. With your knowledge of conventional leadership theories, your uncle who owns a marketing firm asked for your advice on which leadership theory to use in order to grow performance?

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UNIT 4: EMERGING LEADERSHIP THEORIES

CONTENTS

1.0 INTRODUCTION

Given the importance of leadership, it should not be surprising that new theories for it and other related issues continue to emerge. Three emerging theories are charismatic leadership, leader-member exchange, Transactional and transformational leadership (Bedian, 1993).

2.0 OBJECTIVES

At the end of this unit, student should be able to understand various emerging theories of leadership as applicable to modern organisations. The theories include:

(1) Leader-Member Exchange Theory
(2) Charismatic Leadership Theory
(3) Transactional Leadership Theory
(4) Transactional Leadership Theory
(5) Transformational Leadership Theory

3.1 Leader-Member Exchange Theory

Most leadership theories assume that a leader behaves in much the same way towards all followers. In contrast, leader-member exchange theory holds that leadership is a one-on-one exchange in which leaders behave differently with different group members rather than the same with each member. It further holds that followers based on the quality of their interpersonal

relationships (Exchanges) with a leader, form different group (higher quality and an out-group (lower quality).Insiders and outsiders experience very different work outcomes. Leader interactions with insiders resemble social transactions, with leaders and followers exchanging resources and enjoying higher levels of trust and support.

By contrast, in exchange with outsiders, leaders act as supervisors, relying on formal authority to extract follower performance. At the extreme, leader exchange with outsiders can be very mechanistic, arising from workplace rules, policies and procedures, rather than spontaneous interaction. Such exchanges are typically characterized by low levels of trust, interaction, support, and leader provided rewards.

Research suggested that, as a consequence of such contrasting treatment, in-group members perform better and are more satisfied than out-group members. More significantly, it underscores the fact that leader behaviour originates, in part in followers. Hence, leadership is a mutual-influence process whereby leaders respond differently to different followers and both leaders and followers alter their behaviour depending on the performance of the other.

3.2 **Charismatic Leadership Theory**

This is an extension of attribution theory. It says that followers make attributions of heroic or extraordinary leadership abilities when they observe certain behaviors. Studies on charismatic leadership have been directed at identifying those behaviors that differentiate charismatic leaders. Several authors have attempted to identify personal characteristics of the charismatic leader.

Robert House (1980) identified three, namely; extremely high confidence, dominance and strong convictions in his or her belief. Warren Bennie (1978) after studying ninety of the most effective and successful leaders in the united states, found that they had four common competencies: they had a compelling vision or sense of purpose; they could communicate that vision in clear terms that their followers could readily identify with; they demonstrated consistency and focus in the pursuit of their vision; and they knew their own strengths and capitalizes on them. Conger and Kanugo (1988) at Mc Gill University however completed the most recent and comprehensive

analysis. Among their conclusions, idealized goal that they want to achieve a strong personal commitment to their goal, are perceived as unconventional are self confident.

Finally, charismatic leadership may not always be needed to achieve high levels of employee performance. It may be the most appropriate when the follower's task has an ideological component. This may explain why when charismatic leader surface, it is more likely to be in politics, religion, wartime or when a business firm is introducing a radically new product or facing a life-threatening crisis. Such conditions tend to involve ideological concerns.

❖ Features of Charismatic Leaders

According to Robert House (1980) the following are the identified features of charismatic leaders:

(1) Self confidence: They have complete confidence in their judgment and ability.

(2) A vision: This is an idealized goal that proposes a future better than the status quo. The greater the display between this idealized goal and the status quo, the more likely that followers will attribute extraordinary vision to the leader.

(3) Ability to articulate the vision: They are able to classify and state the vision in terms that are understandable to others. This articulation demonstrates an understanding of the follower's needs and hence acts as a motivating force.

(4) Strong conviction about the vision: Charismatic leaders are perceived as being strongly committed and willing to take on high personal risk, incur high costs and engage in self-sacrifice to achieve their visions.

(5) Behavior that is out of ordinary: Those with charisma engage in behavior that is perceived as being novel, unconventional and counter to norms. When successful, these behaviors evoke surprise and admiration in follower.

(6) Environment sensitivity: These leaders are able to make realistic assessments of the environmental constraints and resources needed to bring about change.

3.3 Transactional Leadership Theory

Most of the leadership theories presented like the Ohio State studies, Fiedler's model, path-goal theory and the leader participation model have concerned transactional leader. These kinds of leaders guide or motivate their followers in the direction of established goals by clarifying role and task requirements. However, there is another type of leader who inspires followers to transcend their own self- interest for the good of the organization and who is capable of having a profound and extraordinary effect on his or her followers.

- **Characteristics of Transactional Leadership**

(1) **Contingency Reward:** Contacts exchange of rewards for effort, promise rewards for good performance, recognizes accomplishments.

(2) **Management by Exception:** Watches and searches for deviations from rules and standards, takes corrective action

(3) **Laissez-Faire:** Abdicates responsibilities avoids making decision**.**

3.4 Transformational Leadership Theory

Transformational leadership is built on top of transactional leadership- it produces level of subordinate effort and performance that go beyond what would occur with a transactional approach alone. Moreover, transformational leadership is more than charisma. The purely charismatic leader may want followers to adopt the charismatic's world view and go on further, the ability to question not only established views but evenly those established by the leader.

This has its belief that the challenges facing the world in the new millennium require a new kind of leadership. Advocates of this belief describe what has been dubbed transformational leadership as consisting of two complementary roles: the mover-and –shaker and the gentle persuader. In the first, the mover –and –shakers achieves a transformation in an organization's fortunes and is, therefore, described as a transforming leader. In the second, as a gentle persuader, the transforming leader converts followers into leaders for the good of the whole, to consider long term rather than immediate needs, and to become more aware and accepting of an

organization's goal. Transformational leaders achieve performance beyond expectations through four leadership factors: charisma, inspiration, individualized consideration and intellectual stimulation. (Yalokwu, 2006).

(1) **Charisma**: Transformational leaders use charisma to provide followers with a clear vision of a desired future state, instill pride, and gain respect and trust.

(2) **Inspiration**: They use inspiration to excite their followers with the idea that they can achieve great things with extra effort.

(3) **Individualized Consideration:** They demonstrate individualized consideration. That is, they pay close attention to differences among followers, serve as mentors to those who need coaching and counseling, and treat each follower as an individual worthy of respect.

(4) **Intellectual Stimulation:** They provide followers with intellectual stimulation by promoting new ways of looking at old problems, viewing difficulties as challenges to be met, and emphasizing creative thinking and initiative.

Advocates of transformational leadership believe it can make the difference between an organization's success or failure. They have found that followers are not only more satisfied when they believe that their managers are transformational leaders, but they also do better jobs.

4.0 CONCLUSION

This unit provides empirical and conceptual evidences on the subject of emerging leadership theories. The unit concludes that no matter the leadership theory in use, one thing is sacrosanct, leaders and followers should have unity of direction to foist unity of goal attainment.

5.0 SUMMARY

The unit was able to provide comprehensive explanations on emerging leadership theories. For instance, leader-member exchange theory holds that leadership is a one-on-one exchange in which leaders behave differently with different group members rather than the same with each member. Arguably, either leader-member exchange, transactional, charismatic or transformational leadership all leaders found under these titles exhibits high level of self-

confidence, determination, charisma, goal-oriented, result-oriented, self-inspired, can do spirit, pathfinder and visionary.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain with examples four emerging leadership theories you know?
2. What are the differences between transformational leader and charismatic leader?
3. With periscope example, your friend asked you to advise him on the best emerging leadership theory to use in managing his father's business, what will you advise him and why?

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UNIT 5: LEADERSHIP STYLES

CONTENTS

1.0 INTRODUCTION

There are as many leadership styles as there are leaders. Business people and psychologists have developed useful shorthand ways of describing the main leadership styles. Whatever capacity you find yourself, your leadership style is crucial to your success. Consciously or subconsciously, everyone use some leadership styles features, at least some of the time.

2.0 OBJECTIVES

At the end of this unit, students should be able to understand various leadership styles. I.e

(1) Autocratic leadership style
(2) Democratic leadership style
(3) Laissez-faire leadership style
(4) Other types of leadership styles

3.0 MAIN CONTENT

Basically, according to Bass (1985), there are three main types of leadership styles used in an organization and they are; Autocratic, Democratic, Laissez-faire leadership styles:

3.1 **Autocratic Leadership Style:** It is a leadership situation where there is one-way communication, denial or conflict, an absolute monarch with unlimited authority. It is also a situation where the enterprise is run in a very autocratic, directive manner and the entire decision making process center around the entrepreneur under authoritarian leadership, the leader is the sole determiner of what is done. Autocratic leadership style calls for high goals and means control.

In other words, it implies a job-centered style. This focuses on the issue of close supervision, legitimate and coercive power, meeting schedule and evaluating work performance. This leader is very much likely to rely on the power of his position, more punishment centered and more tasks oriented. He gets works done through fear. He however, gets short-run and output gains, that is, while he is around. Thus, again in fear subordinates under this style do what they are told to do, so as not to lose the means of satisfying their daily needs and wants. This leader tells a worker what to do and how to do it. He takes all decisions, issues, instructions and expects subordinates to follow sheepishly without questions.

The autocratic leadership is dogmatic, positive and leads by ability to withhold or give rewards and punishment. The hallmark of autocratic leader is that he does not allow subordinates to participate in decision making process. It is used when leaders tell their employees what they want to do and how they want it accomplished, without getting the advice of their followers. This kind of leadership style instills fear and at times confusion in subordinates. The focus of attention usually is on work progress, work procedures and road blocks that are preventing goal attainment. Autocratic is also defined as someone who holds all authority and responsibility with communication usually moving from top to bottom.

In conclusion, the style sees people as commodities to be us up and replaced as needed. Manager using this style has complete responsibility for direction and decision making. Employees are expected only to sheepishly follow orders and loyalty is expected.

3.2 Democratic Leadership Style: The leader is characterized by employee oriented and democratically supportive behaviors. He uses general supervision and is considerate of his subordinates. He is group centered and non-directive. Under this form of leadership, the leader

consults with subordinates on proposed actions and decisions and encourages participation from them. He holds final responsibility but also delegate authority to others, who participate in determining work assignments, communication is active i.e. upward and downward. It also involves the leader including one or more employees in the decision making process.

However, the leader maintains the final authority in decision making. Using this style is not a sign of weakness; rather it is a sign of strength that employees will respect. It is also a very open style of running a team. Ideas move freely amongst the group and the style is needed in dynamic and rapidly changing environments where very little can be taken as a constant. The democratic leadership style means facilitating the conversation, encouraging people to share their ideas and then synthesizing all the available information into the best possible decision.

When situations changes frequently, democratic leaders offers a great deal of flexibility to ways of doing things. Democratic style can bring the best out of an experienced and professional team. It capitalizes on their skills and talents by letting them share their views, rather than simply expecting them to conform. The democratic leader welcomes team input and facilitates group discussion in decision making. This leadership styles share plans with the group and offers multiple options for group consideration. It also encourages members to work freely with each other and embrace division of tasks to the group. This leader is objective in praise and criticisms and joins group activities without over-participating. A democratic leadership style allows for multiple view points, inputs and participation while still maintaining control and the leadership role. A qualified democratic leader recognizes each member's strengths and effectively elicits the best performance from each member, all the while guiding and leading effectively. A challenge for the democratic leader is to recognize that not all tasks need to be handled by the group, that the leader should appropriately address some issues alone. Also, leader announces principles and sets forth methods of decision making, permits ideas, questions and discussion from followers.

3.3 Laissez-faire Leadership Style: This is the type of leadership in which the leader uses hi or her power very little, if at all. It involves given subordinates a high degree of independence in their operations. Under this type of leadership, leaders depend largely on subordinates to set their

own goals and the means of achieving them. Leaders perceive their role as one of facilitating the operations of followers by furnishing them information and acting primarily as a contact with the group's external environment. It should be noted that there is no best form of leadership as the situation will determine the most appropriate form at a point in time.

Generally, the style of leadership adopted will depend on the forces operating in the manager's personality including his or her value system, confidence in subordinates, inclination toward leadership style and feelings of security in uncertain situations. Forces in the subordinates that will affect the manager's behavior and forces in the situation such as organization values and traditions, how effectively subordinates works as a unit, the nature of a problem and whether authority to handle it can be safely delegated and the pressure of time. In this style, the dealer allows the employees to make decisions.

However, the leader is still responsible for the decisions that are made. This is used when employees are able to analyze the situation and determine what needs to be done and how to do it. This is used when employees are able to analyze the situation and determine what needs to be done and how to do it. This is not a style to use so that you can blame others when things go wrong, rather this is a style to be used when you fully trust and have confidence in the people below you.

A laissez-faire leadership style works best when group members are highly skilled and motivated with a proven track record of excellence. This hands-off approach can allow these capable members to be productive and effective. The laissez-faire style is interpreted by the members as a sign of confidence and trust in their abilities and further empowers them to be successful and motivated.

The laissez-faire leader allows the group complete freedom for decision-making without participating himself. The leader type provides materials and offers to assist only by request. The laissez-faire leader does not participate in work discussions or group tasks. This leader does not offer commentary on members' performance unless asked directly and does not participate or intervene in activities. Also, it is the use of work-centered behavior coupled with a protective employee centered concern. This leadership style expects everyone to work hard and the

employees will be guaranteed employment and given security benefits such as medical and retirement programs. Also represents problems with some boundaries and let followers make final decisions. Leader allows followers as much freedom as leader has to define the problems and make decisions. It involves non-interference policy, allows complete freedom to all workers and has no particular way of attaining goals.

3.4 Other types of leadership styles

Other types of leadership styles have emerged from these three main types among which included:

1. Benevolent Leadership style
2. Charismatic leadership.
3. People-oriented leadership/relations-oriented leadership.
4. Servant leadership.
5. Task-oriented leadership.
6. Transactional leadership.
7. Transformational leadership

(1) **Benevolent leadership style:** They ensure that their staff follows procedures exactly. This is a very appropriate style for work involving serious safety risks or where large sums of money are involved.

(2) **Charismatic Leadership Style:** This can appear similar to a transformational leadership style, In that the leaders injects huge doses of enthusiasm into his or her team and is very energetic in driving others forward. However, a charismatic leader can tend to believe more in him or her than in their team. This can create a risk that a project or even an entire organization might collapse if the leader were to leave. As such, charismatic leadership carries great responsibility and needs long-term commitment from the leader.

(3) **People-Oriented Leadership Style:** This style of leadership is when the leader totally focuses on organizing, supporting and developing the people in the leader's time.

(4) **Servant -Leadership Style:** This occurs when someone at any level within an organization, leads simply by virtue of meeting the needs of his or her team. In many ways, servant leadership is a form of democratic leadership as the whole team tends to be

involved in decision making. Supporters of the servant leadership model suggest it is an important way ahead in a world where values are increasingly important, in which servant leaders achieve power on the basis of their values and deals. Others believe that in competitive leadership situations, people practicing servant leadership will often find themselves left behind by leaders using other leadership styles.

(5) **Task-Oriented Leadership Style:** A highly task-oriented leader focuses only on getting the job done, and can be quite autocratic. However, the task-oriented leaders spare little thought for the well-being of their teams, this approach can suffer many of the flaws of autocratic leadership with difficulties in motivating and retaining staffs.

(6) **Transactional Leadership Style:** This style of leadership starts that team members agree to obey their leader totally when they take a job on: the transaction is that the organization pays the team members, in return for their effort and compliance. As such, the leader has the right to punish team members if their work doesn't meet the pre-set standard. Team members can do little to improve their job satisfaction under transactional leadership the leader could give the team members some control of their income/reward by using incentives that encourages even higher standards or greater productivity.

(7) **Transformational Leadership Style**: A person with this leadership style is a true leader who inspires his or her team with a shared vision of the future. Transformational leaders are highly visible and spend a lot of time communicating. They don't necessarily lead from the front and they tend to delegate responsibility amongst their team.

(8) **Situational Leadership Style:** While the transformational leadership approach is often highly effective, there is no right way to leadership or management style that suits all situations. To choose the most effective approach, the following must be considered.

(a) The skill levels and experience of the members of the team.
(b) The work involved.
(c) The organizational environment
(d) The preferred or natural style by individual.

A leader who will find himself or herself switching instinctively between styles according to the people and work they are dealing with. This is often referred to as situational leadership.

4.0 CONCLUSION

During the course of this unit, it has been discovered that there is no best way of leading people or subordinates and that there is no best leadership style that can be apply to all situation in an organization. Therefore, contingency approach to leadership should be more appropriate.

5.0 SUMMARY

In the course of this unit, leadership styles have been mentioned and examined. The major leadership styles can be classified into three broad categories: autocratic (authoritarian) style, democratic style and genuine laissez-faire style. Other forms of leadership styles include:

(a) Benevolent Leadership style
(b) Charismatic leadership style.
(c) People-oriented leadership/relations-oriented leadership style.
(d) Servant leadership style.
(e) Task-oriented leadership style.
(f) Transactional leadership style.
(g) Transformational leadership style.

6.0 TUTOR-MARKED ASSIGNMENT

1. With examples, explain various major leadership styles you know?
2. List and explain five leadership styles as discussed under 'other types of leadership styles' in this unit?
3. Emeka and Tobi once argued that democratic leadership style is the best approach to leading than autocratic. Do you agree with this argument? Discuss

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MODULE 2: SERVANT LEADERSHIP AND PROBLEM OF LEADERSHIP IN NIGERIA

UNIT 1: SERVANT LEADERSHIP

CONTENTS

7.0 References/Further Reading

1.0 INTRODUCTION

The words *servant* and *leader* are usually thought of as being opposites. In deliberately bringing those words together in a meaningful way, Robert Greenleaf gave birth to the paradoxical term servant leadership.

2.0 OBJECTIVES

At the end of this unit students should be able to understand:

(1) Overview of servant leadership,
(2) Concept of servant leadership, and
(3) Characteristics of servant leadership.

3.0 MAIN CONTENT

3.1 Overview of Servant Leadership

In the years since then, many of today's most creative thinkers are writing and speaking about servant leadership as an emerging leadership paradigm for the 21st century. The list is long and includes: James Autry, Warren Bennis, Peter Block, John Carver, Stephen Covey, Max DePree, Joseph Jaworski, James Kouzes, Larraine Matusak, Parker Palmer, M. Scott Peck, Peter Senge, Peter Vaill, Margaret Wheatley, and Danah Zohar, to name but a few of today's cutting-edge leadership authors and advocates of servant leadership. In her groundbreaking book on quantum sciences and leadership, *Rewiring the Corporate Brain* (1997), Zohar goes so far as to state that, "Servant-leadership is the essence of quantum thinking and quantum leadership" (p. 146).

3.2 Definition of servant leadership

Servant leadership emphasizes increased service to others, a holistic approach to work, promoting a sense of community, and the sharing of power in decision making. *"A new kind of leadership model – a model which puts serving others as the number one priority. Servant-leadership emphasizes increased service to others; a holistic approach to work; promoting a*

sense of community; and the sharing of power in decision-making (Spears, 1996, p. 33)." Each of these central variables is explained individually below:

1. *Service to Others:* Servant-leadership begins when a leader assumes the position of servant in their interactions with followers. Authentic, legitimate leadership arises not from the exercise of power or self-interested actions, but from a fundamental desire to first help others. A servant-leader's primary motivation and purpose is to encourage greatness in others, while organizational success is the indirect, derived outcome of servant-leadership.

2. *Holistic Approach to Work:* Servant-leadership holds that "The work exists for the person as much as the person exists for the work" (Greenleaf, 1996, p. 8). It challenges organizations to rethink the relationships that exist between people, organizations and society as a whole. The theory promotes a view that individuals should be encouraged to be who they are, in their professional as well as personal lives. This more personal, integrated valuation of individuals, it is theorized, ultimately benefits the long-term interests and performance of the organization.

3. *Promoting a Sense of community:* Greenleaf lamented the loss of community in modern society, calling it "the lost knowledge of these times" (1970, p. 28). Servant-leadership questions the institution's ability to provide human services, and argues that only community, defined as groups of individuals that are jointly liable for each other both individually and as a unit, can perform this function. Only by establishing this sense of community among followers can an organization succeed in its objectives. Further, the theory posits that this sense of community can arise only from the actions of individual servant-leaders (Greenleaf, 1970, p. 30).

4. *Sharing of Power in Decision-Making:* Effective servant-leadership is best evidenced by the cultivation of servant-leadership in others. By nurturing participatory, empowering environments, and encouraging the talents of followers, the servant-leader creates a more effective, motivated workforce and ultimately a more successful organization. As phrased

by Russell (2001), "Leaders enable others to act not by hoarding the power they have but by giving it away" (p. 80).

3.3 Features of servant leaders

Servant leadership seeks to involve others in decision making, is strongly based in ethical and caring behavior, and enhances the growth of workers while improving the caring and quality of organizational life (Spears, 2010). *"The servant-leader is servant first. It begins with the natural feeling that one wants to serve. Then conscious choice brings one to aspire to lead. The best test is: do those served grow as persons: do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society; will they benefit, or, at least, not be further deprived? (Greenleaf, 2002, p. 27)."* The following are the characteristics of a servant leader: After some years of carefully considering Greenleaf's original writings, Spears (2002) identified a set of ten characteristics of the servant leader that are of critical importance—central to the development of servant-leaders. This involves a deepening understanding of the following characteristics and how they contribute to the meaningful practice of servant leadership. These ten characteristics include:

Listening

Leaders have traditionally been valued for their communication and decision-making skills. Although these are also important skills for the servant leader, they need to be reinforced by a deep commitment to listening intently to others. The servant leader seeks to identify the will of a group and helps to clarify that will. He or she listens receptively to what is being said and unsaid. Listening also encompasses hearing one's own inner voice. Listening, coupled with periods of reflection, is essential to the growth and well-being of the servant leader.

Empathy

The servant leader strives to understand and empathize with others. People need to be accepted and recognized for their special and unique spirits. One assumes the good intentions of co-workers and colleagues and does not reject them as people, even when one may be forced to

refuse to accept certain behaviors or performance. The most successful servant leaders are those who have become skilled empathetic listeners.

Healing

The healing of relationships is a powerful force for transformation and integration. One of the great strengths of servant leadership is the potential for healing one's self and one's relationship to others. Many people have broken spirits and have suffered from a variety of emotional hurts. Although this is a part of being human, servant leaders recognize that they have an opportunity to help make whole those with whom they come in contact. In his essay, *The Servant as Leader*, Greenleaf (1977/2002) writes, "There is something subtle communicated to one who is being served and led if, implicit in the compact between servant-leader and led, is the understanding that the search for wholeness is something they share" (p. 50).

Awareness

General awareness, and especially self-awareness, strengthens the servant-leader. Awareness helps one in understanding issues involving ethics, power, and values. It lends itself to being able to view most situations from a more integrated, holistic position. As Greenleaf (1977/2002) observed: "Awareness is not a giver of solace—it is just the reasonably disturbed. They are not seekers after solace. They have their own inner serenity" (p. 41).

Persuasion

Another characteristic of servant leaders is reliance on persuasion, rather than on one's positional authority, in making decisions within an organization. The servant leader seeks to convince others, rather than coerce compliance. This particular element offers one of the clearest distinctions between the traditional authoritarian model and that of servant leadership. The servant leader is effective at building consensus within groups. This emphasis on persuasion over coercion finds its roots in the beliefs of the Religious Society of Friends (Quakers)—the denominational body to which Robert Greenleaf belonged.

Conceptualization

Servant leaders seek to nurture their abilities to dream great dreams. The ability to look at a problem or an organization from a conceptualizing perspective means that one must think beyond day-to-day realities. For many leaders, this is a characteristic that requires discipline and practice. The traditional leader is consumed by the need to achieve short-term operational goals. The leader who wishes to also be a servant leader must stretch his or her thinking to encompass broader-based conceptual thinking. Within organizations, conceptualization is, by its very nature, a key role of boards of trustees or directors. Unfortunately, boards can sometimes become involved in the day-to-day operations - something that should be discouraged - and, thus, fail to provide the visionary concept for an institution. Trustees need to be mostly conceptual in their orientation, staffs need to be mostly operational in their perspective, and the most effective executive leaders probably need to develop both perspectives within themselves. Servant leaders are called to seek a delicate balance between conceptual thinking and a day-to-day operational approach.

Foresight

Closely related to conceptualization, the ability to foresee the likely outcome of a situation is hard to define, but easier to identify. One knows foresight when one experiences it. Foresight is a characteristic that enables the servant leader to understand the lessons from the past, the realities of the present, and the likely consequence of a decision for the future. It is also deeply rooted within the intuitive mind. Foresight remains a largely unexplored area in leadership studies, but one most deserving of careful attention.

Stewardship

Peter Block (1993)—author of *Stewardship* and *The Empowered Manager*—has defined stewardship as "holding something in trust for another" (p. xx). Robert Greenleaf's view of all institutions was one in which CEO's, staffs, and trustees all played significant roles in holding their institutions in trust for the greater good of society. Servant leadership, like stewardship, assumes first and foremost a commitment to serving the needs of others. It also emphasizes the use of openness and persuasion, rather than control.

Commitment to the Growth of People

Servant leaders believe that people have an intrinsic value beyond their tangible contributions as workers. As such, the servant leader is deeply committed to the growth of each and every individual within his or her organization. The servant leader recognizes the tremendous responsibility to do everything in his or her power to nurture the personal and professional growth of employees and colleagues. In practice, this can include (but is not limited to) concrete actions such as making funds available for personal and professional development, taking a personal interest in the ideas and suggestions from everyone, encouraging worker involvement in decision-making, and actively assisting laid-off employees to find other positions.

Building Community

The servant leader senses that much has been lost in recent human history as a result of the shift from local communities to large institutions as the primary shaper of human lives. This awareness causes the servant leader to seek to identify some means for building community among those who work within a given institution. Servant leadership suggests that true community can be created among those who work in businesses and other institutions.

4.0 CONCLUSION

Present unit looks at the overview and concept of servant leadership, and its features.

"The servant-leader is servant first. It begins with the natural feeling that one wants to serve. Then conscious choice brings one to aspire to lead. The best test is: do those served grow as persons: do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society; will they benefit, or, at least, not be further deprived? (Greenleaf, 2002, p. 27)." The unit concludes that servant leadership is not the same as leadership since the leader is first a people-servant before becoming people leader.

5.0 SUMMARY

Servant leadership is a dictum to connote a leader who was once a servant. That is, a leader who becomes a one through service. Unlike other forms of leadership, servant leaders are service

oriented. They also attract leaders and followers who are particularly attracted to opportunities for personal growth, consensus building atmospheres and community service (Smith, Montagno & Kuzmenko, 2004). Such opportunities are at the heart of servant-leadership, making it an excellent framework for managing the information organization. In addition, major features of servant leadership includes: healing, building community, Commitment to the Growth of People, foresight, stewardship and Conceptualization.

6.0 TUTOR-MARKED ASSIGNMENT

1. What is servant leadership?
2. Distinguish between servant leadership and leadership?
3. Is servant leadership a leadership style? Discuss
4. Discuss five features that distinguished a servant leader from a transformational leader?

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UNIT 2: LEADERS AS AGENT OF CHANGE

CONTENTS

1.0 INTRODUCTION

In today's dynamic world, leaders and managers have been saddled with the responsibility of managing change. Change remains the most constant of all the factors that affects all sorts of organisations (private or public). The way organisations and businesses manages change are largely dependent on the person at the top echelon of modern organisations. Going through a change process within a company, department or some core group is a truly advanced step that needs a great deal of planning before the implementation of it. However, whether change implementation plan is successful or not, the leader takes credit or blame for it. For instance, over 70% of change plans are unsuccessful due to lack of know-how on the parts of the senior officers saddled with the responsibility of implementing such change formulation plan (Nickols,

2006). Interestingly, one should be able to understand the concept 'change' before attempting to define how it can be managed.

2.0 OBJECTIVES

At the end of this unit, student should be able to understand the following:

1. Concept of change and its management
2. Leaders as change agents

3.0 MAIN CONTENT

3.1 Concept of Change

Literarily, change could be defined as everything from re-engineering, right sizing, restructuring to cultural change (Kotter, 1995). According to Ajayi (2002), change is an illogical and emotional process. Arguably, Change as a process was first been conceptualized by Lewin in 1947. He divided the change as a process into three phases: (1) unfreezing—it is about readiness to change means it involves getting a point of an understanding that change is necessary and to be prepare for leaving the current state of comfort for the sake of future benefits; (2) moving—At this stage, people have to move forward to adopt a new changed setup. People are most fearful from this stage of change process as they have to leave their current comfort zone; and (3) refreezing. At last, change is accepted as a new norm in an organization and now the change is a part of routine process (Zaccaro, 2007). In addition, Lewin also suggested that although common sense might bend toward increasing powerful forces to persuade change, in many illustrations this might arouse an equal and opposite increase in resisting forces, the net effect being no change and greater tension than before (Gans,2011). Consequently, since we know what change is, then , what is change management?

Nikols, (2016) defined change management in four basic dimensions:

(a) **The task of managing change:** The first and most obvious definition of "change management" is that the term refers to the task of managing change. The obvious is not necessarily unambiguous. Managing change is itself a term that has at least two

meanings. One meaning of "managing change" refers to the making of changes in a planned and managed or systematic fashion. The aim is to more effectively implement new methods and systems in an ongoing organization.

(b) **An area of professional practice:** Today, change management has become an area for scholars to study. In almost all cases, the process of change is treated separately from the specifics of the situation. It is expertise in this task of managing the general process of change that is laid claim to by professional change agents.

(c) **A body of Knowledge:** Stemming from the view of change management as an area of professional practice there arises yet a third definition of change management: the content or subject matter of change management. This consists chiefly of the models, methods and techniques, tools, skills and other forms of knowledge that go into making up any practice.

(d) **A control Mechanism:** consisting of requirements, standards, processes and procedures. This last functional definition of change management helps to explain the dynamics of what a true change management procedure should be.

Additionally, Change management is a process that includes various skills i.e., leadership development (ability of top management to get trust of internal customers in them), marketing and sales ability (to make awareness about the consequences of change) and communication skill (gather support for the decision to change (Kaminski, 2000).

Change management is an essential area of concentration for wellbeing and growth of any organisational setup. It is pertinent for the survival of any organization in today's dynamic world. Change management has highly focused on people, identity and the patterns of human interaction. Change management will be the core competency of the business leaders in twenty-first century. Moreover, an important element if any organisation must witness a successful change management process is leadership. According to Lowder (2009) haven discussed Leadership Model for Change Management, he concludes that Transformational leadership focuses on organizational development where as servant leadership have concern about the development of followers. This is because the power to command obedience of others and give a change implementation head start approval is heavily resting on the shoulder of the leader. Such leader gives direction to how the change would be implemented (Zaccaro, 2007). In other

words, successful change leaders have to pay attention towards the launch, implementation and sustaining of the particular change effort (Singh, 2011).

Therefore leaders as visionary, pathfinders, shepherds, thinkers and philosophers are required to be more self-discovery, skilful and motivated towards its implementation (Zaccaro, 2007). Defining more roles of leaders, one could ask, what are the roles of leaders in change management and why are leaders agents of change?

3.2 Leaders as Change Agent

Modern Leaders function as change agent, a reason why business organisations prefer to recruit leaders in the place of managers. This is possible since leaders possess soft skills i.e emotional intelligence, conceptual and human relations skills. To manage change means to remain competitive and attractive in the face of challenges (Zaccaro, 2007). However, possessing skills of managing change have been linked to organizational successes. More so, to perfectly implement change process without resistance, the change leader needs to develop following capabilities: superhuman determination to make the change happen; persistence; stamina; sufficient mandate that stems from personal change; and first-rate intelligence (Ajayi, 2002). Evidently, lack of understanding of change implementation techniques and the inability to modify one's management style or organizational functions are cited as barriers to success (Bossidy & Charan, 2002; Gilley, 2005). However, leaders as agent of change must exhibit the following qualities:

(1) Coaching

Coaching is the process of improving performance by developing synergistic relationships with employees through training, counseling, confronting, and mentoring (Gilley & Boughton, 1996). It is designed to maximize employee strengths and minimize weaknesses (Hill, 2004), resulting in improved performance due to greater awareness (Whitmore, 1997). Coaching skills enable leaders to question the status quo, approach situations from new perspectives, and allow others to make and learn from mistakes (Hudson (1999).

(2) Communication

Informing subordinates about impending change is vital if the change process must be successful. Leaders are responsible for ‘‘communicating to the organization the risks in clinging to the status quo and the potential rewards of embracing a radically different future’’ (Denning, 2005: 12). Leadership ambivalence weakens claims of legitimacy for change and enables recipients to cling to reasons for resistance (Larson & Tompkins, 2005). Consequently, communications should be frequent and enthusiastic (Lewis, Schmisseur, Stephens, & Weir, 2006), while leaders simultaneously curb their bias toward unrealistic tendencies (Lovallo & Kahneman, 2003). Leaders as change agents must provide employees with abundant, relevant information with regard to impending changes, justify the appropriateness and rationale for change, address employees’ questions and concerns, and explore ways in which change might affect recipients in order to increase acceptance and participation (Green, 2004; Rousseau & Tijoriwala,1999). Appropriate communications provide employees with feedback and reinforcement during the change (Peterson & Hicks, 1996).

(3) Involving Others

Involving employees in change decision making is paramount if you are prepared for such change resistance. Employee involvement (EI) increases workers’ input into decisions that affect their well-being and organizational performance (Glew, O’Leary- Kelly, Griffin, & Van Fleet, 1995). Lawler, Mohrman, and Ledford’s (1982) long-term study of Fortune 1000 firms revealed positive trends in use of employee involvement programmes within these firms, along with a growing number of employee participation in EI programs. Specifically, successful change implementation requires a facilitative management style that ensures that communication (including coaching, information sharing, and appropriate feedback) mechanisms are in place, worker involvement flourishes, and social networks (teams and collaboration) are supported (Denning, 2005; Drucker, 1999; Williams, 2001).

(4) Motivation

Motivation is the influence or drive that causes us to behave in a specific manner and has been described as consisting of energy, direction, and sustainability (Kroth, 2007). In an organizational context, a leader’s ability to persuade and influence others to work in a common direction reflects his or her talent to motivate. A leader’s ability to influence is based partly on

his or her skill and partly on the motivation level of the individual employee. Motivation theories explore the multiple approaches to meeting individuals' needs, including expectancy theory (Vroom, 1964), need theory (Maslow, 1954), reinforcement theory (Skinner, 1971), and the widely used goal theory (Karoly, 1993). Conversely, motivating others requires skilled managers who can organize and provide a motivating environment: communicate effectively, address employees' questions, generate creative ideas, prioritize ideas, direct personnel practices, plan employees' actions, commit employees to action, and provide follow-up to overcome motivational problems (Carlisle &Murphy, 1996).

(5) Rewarding

LeBoeuf (1985) suggested that leaders secure desired results through a compensation and reward philosophy that recognizes employees for the right performance. Rewarding change efforts demonstrates the importance of and need for change, along with leaders' understanding that "the things that get rewarded get done" (p. 9).Conversely, unsatisfactory outcomes are the result of rewarding recipients for doing ''what [organizations] don't want them to do'' (Buford & Jelinek, 2006: 450). Recipients of change react positively to rewards for incremental change, celebrations of milestones and leaders who create win-win situations related to change (Lussier, 2006). Reward programmes that help organizations achieve specific change goals such as greater creativity, innovative products, competitiveness, collaboration and teamwork, employee commitment and loyalty, long-termplans, and continual learning and application of new skills are positively related to organizational goal achievement (Ulrich, Zenger, & Smallwood, 1999).

(6) Promoting Teamwork

The synergistic benefits of teamwork enable members working cooperatively with one another to achieve more than by working independently (Trent, 2004). Recent studies have reported an ever-increasing number of Firms using teams to accomplish organizational tasks in response to serious challenges posed by a dynamic global economy (Oh, Chung, & Labiance, 2004; Towry, 2003). Effectively managing teams and structuring work groups in ways that support collaboration are two leadership abilities necessary for achieving organizational goals. Studies

suggest that work groups can be designed to enable members with diverse skills and backgrounds to communicate and interact in ways that constructively challenge each other's ideas (Williams, 2001). Furthermore, it has been evidenced that social networks have important effects on team performance and viability (Balkundi & Harrison, 2006).

4.0 CONCLUSION

In conclusion, not all leaders are change agents. Only leaders who exhibit the aforementioned qualities are refer to as change agent or agent of change. This is because what differentiates an agent of change from a leader who is not is the ability or inability to successful implement organisational changes that in turns brings about success for the organisation.

5.0 SUMMARY

Change could be defined as everything from re-engineering, right sizing, restructuring to cultural change (Kotter, 1995). Therefore leaders as visionary, pathfinders, shepherds, thinkers and philosophers are required to be more self-discovery, skilful and motivated towards its implementation. However, Leaders as agent of change have the following characteristics: promoting teamwork, involving others, reward performer, motivate, and coaching their followers (Zaccaro, 2007).

6.0 TUTOR-MARKED ASSIGNMENT

1. Define the concept of change management?
2. What are the roles of leaders in change management and why is leaders agent of change?
3. What are the features of agent of change leaders?

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UNIT 3: PROBLEM OF LEADERSHIP IN NIGERIA

CONTENTS

1.0 INTRODUCTION TO LEADERSHIP PROBLEM IN NIGERIA

Close to sixty years of her independence, the most critical challenge confronting the giant of Africa – Nigeria, appears to be credible and accountable leadership. Many researchers have find it incredibly difficult to understand why Nigeria still struggles with the menace of poor or bad leadership since independence even with abundance of human and material resources, which are

second to none in Africa. The Largest African economy as at 2015, surprisingly, finds it difficult to feeds her citizens as at November, 2016. Then, "why has the country not been able to produce a nationally accepted leadership (Esu, 2001: 111)." While, some have argued that leadership challenge of the country could be traced from the emergence of colonial era in Nigeria, while others dismissed such argument on the basis that corruption and lack of vision among past and present leaders of Nigeria culminate to hamper any meaningful effort in the quest for good governance in the country. Can we say size or the over 250 languages? Nonetheless, argument of size or over 250 languages can't answer the question of why Nigeria still battles with leadership problem. Since countries like China and India have successfully moved from the third world nations to a developing one in the space of 6o years.

However, leadership has been said to be difficult to define. Be that as it may, leadership is therefore the capacity to set goals for the organization. According to Ihejiamaizu (1996: 102), "leadership involves some sharing of power or influence; but the leader is the one who is able to unite people in pursuit of the organization's goals". Similarly, "leadership is a process of giving purpose (meaningful direction) to collective effort, and causing willing effort to be expended to achieve purpose (Jacobs & Jacques, 1990: 281)." However, this second definition is what is lacking in Nigeria. Nigeria's leaders lack the ability to give meaningful direction for collective efforts. In addition, according to Graig (2005:132) leadership is defined as a social influence process in which the leader seeks the voluntary participation of subordinates in an effort to reach organizational goals. More so, leadership is the ability to influence the behaviour of others in a group or organization, set goals, for the group, formulate paths to the goal and create some social norms in the group (Uveges, 2003).While Robert et al (2004) affirms that leadership involves a complex interaction among the leader, the followers, and the situation.

Why symptoms of failing leadership in Nigeria include: Unemployment and prostitution, child abuse / labour, insecurity, financial corruption, tribalism, budget paddling, mediocrity in high places, crude oil thefts, crisis in education, tribal rivalry, pipeline vandalisation, intellectual incapacity, indiscipline, and dearth of infrastructures such as health services, incompetency, transportation, epileptic power supply, accommodation, communication, medication etc are all this define Nigeria as a failed leadership experiment. Could it be said that Nigerians that hitherto found themselves in positions of authority do not possess adequate leadership traits capable of

addressing critical challenges facing the country? What are the factors responsible for poor leadership style among Nigerian leaders? (Nwagboso & Duke, 2012).

2.0 OBJECTIVES

At the end of this unit, student should be able to understand the following:

(1) List major problem of leadership in Nigeria
(2) Explain major problem of leadership in Nigeria
(3) Provide a recommended solution to the leadership in Nigeria .

3.0 MAIN CONTENT

3.1 MAJOR PROBLEM OF LEADERSHIP IN NIGERIA

After a careful examination of the leadership history in Nigeria, Achebe (1983) opines that: The trouble with Nigeria is simply and squarely a failure of leadership. There is nothing with the Nigerian land or climate or water or air or anything else. The Nigerian problem is the unwillingness or inability of its leaders to rise to its responsibility, to the challenge of personal example which is the hallmarks of true leadership. This Nigeria leadership problem has the following elements that better describes it:

(1) Incompetency and Mediocrity: Since independence, Nigeria's presidency has been occupied by men who are grossly incompetent and lack political will to put things straight and right. No one can give what he didn't have. They are theoreticians than practitioners. They intentionally appoints mediocre to work with them just to loot the treasury without query. Repeatedly, many of Nigeria's leaders picks mediocre as successors just to have a clean track record after committing crimes that are above the laws. But this is grossly not sustainable, the Nigeria's economic soul cries for rescue. A times, one begins to wonder how did we get here? How can it be so difficult for a country richly endowed like Nigeria with both human and material resources in plethora to have a

true leadership of hope like what was experienced in Singapore under Sir Lee Kwan Yew?

(2) **Ethnicity and Tribalism:** The three largest groups (Hausa-Fulani, Igbo, and Yoruba) have virtually nothing in common politically, socially, or historically. The overwhelming majority of Nigerians only speak their "home" language, and if they learn another, it is invariably English and not one of the other indigenous tongues. History of ethnic bigotry in Nigeria can be traced back to 1946, during the colonial era when Sir Arthur Richard, Nigeria then Governor General introduced a Regional Government. He divided Nigeria into NEW. An acronym that stands for Northern, Eastern and Western Nigeria. With each region headed by a Premier. This was the origin of regional government (Oduguwa, 2012). Ever since, Nigerians have seen themselves in the light of these regional nations than as Nigerians. The major ethnic groups (Hausa/Fulani, Yoruba and Igbos) continually get hold of leadership, installing their kinsmen into delicate positions and improving the lives of their micro-nation (tribe) than the generality of the Nigerian people.

(3) **Mono-economy:** Since Oil was discovered on Sunday 15 January 1956 at Oloibiri Oilfield by Shell Darcy, Nigeria has depended on it solely by neglecting her previous foreign exchange brands i.e Cocoa, wool, Coal, groundnut, fish etc. At the discovery of all, everyone jubilated that the era of want should soon be over. But the opposite was the case. Some has argued that Oil killed the giant in Nigeria. Since its discovery, Nigeria has been plunged into a number of leadership related problem i.e greed, egocentrism, intolerance, fraud, misappropriation and diversion of national fund for personal use, oil theft and financial stealing etc. This mono dependent on Oil later creates a negative multiplier effects by increasing the rate of unemployment, insecurity as a result of idleness, prostitution, wants, and lackry.

(4) **Greed and Financial Corruption:** Cases of corruption, misappropriation and greed has been well established in Africa's most populous nation-Nigeria. This has historical antecedents from the colonial masters, the defunct regional government, then military regime and the republics. According to Igbokwe-Ibeto & Okoye (2014), since gaining independence in 1960, most Nigerian leaders have not clearly demonstrated sense of genuine national development. They went further to argue that most African leaders plunder, defraud, embezzle and mismanage their countries human and natural resources

with so much impunity. They are possessive, egoistic, selfish, individualistic, callous, greedy and secretive that transparency and accountability has no place in their administration and management of common and collective wealth (Igbokwe-Ibeto & Okoye, 2014). Similarly, Adebanjo (2008) gave an insight that an estimated $380 billion of the country's collective wealth was stolen by its post-independence leaders: about two-thirds of all economic aids given to Africa during this period. Also, the regime of Ibrahim Babangida was unable to account for $12.4 billion of missing oil revenues that were part of a windfall from the 1991 Gulf War (Apter, 2005). Corruption is an evil wind that affects everyone and retard societal progress. That is what corruption is presently doing to Nigeria. See a country like Singapore, former third world nation becoming first world nation in few decades. Yet not as blessed and popular as Nigeria. Nigeria's leaders using poverty as bait to win political elections. Although corruption and fraud are universal problems for all government and all countries, the magnitude seems to be at its peak in the giant of Africa – Nigeria. This social ill takes the form of kickbacks, payoffs, bribery scandal, etc which endangers progress of any society (Ikejiani & Clark, 2001). It is no longer doubtful that leadership characterized by non adherence to the constitution, corruption, poor educational background as well as political recycling of leaders with questionable character, adversely affects service delivery to the people (Igbokwe-Ibeto & Okoye, 2016).

(5) **Insincerity and hypocrisy:** One of the major problems identified under poor leadership in Nigeria is the insincerity of mind and action of its leaders. Nigeria for the past 56 years has been unlucky, very unlucky to have crop of opportunists than leaders whose only interest is their pocket. Nigeria leaders often prefer everything to go bad and wrong than to arrest the anticipated issue before it gets out of hand. They are never sincere since the sufferings of Nigerians means nothing to them. For instance, during former President Obasanjo's term in office, he established EFCC to fight corruption in the land. Many of the Nigeria's citizens saw this as a good step in the right direction. Few years after, it was disappointing top realized that this EFCC was not created with genuine intention. It was only a tool to fight enemies of the president not enemies of the Nigerian state. This is hypocrisy! The EFCC repeatedly has been involved in cases of selective justice, where the most corrupt of all men lives freely in the public eye just because they are Mr.

President's friend. Successive governments after Obasanjo have followed suit. Presently, the Buhari regime has been grossly criticised for same selective justice. Fighting enemies and not friends, with hundreds of rogues in his cabinet. Those who must come to equity must come with clean hands. This worrisome situation demands urgent attention. The quintessential question to then ask is, why do Nigerians still vote for this recycled sets of people?

(6) **Lack of National Identity:** Every government for itself. A Judas in the last government is a saint in the new government. No sense of nationhood but cabalism. Go to America, England, China and even Ghana, you will see true sense of nationhood. Where a citizen will tell you 'I am a Ghanaian… American… British etc' This is not so in Nigeria. Nigeria's presidents are often identified with their tribal and religion identities in dressing, appointments and deeds. Most of Nigeria's leaders are insensitive and or carefree. To then worsen the case, they prefer to even be identified with their political party and even inner caucus within the micro-segment of the party. Leadership anywhere in the world cannot work in isolation of delegation of authority and responsibility. This division of labour must be handled by experts who must have been selected or appointed on merit. The reverse is the case. The Nigeria's case is one that is so appalling where knowledge, experience, character, qualifications and definiteness of purpose perishes once you don't find yourself in the caucus of the privileged few. Nigeria's leaders are fools surrounded by idiots. They are so arrogant to stand meritocracy.

4.0 CONCLUSION

This unit discussed the dynamics of Nigeria's leadership problem, some antecedents, and brief highlights for solution. From this unit, it can be concluded that major problem facing Nigeria are corruption, lack of national identity, poor or weak leadership, mono-dependent on oil, tribalism and nepotism, greed and incompetency. However, solutions to these problems hang on both the Nigerian leaders and followers.

5.0 SUMMARY

Leadership holds the key to unlocking the transformation question in Nigeria, but to sustain this drive, leaders must carry certain genes and attributes that are representative and promotive of this order. These include: existence of practical, purposeful, visionary and missionary initiative by the individual, reflecting the objectives of held ideas, values and aspirations; existence in an individual of a clear set of ideas, values, aspirations reflecting those of the majority who are the subject or followership, and ; existence of patriotic and nationalistic spirit, transparency and accountability, signs of concrete achievements involving the extent to which intended effects are produced by the leader. These are the core values of good governance (Anazodo & Igbokwe-Ibeto, 2015). Arguably, leader must put God first in order to achieve results. Putting God first means fearing God. When a man fears God, he loves everyone even his greatest enemy. The fear of God can also mean fairness to everyone irrespective of tribe, religion and political difference.

7.0 TUTOR-MARKED ASSIGNMENT

1. With example, identify and discuss major problem facing Nigeria?
2. As a student of leadership, provide recommendations to the major problems facing Nigeria?

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MODULE 3: CORPORATE GOVERNANCE

Unit One: Meaning, Objectives and Elements of Effective Corporate Governance

Unit Two: Why Corporate Governance Matters and Corporate Governance Theories

Unit Three: Responsibilities and Functions of a Board of Directors

Unit Four: Basic Principles of OECD and Corporate Governance in Practice

Unit Five: Good Governance with Value Addition and Duel process

Unit Six: Corporate Control Designs around the World

Unit 1: MEANING, OBJECTIVES AND ELEMENTS OF EFFECTIVE CORPORATE GOVERNANCE

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UNIT 1: MEANING, OBJECTIVES AND ELEMENTS OF EFFECTIVE CORPORATE GOVERNANCE

1.0 INTRODUCTION

The term "corporate governance" is susceptible of both narrow and broad definitions. Narrowly defined, it concerns the relationships between corporate managers, directors and shareholders. It can also encompass the relationship of the corporation to stakeholders and society. More broadly defined, "corporate governance" can encompass the combination of laws, regulations, listing rules and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit, and meet both legal obligations and general societal expectations.

2.0 OBJECTIVES

At the end of this unit, students should be able to:

1. Explain the meaning of corporate governance
2. Explain objectives of corporate governance.
3. Explain elements of corporate governance

3.0 MAIN CONTENTS

3.1 Meaning of Corporate Governance

Providers of corporate finance, whether they are individuals or pension funds, mutual funds, banks or other financial institutions, or even governments require assurances that their investments will be protected and will generate returns. These assurances are at the heart of what effective corporate governance is all about (Mengistae & Xu, 2004).

This definitional range underscores the reality that corporate managers, directors and investors all function within a larger business and legal environment that shapes behavior. But no matter what the definition, at its heart, corporate governance concerns the means by which a corporation assures investors that it has well-performing management in place and that corporate assets provided by investors are being put to appropriate and profitable use (Coopers, 2007). The concept of corporate governance is gaining momentum because of various factors as well as the changing business environment. The EEC, GATT and WTO regulations have also contributed to the rising awareness and are compelling us to think in terms of adhering to the good governance practices. Corporate governance, by the very nature of the concept, cannot be exactly defined. However, there can be no two opinions that "effective accountability to all shareholders is the essence of corporate governance (Mengistae & Xu, 2004)."

The following definition should help us to understand the concept better. "Corporate governance is not just corporate management; it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives (Bryan, Nash & Patel, 2002). It is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs (Mengistae & Xu, 2004). When it is practiced under a well-laid out system, it leads to the building of a legal, commercial and institutional framework and

demarcates the boundaries within which these functions are performed (Coopers, 2007)." Corporate governance cannot disregard the diverse interests - shareholders, lenders, employees, government, etc. It is believed that shareholders would increasingly assert their rights, hitherto virtually unknown; similarly the lending institutions, having to justify their performance in a market-driven environment, have no choice but to demand effective and efficient corporate governance; besides FIIs with substantial foreign investment in India would demand greater transparency and internationally recognized sound corporate practices (Bryan, Nash & Patel, 2002). The new paradigm of governance to bring about quality corporate governance is not only a necessity to serve the diverse corporate interests, but it is also a key requirement in the best interests of the corporate themselves (Mengistae & Xu, 2004).

3.2 Objectives of Corporate Governance

Good governance is integral to the very existence of a company. It inspires and strengthens investor's confidence by ensuring company's commitment to higher growth and profits. It seeks to achieve following objectives:

1. A properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs;
2. The Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders;
3. The Board adopts transparent procedures and practices and arrives at decisions on the strength of adequate information;

4. The Board has an effective machinery to sub serve the concerns of stakeholders;
5. The Board keeps the shareholders informed of relevant developments impacting the company;
6. The Board effectively and regularly monitors the functioning of the management team;
7. The Board remains in effective control of the affairs of the company at all times.

The overall endeavor of the Board should be to take the organization forward, maximize long-term values and shareholders' wealth.

3.3 Elements of Effective Corporate Governance

Corporate governance practices vary across nations and firms, and this variety reflects not only distinct societal values, but also different ownership structures, business circumstances and competitive conditions. It may also reflect differences in the strength and enforceability of contracts, the political standing of shareholders and debt holders, and the development and enforcement capacity of the legal system (Coopers, 2007).

In developed countries, the discussion of corporate governance improvement tends to assume in place well-developed and well-regulated securities markets; laws that recognize shareholders as the legitimate owners of the corporation and require the equitable treatment of minority and foreign shareholders; enforcement mechanisms through which these shareholder rights can be protected; securities, corporate and bankruptcy laws to prevent bribery that enable corporations to transform -- to merge, acquire, divest and downsize -- and even to fail; anti-corruption laws to prevent bribery and protections against fraud on investors; sophisticated courts and regulators; an experienced accounting and auditing sector, and significant corporate disclosure requirements (Bryan, Nash & Patel, 2002). Developed countries are also more likely to have well-developed

private sector institutions, such as organisations of institutional investors, and professional associations of directors, corporate secretaries and managers, as well as rating agencies, security analysts and a sophisticated financial press (Qi,Wu & Zhang, 2000). Many developing and emerging market nations have not yet fully developed the legal and regulatory systems, enforcement capacities and private sector institutions required to support effective corporate governance (Mengistae & Xu, 2004). Therefore, corporate governance reform efforts in these nations often need to focus on the fundamental framework.

Reform needs vary, but often include basic stock exchange development, the creation of systems for registering share ownership, the enactment of laws for basic minority shareholder protection from potential self-dealing by corporate insiders and controlling shareholders, the education and empowerment of a financial press, the improvement of audit and accounting standards, and a change in culture and laws against bribery and corruption as an accepted way of doing business (Mengistae & Xu, 2004).

In addition to differences in the development of legal and regulatory systems and private institutional capacity, nations differ widely in the cultural values that mould the development of their financial infrastructure and corporate governance (Allen and Qian, 2005). These differences in culture may make certain concepts difficult to accept. For example, concern in some Asian cultures with personal integrity and reputation can pose barriers to the concept of bankruptcy. Likewise, the long history of communism in Russia may have impacted that culture understands of property rights.

Ultimately, corporate governance and the framework that supports it must have relevance to a nation's own unique legal environment and cultural values. While common elements of effective governance can be identified to enable national systems to attract global capital and heighten

investor confidence -- and some market driven convergence of systems may be inevitable -- governance reform is largely a matter for each nation and the private sector within each nation to determine (Bryan, Nash & Patel, 2002).

In April 1998 an influential report detailed the common principles of corporate governance from a private sector viewpoint. The OECD Business Sector Advisory Group on Corporate Governance, chaired by renowned governance expert Ira M. Millstein, focused on "what is necessary by way of governance to attract capital (Chen, Fan & Wong, 2002)." According to the Peng (2001), government intervention in the area of corporate governance is likely to be most effective in attracting capital if focused on four essential areas:

3. **Fairness**: Ensuring the protection of shareholder rights, including the rights of minority and foreign shareholders, and ensuring the enforceability of contracts with resource providers
4. **Transparency**: Requiring timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership
5. **Accountability**: Clarifying governance roles and responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by boards of director and·
6. **Responsibility**: Ensuring corporate compliance with the other laws and regulations that reflect the respective society's values.

Underlying the Millstein Report is the notion that corporate governance depends on the private sector for implementation. While government provides the structure for governance, corporate governance happens inside the corporation, and depends on investors, boards and managements'.

4.0 CONCLUSION

In this unit, you have learnt the meaning, objectives and elements of effective corporate governance. This should therefore enable you to fully understand other management related concepts that will be discussed later.

More so, corporate governance can only be successful when practitioners are focused, fair, accountable, transparent and responsible. This is the hallmark of successful private ventures and the tin-line between successful and failing governmental organisations. Since the goal of every organisation is to achieve pre-set objective, the board must ensure that this is reasonably and timely done by infusing expertise into every actions and reactions across board.

5.0 SUMMARY

This unit is all about the meaning, objectives and elements of effective corporate governance as well as the major sources of power. Although these sources are interwoven and interrelated, a leader's capability to influence others is dependent on the power he has. Major objective of good corporate governance system includes: The Board has an effective machinery to sub serve the concerns of stakeholders; the Board keeps the shareholders informed of relevant developments impacting the company, the Board effectively and regularly monitors the functioning of the management team; the Board remains in effective control of the affairs of the company at all times, a properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs, the Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders.

Essentially, corporate governance will be efficient if actors are transparent, fair, accountable and responsible in their dealings. After all, the overall mission of the Board should be to take the organization forward, maximize long-term values and shareholders' wealth.

5.1 SELF ASSESSMENT EXERCISE

1. How would you define corporate governance?
2. Explain the objectives of corporate governance?
3. Explain clearly five elements of corporate governance?

6.0 TUTOR-MARKED ASSIGNMENT

1. Clearly distinguish between leadership and explain clearly five elements of corporate governance.
2. Which of the elements of corporate governance do you think is based on force? Explain.

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UNIT 2: WHY CORPORATE GOVERNANCE MATTERS AND CORPORATE GOVERNANCE THEORIES

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UNIT 2: WHY CORPORATE GOVERNANCE MATTERS

1.0 INTRODUCTION

As markets become more open and global, and business becomes more complex, societies around the world are placing greater reliance on the private sector as the engine of economic growth. In both developed and developing nations, a growing proportion of economic activity takes place in firms organized as corporations. Corporations are creatures of law; societies allow

corporations to be created by law because they recognize that incorporation provides an efficient form of organization, and society benefits as a result (Anderson & Reeb, 2003).

Corporations mobilize and combine capital, raw material, labor, management expertise and intellectual property from a variety of sources to produce goods and services that are useful to members of society. In so doing, corporations purchase goods and services, generate jobs and income, distribute profits, pay taxes, and contribute to foreign exchange. In sum, corporations contribute to economic growth and development, which lead to improved standards of living and poverty alleviation, which in turn should lead to more stable political systems. Corporate governance is important because the quality of corporate governance impacts: (a) the efficiency with which a corporation employs assets; (b) its ability to attract low-cost capital; (c) its ability to meet societal expectations; and (d) its overall performance (Anderson & Reeb, 2003).

1) Effective corporate governance promotes the efficient use of resources both within the firm and the larger economy. When corporate governance systems are effective, debt and equity capital should flow to those corporations capable of investing it in the most efficient manner for the production of goods and services most in demand, and with the highest rate of return. In this regard, effective governance helps protect and grow scarce resources, and helps ensure that societal needs are met. In addition, effective governance should make it more likely that those Managers who do not put scarce resources to efficient use, or who are incompetent or at the extreme corrupt, are replaced.
2) For related reasons, effective corporate governance assists firms (and economies) in attracting lower-cost investment capital by improving both domestic and international investor confidence that assets will be used as agreed (whether that investment is in the form of debt or equity). For corporations to succeed in competitive markets, corporate

managers must innovate relentlessly and efficiently, and constantly evolve new strategies to meet changing circumstances. This requires that managers have latitude for discretionary action. However, as Adam Smith recognized long ago, managers may have incentives to deviate from acting in the interests of capital providers. Therefore, rules and procedures to protect capital providers are necessary. These include: independent monitoring of management; transparency as to corporate performance, ownership and control; and participation in certain fundamental decisions by shareholders (Anderson & Reeb, 2003).

3) To be successful in the long term, corporations must comply with the laws, regulations and expectations of the societies in which they operate. Corporations have proven to be neither inherently good nor bad. Many corporations take their responsibilities as corporate citizens seriously and contribute greatly to civil society. Unfortunately, however, some corporations are opportunistic and seek to profit, for example, from the use of child labor or without regard to environmental impact. Such examples represent not only failures of corporate responsibility and firm governance, but larger failures of government to provide the framework needed to hold corporations responsible on issues that are important to a given society.

4) When corporate governance is effective, it provides managers with oversight and holds boards and managers accountable in their management of corporate assets. This oversight and accountability combined with the efficient use of resources, improved access to lower-cost capital and increased responsiveness to societal needs and expectations should lead to improved corporate performance. Effective corporate governance may not guarantee improved corporate performance at the individual firm level; there are simply

too many other factors that impact firm performance. But it should make it more likely that managers focus on improving firm performance and are replaced when they fail to do so (Anderson & Reeb, 2003).

2.0 OBJECTIVES

At the end of this unit, students should be able to:

1. Explain why corporate governance matters
2. Explain all theories that supported corporate governance.

3.0 MAIN CONTENT

3.1 Corporate Governance Theories

For the purpose of this paper various corporate governance theories have been reviewed: agency, stakeholders and resource dependency theory, stewardship theory, social contract theory legitimacy theory and political theory.

3.1.1 Agency Theory

Much of the research into corporate governance derives from agency theory (see Figure 1). Since the early work of Berle and Means in 1932, corporate governance has focused upon the separation of ownership and pedals which results in principal-agent problems arising from the dispersed ownership in the modern corporation. They regarded corporate governance as a mechanism where a board of directors is a crucial monitoring device to minimize the problems brought about by the principal-agent relationship. In this context, agents are the managers,

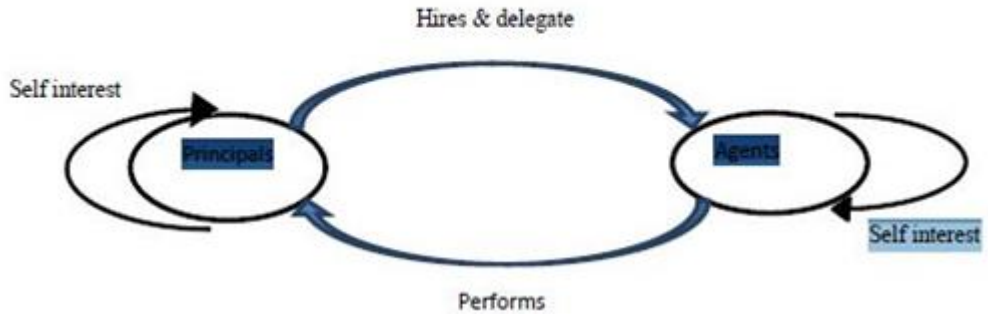
principals are the owners and the boards of directors act as the monitoring mechanism (Mallin, 2004). Moreover, literature on corporate governance attributes two factors to agency theory. The first factor is that corporations are reduced to two participants, managers and shareholders whose interests are assumed to be both clear and consistent. A second notion is that humans are self-interested and disinclined to sacrifice their personal interests for the interests of the others (Daily, Dalton & Cannella, 2003).

The agency role of the directors refers to the governance function of the board of directors in serving the shareholders by ratifying the decisions made by the managers and monitoring the implementation of those decisions. This role has been examined in a large body of literature (Fama & Jensen, 1983; Baysinger & Butler, 1985; Lorsch & MacIver, 1989; Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). Much of this research has examined board composition due to the importance of the monitoring and governance function of the board (Pearce & Zahra, 1992; Barnhart, Marr & Rosenstein, 1994; Daily & Dalton, 1994; Gales & Kesner, 1994; Bhagat & Black, 1998; Kiel & Nicholson, 2003;), because according to the perspective of agency theory the primary responsibility of the board of directors is towards the shareholders to ensure maximization of shareholder value. The focus of agency theory of the principal and agent relationship (for example shareholders and corporate managers) has created uncertainty due to various information asymmetries (Deegan, 2004). The separation of ownership from management can lead to managers of firms taking action that may not maximize shareholder wealth, due to their firm specific knowledge and expertise, which would benefit them and not the owners; hence a monitoring mechanism is designed to protect the shareholder interest (Jensen & Meckling, 1976). This emphasizes the role of accounting in reducing the agency cost in an organization, effectively through written contracts tied to the accounting systems as a crucial

component of corporate governance structures, because if a manager is rewarded for their performance such as accounting profits, they will attempt to increase profits which will lead to an increase in bonus or remuneration through the selection of a particular accounting method that will increase profits.

Arising from the above is the agency problem on how to induce the agent to act in the best interests of the principal. This results in agency costs, for example monitoring costs and disciplining the agent to prevent abuse (Shleifer & Vishny, 1997). Jensen and Meckling (1976) define agency costs: the sum of monitoring expenditure by the principal to limit the aberrant activities of the agent; bonding expenditure by the agent which will guarantee that certain actions of the agent will not harm the principal or to ensure the principal is compensated if such actions occur; and the residual loss which is the dollar equivalent to the reduction of welfare as a result of the divergence between the agents decisions and those decisions that would maximize the welfare of the principal. However, the agency problem depends on the ownership characteristics of each country. In countries where ownership structures are dispersed, if the investors disagree with the management or are disappointed with the performance of the company, they use the exit options, which will be signaled through reduction in share prices. Whereas countries with concentrated ownership structures and large dominant shareholders, tend to control the managers and expropriate minority shareholders in order to gain private control benefits (Spanos, 2005)

Figure 1: The Agency Model



Source: *Allen, Qian and Qian, (2007)*

The agency model assumes that individuals have access to complete information and investors possess significant knowledge of whether or not governance activities conform to their preferences and the board has knowledge of investors' preferences (Smallman, 2004). Therefore according to the view of the agency theorists, an efficient market is considered a solution to mitigate the agency problem, which includes an efficient market for corporate control, management labour and corporate information (Clarke, 2004). According to Johanson and Ostergen (2010) even though agency theory provides a valuable insight into corporate governance, its' applies to countries in the Anglo-Saxon model of governance as in Malaysia. Various governance mechanisms have been discussed by agency theorists in relation to protecting the shareholder interests, minimizing agency costs and ensure alignment of the agent-principal relationship. Among the mechanisms that have received substantial attention, and are within the scope of this study, are the governance structures (Davis, Schoorman & Donaldson, 1997).

3.1.2 Stakeholder Theory

This theory centers on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). However, there is an argument that the theory is narrow (Coleman, 2008: 4) because it identifies the shareholders as the only interest group of a corporate entity. However, the stakeholder theory is better in explaining the role of corporate governance than the agency theory by highlighting different constituents of a firm (Coleman, 2008: 4).

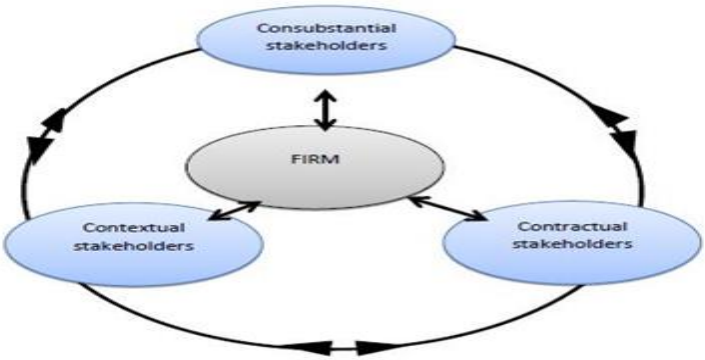
With an original view of the firm the shareholder is the only one recognized by business law in most countries because they are the owners of the companies. In view of this, the firm has a fiduciary duty to maximize their returns and put their needs first. In more recent business models, the institution converts the inputs of investors, employees, and suppliers into forms that are saleable to customers, hence returns back to its shareholders. This model addresses the needs of investors, employers, suppliers and customers. Pertaining to the scenario above, stakeholder theory argues that the parties involved should include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public. In some scenarios competitors and prospective clients can be regarded as stakeholders to help improve business efficiency in the market place.

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et. al., 2004). Jensen (2001) critiques the Stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituency). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, interpersonal relations, working environment, etc. are all critical issues that should be considered. Some of these other issues provided a platform for other

arguments. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et. al., 2005).

In order to differentiate among stakeholder types, Anderson and Reeb, (2003) :classification was adopted; consubstantial, contractual and contextual stakeholders (see Figure 2). Consubstantial stakeholders are the stakeholders that are essential for the business's existence (shareholders and investors, strategic partners, employees). Contractual stakeholders, as their name indicates, have some kind of a formal contract with the business (financial institutions, suppliers and sub-contractors, customers). Contextual stakeholders are representatives of the social and natural systems in which the business operates and play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities (public administration, local communities, countries and societies, knowledge and opinion makers). Rajan and Zingales (1998) and Zingales (1998) argue that the company has to safeguard the interests of all who contribute to the general value creation, that is, make specific investments to a given corporation. These firms-specific investments can be diverse and include physical, human and social capital. These specific investments do not execute, nor is evaluated independency from the firm functioning.

Figure 2: Stakeholders Classification



Source: *Anderson and Reeb, (2003)*

3.1.3 Resource Dependency Theory

The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive (Pfeffer and Salancik, 1978). Thus, boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. Williamson (1985) held that environmental linkages or network governance could reduce transaction costs associated with environmental interdependency. The organization's need to require resources and these leads to the development of exchange relationships or network governance between organizations. Further, the uneven distribution of needed resources results in interdependence in organizational relationships. Several factors would appear to intensify the character of this dependence, e.g. the importance of the resource(s), the relative shortage of the resource(s) and the extent to which the resource(s) is concentrated in the environment (Donaldson and Davis, 1991).

Additionally, directors may serve to link the external resources with the firm to overwhelm uncertainty (Hillman, Cannella Jr & Paetzols, 2000), because managing effectively with uncertainty is crucial for the existence of the company. According to the resource dependency rule, the directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty (Gales & Kesner, 1994). Thus, Hillman et al. (2000) consider the potential results of connecting the firm with external environmental factors and reducing uncertainty is decrease the transaction cost associated with external association. This theory supports the appointment of directors to

multiple boards because of their opportunities to gather information and network in various ways.

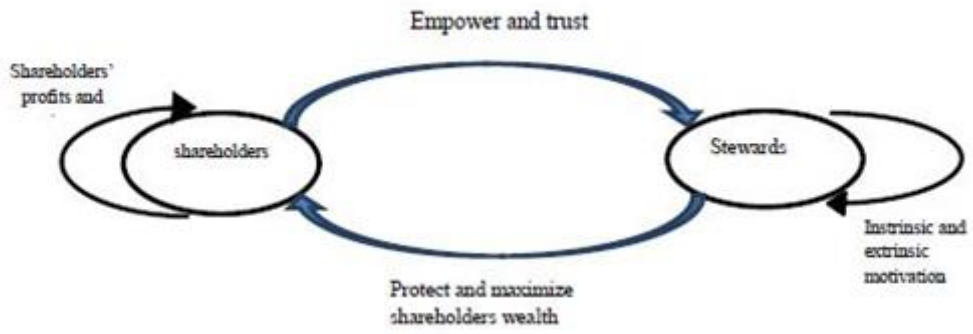
3.1.4 Stewardship Theory

In contrast to agency theory, stewardship theory (see Figure 3) presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners (Donaldson & Davis, 1991). The fundamentals of stewardship theory are based on social psychology, which focuses on the behavior of executives. The steward's behavior is pro-organizational and collectivists, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis, Schoorman & Donaldson, 1997). According to Smallman (2004), where shareholder wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the stewards will have a clear mission. He also states that, stewards balance tensions between different beneficiaries and other interest groups. Therefore stewardship theory is an argument put forward in firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance.

Stewardship theory sees a strong relationship between managers and the success of the firm, and therefore the stewards protect and maximize shareholder wealth through firm performance. A steward, who improves performance successfully, satisfies most stakeholder groups in an organization, when these groups have interests that are well served by increasing organizational wealth (Davis, Schoorman & Donaldson, 1997). When the position of the CEO and Chairman is held by a single person, the fate of the organization and the power to determine strategy is the responsibility of a single person. Thus the focus of stewardship theory is on structures that

facilitate and empower rather than monitor and control (Davis, Schoorman & Donaldson, 1997). Therefore stewardship theory takes a more relaxed view of the separation of the role of chairman and CEO, and supports appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke 2004).

Figure 3: The Stewardship Theory



Source: *Deegan, (2004)*

3.1.5 Social Contract Theory

Among other theories reviewed in corporate governance literature social contract theory, sees society as a series of social contracts between members of society and society itself (Gray, Owen & Adams 1996). There is a school of thought which sees social responsibility as a contractual

obligation the firm owes to society (Donaldson 1983). An integrated social contract theory was developed by Donaldson and Dunfee (1999) as a way for managers make ethical decision making, which refers to macro-social and micro-social contracts. The former refers to the communities and the expectation from the business to provide support to the local community, and the latter refers to a specific form of involvement.

3.1.6 Legitimacy Theory

Another theory reviewed in the corporate governance literature is legitimacy theory. Legitimacy theory is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions" (Suchman, 1995). Similar to social contract theory, legitimacy theory is based upon the notion that there is a social contract between the society and an organization. A firm receives permission to operate from the society and is ultimately accountable to the society for how it operates and what it does, because society provides corporations the authority to own and use natural resources and to hire employees (Deegan, 2004).

Traditionally profit maximization was viewed as a measure of corporate performance. But according to the legitimacy theory, profit is viewed as an all-inclusive measure of organizational legitimacy (Ramanathan, 1976). The emphasis of legitimacy theory is that an organization must consider the rights of the public at large, not merely the rights of the investors. Failure to comply with societal expectations may result in sanctions being imposed in the form of restrictions on the firm's operations, resources and demand for its products. Much empirical research has used legitimacy theory to study social and environmental reporting, and proposes a relationship between corporate disclosures and community expectations (Deegan, 2004).

3.1.7 Political Theory

Political theory brings the approach of developing voting support from shareholders, rather by purchasing voting power. Hence having a political influence in corporate governance may direct corporate governance within the organization. Public interest is much reserved as the government participates in corporate decision making, taking into consideration cultural challenges (Pound, 1983). The political model highlights the allocation of corporate power, profits and privileges are determined via the governments' favour. The political model of corporate governance can have an immense influence on governance developments. Over the last decades, the government of a country has been seen to have a strong political influence on firms. As a result, there is an entrance of politics into the governance structure or firms' mechanism (Hawley and Williams, 1996).

4.0 CONCLUSION

In this unit, you have learnt the reasons for corporate governance and theories of corporate government. However, corporate governance is important because it brings about the efficiency with which a corporation employs assets; its ability to attract low-cost capital; its ability to meet societal expectations; and its overall performance (Anderson & Reeb, 2003).

Also, various theories of corporate governance were adequately reviewed i.e agency theory, stakeholders and resource dependency theory, stewardship theory, social contract theory legitimacy theory and political theory. For instance, while these theories are based on one aspect of the organisation, some of them are simply a contradictory of the other. A case in reference is the Stewardship theory (a contrast of Agency Theory) presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners

(Donaldson & Davis, 1991). The fundamentals of stewardship theory are based on social psychology, which focuses on the behavior of executives.

5.0 SUMMARY

This unit is all about why corporate governance and theories that supported it. Actually, these sources are interwoven and interrelated, a leader's capability to influence others is dependent on the power he has. Importance of corporate governance includes: it brings about the efficiency with which a corporation employs assets; its ability to attract low-cost capital; its ability to meet societal expectations; and its overall performance (Anderson & Reeb, 2003).

Also, various theories of corporate governance were adequately reviewed i.e agency theory, stakeholders and resource dependency theory, stewardship theory, social contract theory legitimacy theory and political theory. Hence, in order to ultilised corporate governance opportunities, these numerous corporate governance strategies and theories must be harness and properly channel as at when necessary bearing in mind the principle of unity of purpose, transparency, accountability, equity and responsibility from the parts of the board of directors and top managers in the top echelon of the organisation.

5.1 SELF ASSESSMENT EXERCISE

1. Explain vividly the reasons for corporate governance?
2. Explain the theories of corporate governance?

6.0 TUTOR-MARKED ASSIGNMENT

1. Clearly distinguish between stakeholder theory and stewardship theory under corporate governance.
2. Distinguish between legitimacy theory and political theory under corporate governance.

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UNIT 3: RESPONSIBILITIES AND FUNCTIONS OF A BOARD OF DIRECTORS

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UNIT 3: RESPONSIBILITIES AND FUNCTIONS OF A BOARD OF DIRECTORS

1.0 INTRODUCTION

The empirical evidence of a link between governance and performance is mixed due to the difficulty in factoring out governance from all the other influences on firm performance (Adams, Hermalin, Weisbach & Forthcoming, 2012; Allen,2015; Aggarwal, Erel, Stulz & Williamson, 2008). Nonetheless, the connection between effective governance and firm performance makes considerable intuitive sense. Effective corporate governance is also closely related to efforts to reduce corruption in business dealings. Effective governance systems should make it difficult for corrupt practices to develop and take root in a company. Strong governance may not prevent corruption, but it should make it more likely that corrupt practices are discovered.

2.0 OBJECTIVES

At the end of this unit, students should be able to:

1. Explain the responsibilities of board of directors
2. Explain the functions of board of director.
3. Explain the composition of board of directors
4. Explain the role of shareholders.
5. Explain the role of audit committee
6. Explain the qualification and experience of members of an audit committee

3.0 MAIN CONTENTS

3.1 Responsibilities

Allen, (2015). Opined that the following are the major responsibility of board of directors:

1. The board of directors should be in firm control of the affairs of the company in a lawful, efficient and effective manner, such that the organization may increasingly improve on its value creation; and

2. The board should, with due regard to the other stakeholders' interests, ensure that the Value created is shared among the interested parties such as the shareholders and employees.

3. The board should ensure transparency, accountability, equity and fairness among all organisations' players.

3.2 Functions

Bainbridge, (2013) identified the functions of the board of directors.This include, but not limited to, the following:

1. Strategic planning
2. Selection, performance appraisal and compensation of senior executive members;
3. Succession planning
4. Communicating with the shareholders
5. Ensuring the integrity of financial controls and reports; and
6. Ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria.

The chairman's primary responsibility is to ensure effective operation of the board and as much as possible distance himself from the day-to-day running of the company which is the primary responsibility of the chief executive officer and management team.

a. The board is the main custodian of the corporation's accountability; and
b. It moderates the conflicting interests of the stakeholders.

3.3 Composition of Board of Directors

According to Adams, Hermalin, Weisbach, Forthcoming, (2012), the following are identified composition of an efficient Board of Directors:

1. The board should be composed in such a way as to ensure the diversity of experience, without compromising compatibility, integrity, availability and independence;
2. Membership of the board should rest on the following attributes: Uprightness in character;

- Distinctive competencies;
- Knowledge on board matters;

- Entrepreneurial bias; and
- Sense of accountability, integrity, commitment to the task of corporate and institutional building.

3. The position of the chairman and chief executive officer should ideally be separated and held by different persons;
4. There should be a strong non-executive independent director as vice chairman of the board, where the position of the chairman and chief executive officer are combined in one individual.

The board member remuneration policy should be supported by full and effective disclosure, in consonance with the spirit and intent of the Companies and Allied Matters Act (Cap. C20, LFN. 2004) and Code of Corporate Governance in Nigeria, 2003.

A good corporate governance calls for a solid theoretical framework which recognizes and manages risks. According to Aggarwal, et al, (2008) a sound and imaginative process of risk oversight and management and internal control are invaluable for corporate survival, particularly in the face of global economic and financial crisis. The system calls for the tools of identification, assessment, monitoring and managing all kinds of risks relating to production, marketing, financing, inflation, etc.

A dynamic and forward looking organization should, at all times and more especially during economic downturn, "feed the opportunities and starve the problems as they unfold, so as remain comfortably in business (Bar-Gill, Barzuza, Bebchuk, 2013)." p45.

3.4 The Role of Shareholders

According to Beasley, (1996). The following are identified rights and privileges of shareholders:

1. The company, through the directors, should ensure that shareholders' statutory and general rights are protected every time;
2. It should be the responsibility of the shareholders to elect directors and approve the terms and conditions of their directorship positions;
3. The venue of the annual general meeting should be carefully chosen such that the shareholders could attend and vote and not be disenfranchised as a result of distance and cost;
4. Before the annual general meeting, notices should be dispatched at least 21 working days, with such details and annual reports, audited financial statements and other information that would enable the shareholders to vote properly on any issue.
5. A separate resolution should be proposed by the board at the general meeting on each substantive issue in such a way that they could be voted for in an organized manner;
6. The board has to ensure that decisions reached at the general meetings are implemented;
7. There ought to be at least one director on the board to represent minority shareholders;
8. Unless they are in a competing business or have conflicts of interest that warrant their exclusion, shareholders holding more than 20% of the total issued share capital of the company should have a representative on the board;
9. The board should ensure equal treatment for all shareholders, such that none is given preferential treatment or superior access to information or other materials; and
10. The annual general meeting should be recognized by the board as the most potent avenue to communicate with the shareholders and encourage their participation.

3.5 The Role of Audit Committee

The Companies and Allied Matters Act, 1990 states that a public limited liability company should have an audit committee (maximum of six equal representation of three members each representing the management/directors and shareholders) in place (Bar-Gill *et al*, 2013). The members are expected to be conversant with basic financial statements. The committee has the following objectives:

1. Increasing public confidence in the credibility and objectivity of published financial statements
2. Assisting the directors, especially the non-objective directors, in meeting their responsibilities of financial reporting
3. Strengthening the independent position of a firm's external auditors by providing an additional channel of communication.

3.6 Qualification and Experience of Members of an Audit Committee

Aggarwal, *et al*, (2008) argued that a good and effective audit committees' member must possess the following qualifications and experience:

1. Members of an audit committee should be able to read and understand basic financial statements and make valuable contributions to the committee's deliberation;
2. An audit committee should review not only external auditor's report but also, most importantly, the report of the internal auditor;
3. Members of the committee should possess the following qualities:
   - Integrity;
   - Dedication;

- Thorough understanding of the business, its products and services;
- Reasonable knowledge of the risks facing the company and the essential controls which it has in place;
- Ability to offer new or different perspective and constructive suggestions; and Inquisitiveness and dependable judgment.

Corporations owe a number of legal, social and moral obligations to non-shareholder stakeholders. Examples of the stakeholders are employees, communities and customers/clients. It is held fervently that companies can create value by optimally managing social, natural, human and other forms of capital (Adams, *et.al*, 2012). Most companies are subject to a number of legal specifications such as trade practices, occupational health and safety, consumer protection and effluent discharge control.

In orderly societies, directors and members of top management are held personally answerable for exhibiting corporate behavior which runs counter to the laid down norms. A board which is in charge of its destiny has to set the tone and indices of moral behavior of the corporate entity and ensure adherence by the rank and file (Bainbridge, 2013).

4.0 CONCLUSION

In this unit, you have learnt the responsibilities, functions, composition of board of directors, the role of both shareholders and audit committee. Major responsibilities of board of directors include; to be in firm control of the affairs of the company in a lawful, efficient and effective manner, such that the organization may increasingly improve on its value creation; with due regard to the other stakeholders' interests, ensure that the value created is shared among the

interested parties such as the shareholders and employees. And ensure transparency, accountability, equity and fairness among all organisations' players.

5.0 SUMMARY

This unit is all about responsibilities, functions, composition of board of directors, and the role of both shareholders and audit committee. In addition, an efficient board of director should perform the following but not limited functions:

Assists in strategic planning; selection, performance appraisal and compensation of senior executive members; succession planning and communicating with the shareholders as at when due (Adams, *et.al*, 2012).

The Shareholders (equity owners) have the following privileges and duties: notices of AGM should be dispatched at least 21 working days, with such details and annual reports, audited financial statements and other information that would enable the shareholders to vote properly on any issue; A separate resolution should be proposed by the board at the general meeting on each substantive issue in such a way that they could be voted for in an organized manner; the board has to ensure that decisions reached at the general meetings are implemented; and there ought to be at least one director on the board to represent minority shareholders (Bainbridge, 2013).

Periodically, financial statement (account) of every organisation must be duly audited by a credible audited committee. Members of the committee should possess the following qualities:

Integrity, dedication, thorough understanding of the business, its products and services, reasonable knowledge of the risks facing the company and the essential controls which it has in place (Aggarwal, *et al*,2008).

5.1 Self Assessment Exercise

1. Explain responsibilities of corporate governance
2. Explain function of corporate governance
3. Explain Composition of Board of Directors of corporate governance
4. Explain both the role of audit committee and shareholders with their qualifications

6.0 TUTOR-MARKED ASSIGNMENT

1. Clearly distinguish between role of audit committee and shareholders under corporate governance.
2. Explain the functions and responsibilities of corporate governance.

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UNIT 4: BASIC PRINCIPLES OF OECD AND CORPORATE GOVERNANCE IN PRACTICE

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UNIT FOUR: BASIC PRINCIPLES OF OECD

1.0 INTRODUCTION

When the Business Sector Advisory Group issued its Report to OECD Ministers at the height of the Asian crisis, it recommended that the OECD promote and further articulate the "core standards" of corporate governance: fairness, transparency, accountability and responsibility. That proposal led the OECD to convene an Ad-Hoc

2.0 OBJECTIVES

At the end of this unit, students should be able to:

1. Explain the principles of OECD
2. Explain corporate governance in practice.

3.0 MAIN CONTENTS

3.1 Principles of OECD

Task Force on Corporate Governance comprised of representatives from the 29 OECD member nations as well as interested international organisations, and business and labor representatives. The Task Force also sought input from non-OECD nations (as well as broader public comment through its web site). In April of 1999 the Task Force issued a set of corporate governance principles that embody the consensus views of the Task Force members on the fundamentals. These Principles build on the four essentials articulated by the OECD Business Sector Advisory Group (Bar-Gill, Barzuza, & Bebchuk, 2013). While they are intended to be non-binding, they provide thoughtful guidance to nations seeking to improve corporate governance (Beasley,2013).

Fairness: The OECD Principles expand on the concept of "fairness" with two separate principles. Principle I states that: "The corporate governance framework should protect

shareholders' rights." Generally, this Principle recognizes that shareholders are property owners, and as owners of a legally recognized and divisible share of a company, shareholders have the right to hold or convey their interest in the company (Bebchuk, Kraakman, & Triantis, 2010). Effective corporate governance depends on laws, procedures and common practices that protect this property right and ensure secure methods of ownership, registration and free transferability of shares (Allen, 2015). Principle I also recognizes that shareholder generally have certain participatory rights on key corporate decisions, such as the election of directors and the approval of major mergers or acquisitions (Bebchuk, 2009). Governance issues relevant to these participatory rights concern voting procedures in the selection of directors, use of proxies for voting, and shareholders' ability to make proposals at shareholder meetings and to call extraordinary shareholder meetings (Allen, 2015).

Principle II also relates to "fairness" in holding that: "The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights." This means that the legal framework should include laws that protect the rights of minority shareholders against misappropriation of assets or self-dealing by controlling shareholders, managers or directors (Becht, Franks, Mayer, & Rossi, 2008). Rules that regulate transactions by corporate insiders and impose fiduciary obligations on directors, managers and controlling shareholders -- and mechanisms to enforce those rules, such as shareholder derivative actions -- are some examples (Bertrand & Mullainathan, 2001).

Transparency: Principle IV states that: "The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation,

including the financial situation, performance, ownership and governance of the company. (Bertrand, Mehta & Mullainathan, 2002).

” This recognizes that investors and shareholders need information about the performance of the company -- its financial and operating results -- as well as information about corporate objectives and material foreseeable risk factors to monitor their investment. Financial information prepared in accordance with high-quality standards of accounting and audit should be subject to an annual audit by an independent auditor (Becht, *et.al,* 2008). This provides an important check on the quality of accounting and reporting. Of course, accounting standards continue to vary widely around the world. Internationally prescribed accounting standards that promote uniform disclosure would enable comparability, and assist investors and analysts in comparing corporate performance and making decisions based on the relative merits (Bertrand, *et.al,* 2002). Information about the company’s governance, such as share ownership and voting rights, identity of board members and key executives and executive compensation, is also important to potential investors and shareholders and is a critical component of transparency (Allen, 2015).

Accountability: Principle V states: The corporate governance framework should protect shareholders’ rights.” The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company (Bertrand, *et.al,* 2002). This Principle implicates a legal duty of directors to the company and its shareholders (Allen, 2015). As elected representatives of the shareholders, directors are generally held to be in a fiduciary relationship to shareholders and to the company, and have duties of loyalty and care which require that they avoid self-interest in their decisions and act diligently and on a fully

informed basis. Generally, each director is a fiduciary for the entire body of shareholders and does not report to a particular constituency (Bertrand, *et.al,* 2002).

This Principle also recognizes that the board is charged with monitoring the professional managers to whom the discretionary operational role has been delegated and holding them accountable in the use of firm assets (Becht, *et.al,* 2008). In this respect, the board provides a mechanism for reducing the agency problem -- described by Adam Smith in 1776 -- that is inherent in the separation of ownership and control (Allen, 2015). If the board is to serve as an effective monitor of managerial conduct, however, it must be sufficiently distinct from management to be capable of objectively evaluating management (Bertrand, *et.al,* 2002). (A board comprised wholly or primarily of management cannot be expected to effectively minimize agency problems.) This generally requires that some directors are neither members of the management team nor closely related to them through family or business affairs (Becht, *et.al,* 2008).

Clearly, the quality of corporate governance also depends on the quality of directors. Objective oversight requires the inclusion of professionally competent nonexecutives and independent directors, who have the capability, fiduciary commitment and objectivity to provide strategic guidance and monitor performance on behalf of shareholders (Becht, *et.al,* 2008). Much has been written about the practices that boards should follow to encourage board effectiveness. In general, board "best practices" suggest that the board should meet often. For most boards, this is at least once per quarter; and usually more frequently (Allen, 2015). In addition, the effectiveness of directors -- especially non-executives -- depends upon the quality of information that is made available to them. To ensure that "independent oversight" has meaning, directors must have access to important information and such information should be provided in advance

of board meetings. Board committees have provided a useful structure for performing detailed board work. In the U.S. and the U.K. it is common to rely on an audit committee, executive compensation (or remuneration) committee and a nomination committee (and staff them wholly or primarily with non-executives or independent directors) (Becht, *et.al*, 2008).

Responsibility: Principle III translates "responsibility" to mean that: "The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises." This recognizes that corporations must abide by the laws and regulations of the countries in which they operate, but that every nation must decide for itself the values it wishes to express in law and the corporate citizenship requirements it wishes to impose (Becht, *et.al*, 2008). As with good citizenship generally, however, law and regulation impose only minimal expectations as to conduct. Outside of law and regulations, corporations should be encouraged to act responsibly and ethically, with special consideration of the interests of stakeholders, and in particular employees (Allen, 2015).

Increasingly, corporations recognize that active co-operation between corporations and stakeholders assists corporate performance, and that socially responsible corporate conduct is consistent with the principle of shareholder maximization (Allen, 2015). In many nations, corporations go well beyond legal requirements in providing health care and retirement benefits, encouraging diversity of race and gender in employment and promotion practices, financially supporting education, and formulating and adopting environmentally friendly technologies. Similarly, many companies strive to avoid activities perceived to be socially undesirable even where not prohibited (Becht, *et.al*, 2008).

The four principles of corporate governance are fairness, transparency, accountability and responsibility and expanded into the five OECD. Principles of Corporate Governance require both regulation and private sector initiative for implementation. Regulation ensures that minimum standards are met; private codes of conduct and voluntary behavior can and in many cases should go well beyond minimum legal requirements (Becht, *et.al,* 2008).

3.2 Corporate Governance in Practice

Common stockholders have the right to elect their representatives on the board of directors of a corporation. Members of the board of directors assume the responsibility of monitoring, directing and appointing the firm's managers. In this manner disperse shareholders are potentially empowered in setting direction, monitoring performance, and controlling distribution of profits of the corporation (Allen, 2015). In particular, this internal control mechanism is purported to integrate the interests of common stockholders and the executive managers of a corporation by rewarding good corporate performance (Becht, *et.al,* 2008).

The board of directors has the right and responsibility to remove poorly performing managers. Historically, dissatisfied shareholders have "walked away" from the corporation by selling their shares at depressed prices and thereby incurring losses (Allen, 2015). Alternatively, major shareholders either through hostile actions, "investor activism," or a friendly approach, "relationship investing," have pursued their objectives of monitoring corporate managers. Furthermore to the extent U.S. corporate laws permit, competing managers would remove incompetent ones and take over poorly performing firms (Becht, *et.al,* 2008). These aforementioned actions collectively are purported to add value for the existing shareholders. The business judgment rule followed by the U.S. courts, has kept the courts out of corporate

decisions. The U.S. Business Law rests on the belief that actions of corporate managers are evaluated and approved by members of the board of directors of the corporation (Bertrand, *et.al,* 2002).

In particular, corporate actions that have direct effects on shareholders' wealth are assumed to be communicated to them in a timely manner. Therefore, the U.S. courts would not interfere in corporate matters except for fraudulent activities (Bertrand & Mullainathan, 2001). If members of the board of directors are not able or motivated to control managers, relationship investing is purported to achieve that (Allen, 2015). Relationship investing is an example of involved ownership of a business enterprise. Large investors tend to act as mentors to the managers of the firm and behave in a supportive and friendly manner (Bertrand, *et.al,* 2002).

. Investors pursue different approaches for maintaining corporate internal control for the purpose of creating a well-functioning business enterprise. The underlying reason for the corporate governance system is the stakeholders' pursuit for preserving their respective share of profit earned by business enterprises (Allen, 2015).

4.0 CONCLUSION

In this unit, you have learnt the principles of OECD and practices of corporate governance. The conclusion drawn was that OECD should be vast in the report and practices used should be consistence in the styles in order to match the style with the situation for the organizational goals to be achieved.

5.0 SUMMARY

This unit is all about principles of OECD and practices of corporate governance. Major principles of the OECD identified and examined include: The four principles of corporate

governance are fairness, transparency, accountability, responsibility and expanded into the five OECD 'principle of corporate governance. The five OECD principles explain that the corporate governance framework should protect shareholders' rights; the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company; the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders and the corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises (Allen,2015).

More so, on corporate governance practices, members of the board of directors assume the responsibility of monitoring, directing and appointing the firm's managers. In this manner disperse shareholders are potentially empowered in setting direction, monitoring performance, and controlling distribution of profits of the corporation. In particular, this internal control mechanism is purported to integrate the interests of common stockholders and the executive managers of a corporation by rewarding good corporate performance (Bertrand, *et.al*, 2002).

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5.1 SELF-ASSESSMENT EXERCISE

1. Explain principles of OECD?
2. Explain practices of corporate governance?

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain principles of OECD

2. Explain the practices of corporate governance

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UNIT 5: GOOD GOVERNANCE WITH VALUE ADDITION AND DUE PROCESS

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6.0 Tutor-Marked Assessment

7.0 References/Further Readings

UNIT 5: GOOD GOVERNANCE, VALUE ADDITION AND DUE PROCESS

1.0 INTRODUCTION

In today's knowledge driven economy, demonstrating excellence in skills has become the ultimate tool in the hands of board of directors to leverage competitive advantage. Adoption of good corporate governance practices provides long-term sustenance and strengthens stakeholders' relationship

2.0 OBJECTIVES

At the end of this unit, students should be able to:

1. Explain good governance;

2. Explain corporate governance rating/benchmarking and due process.

3.0 MAIN CONTENTS

3.1 Good Governance

What benefits or value addition the corporate are likely to achieve through sound and effective corporate governance practices? The answer, as provided by Abor and Nicholas, (2014) runs as follows and the road map is factors which add greater value through good governance, may be summarized as follow:

- Adoption of good governance practices stability and growth to the enterprise.
- Good governance system, demonstrated by adoption of good corporate governance practices, builds confidence amongst stakeholders as well as prospective stakeholders.
- In today's knowledge driven economy, demonstrating excellence in skills has become the ultimate tool in the hands of board of directors to leverage competitive advantage.
- Adoption of good corporate governance practices provides long-term sustenance and strengthens stakeholders' relationship.
- A good corporate citizen becomes an icon and enjoys a position of respect.
- Potential stakeholders aspire to enter into relationships with enterprises whose governance credentials are exemplary.

3.2 Corporate Governance Rating/Benchmarking and Due Process

It was the belief of the Securities and Exchange Board of India ("SEBI") that efforts to improve corporate governance standards in India must continue. This is because these standards

themselves were evolving in keeping with market dynamics (Adelman, Jenkins, & Kemmis, 2012).

According to SEBI sources, SEBI has no intention to making rating of governance of listed companies mandatory. According to SEBI, it may be wrong to conclude that governance norms compelled companies to sacrifice long-term interests or outlook in the pursuit of short-term interests and responses to market signals (Albaum & Peterson, 2012). SEBI has commissioned a study to determine the cost of compliance incurred by companies in respect of the regulatory framework, including Clause of the listing agreement. The Narayana Murthy committee on corporate governance code had gone about its work in a highly professional and democratic manner and SEBI wanted that the professionals should study the issues raised and its recommendations, including the proposal for facilitation of 'whistle blowing'; ICRA which rated companies, adopted certain parameters and procedures for the purpose and the agency clarified that it normally required four to six weeks and the rating was not an audit or certification of regulatory compliance by the listed company and the exercise was not a guarantee against fraud (Anderson, Mansi, & Reeb,2012). Its primary focus in the rating was on the business processes. Key variables analyzed in rating included the shareholding structure, governance structure, management processes, board structure and processes, stakeholder relationship, transparency and disclosures and financial discipline (Berle, & Means, 2010). Measuring Corporate governance practice: It may be noted that Standard & Poor has recently launched a new service, known as Corporate Governance Scores, to evaluate corporate governance practices, both at a country and at a company level. In the case of country governance assessment, the analysis starts with an evaluation of governance issues at the country level (Cole & Mehran, 2010). Depending upon the

level of support, a country would be assessed as providing “strong support”, “moderate support” or “weak support”.

The other part of the analysis is concerned with company analysis which is concerned with evaluating the practices at individual companies. Standard and poor assigns scores to a company’s overall practices using a synthesis of the OECD’s and other international codes and guidelines of corporate governance practices (Conger, Finegold & Lawler, 2009). The analysis has four main components as identified by Doidge, Karoly, and Rene, (2004), these four components and sub categories are as follows:

Component 1 concerned with ownership structure, relates to transparency of ownership structure, concentration and influence of ownership.

Component 2 concerned with financial stakeholder relations, has subcategories such as regularity of, access to, and information on shareholder meeting, voting and shareholder meeting procedures and ownership rights.

Component 3 concerned with financial transparency and information disclosure comprises sub-categories like quality and content of public disclosure, timing of, and access to, public disclosure and independent and standing of the company’s auditor.

Component 4 concerned with board structure and process is related to Board structure and composition, role and effectiveness of board, role and independence of outside directors and directors and executive’s compensation, evaluation and succession policies.

The Anglo-Saxon system focuses primarily on the shareholder, while others, such as the German system, attempt to achieve a greater balance of interest between shareholders and other external stakeholders (creditors, employees, the community, the environment etc.). By addressing the interest of both creditors and shareholders, the scoring model recognizes the importance of

stakeholder's right beyond the rights of the shareholder (McConaughty, 1998). Finally how can corporate governance scores benefit different sections?

Investors can use the scores to identify and compare corporate governance standards of different companies in their portfolios or the risk characteristics associated with the corporate governance practices of potential investments. Corporate governance scores and the accompanying analysis also help investors understand how a company's management treats the interest or shareholders, including minorities (Conger, *et.al*, 2009).

3.0 CONCLUSION

In this unit, you have learnt the good governance and corporate governance rating/benchmarking and due process. The conclusion drawn was that good governance has major advantages in corporate organization with the influence of leadership with the situation for the organizational goals to be achieved. A sophisticated and well articulated corporate governance will bring about stability and growth to the enterprise; good governance system, demonstrated by adoption of good corporate governance practices, builds confidence amongst stakeholders as well as prospective stakeholders; demonstrating excellence in skills has become the ultimate tool in the hands of board of directors to leverage competitive advantage and provides long-term sustenance and strengthens stakeholders' relationship.

5.0 SUMMARY

This unit is all about good governance and corporate governance rating/benchmarking and due process and its implication on organization. To ensure good corporate governance rating, organisations must primary focus on key variables i.e the shareholding structure, governance structure, management processes, board structure and processes, stakeholder relationship, transparency and disclosures and financial discipline (Berle, & Means, 2010).The other part of the analysis is concerned with company analysis which is concerned with evaluating the practices at individual companies.

The analysis has four main components as identified by Doidge, Karoly, and Rene, (2004), these four components and sub categories are as follows: *Component 1* concerned with ownership structure, relates to transparency of ownership structure, concentration and influence of ownership; *Component 2* concerned with financial stakeholder relations, has subcategories such as regularity of, access to, and information on shareholder meeting, voting and shareholder meeting procedures and ownership rights; *Component 3* concerned with financial transparency and information disclosure comprises sub-categories like quality and content of public disclosure, timing of, and access to, public disclosure and independent and standing of the company's auditor and *Component 4* concerned with board structure and process is related to Board structure and composition, role and effectiveness of board, role and independence of outside directors and directors and executive's compensation, evaluation and succession policies.

5.1 SELF-ASSESSMENT EXERCISE

1. Explain the reflection of good governance of a particular leader?
2. Discuss the rating/benchmarking of corporate governance?

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the rating/benchmarking for corporate governance?

2. What are the factors of good governance?

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UNIT 6: CORPORATE CONTROL DESIGNS AROUND THE WORLD

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UNIT SIX: CORPORATE CONTROL DESIGNS AROUND THE WORLD

1.0 INTRODUCTION

Corporate governance system varies significantly among different countries. In a highly dispersed shareholding system, such as is the case in the U.S., members of the board of directors are granted the responsibility of monitoring executives

2.0 OBJECTIVES

At the end of this unit, students should be able to:

1. Explain shareholder activism

2. Explain Concentrated and Cross Shareholding Systems

3.0 MAIN CONTENTS

3.1 C**orporate Governance System Varies Significantly Among Different Countries**.

In a highly dispersed shareholding system, such as is the case in the U.S., members of the board of directors are granted the responsibility of monitoring executives. Internal corporate governance systems in Germany and Japan, on the other hand, rest with large shareholders. This is because their business and legal systems allow concentrated and cross shareholdings. The actions of these large shareholders appear to be a combination of aggressively controlling the management as well as a friendly one (Bryan and Patel, 2002). Corporate financial managers are expected to act on behalf of shareholders, with the goal of obtaining a reasonable return on their investments. Once the board fails in its duty, share prices would fall and institutional shareholders with a large stake would assume the responsibility of the board of directors. These actions could either be supportive or unfriendly towards the incumbent management team (Bethel *et al.*, 1998).

3.2 Shareholder Activism

Shareholder activism involves the task of aggressive monitoring and controlling the firm's management for the purpose of enforcing changes in the firm's structure of internal control and increasing shareholders wealth. It is generally found that shareholder activism tend to be beneficial to all investors in terms of appreciation of their wealth. Bryan and Patel, (2002), studied the influence of TIAA-CREF corporate governance practices for firms in its investment

portfolios during 1992-1996. It was found that at least 87 percent of the target firms took actions in line with the terms negotiated by TIAA-CREF. Bryan and Patel, (2002), further concluded that the benefits of activism tended to depend upon the type of issues involved. The magnitude of benefits though appears to be small or insignificant. Board diversity issue had resulted in negative abnormal return, whereas confidential voting resulted in positive abnormal return. Mengistae and Xu, (2004) reviewed the operating performance for 51 firms targeted by CALPERS during 1987-93. He found that shareholder wealth tend to increase for firms that adopt or settle, and decreases for firms that resist.

However, there were no statistically significant changes in performance as measured by operating income, and cash flows. Bethel *et al.* (1998), reviewed the nature of investor activists' block share purchases in the 1980s and found that the target firms were highly diversified and with poor performance. It was found that activists' efforts had resulted in abnormal share price appreciation, operating profitability, asset divestitures, and a decrease in acquisitions. Their sample included 425 firms during 1980-89. Activist investors were found to be able to influence firm policies during the 1980s even though takeovers typically did not take place in the targeted firms. Thus, suggesting that the market for partial control can play an important role in reducing the agency costs. This is the result of the separation of ownership and control in U.S. corporations. The greatest profitability improvements were observed two and three years after block purchases, and in firms that invested assets after such actions.

Mengistae and Xu, (2004) on the other hand, suggest that activism on the part of public pension funds does not appear to increase the market value of their holdings. The U.S. capital markets possess a high degree of operational efficiency. This flexible system facilitates and allows activist shareholders to pursue trading in large quantity of shares without incurring a market

impact or undue transactions costs. It also resolves the “free rider” problem. The “free rider” problem may arise due to the fact that all shareholders would tend to benefit from the actions taken by a select group of activist shareholders, even though the cost is borne solely by the activists (Shanghai Stock Exchange, 2003).

Mengistae and Xu, (2004) found that a liquid stock market is beneficial because it makes investor activism a more effective tool for corporate internal governance and control. This is because a liquid stock market makes it less costly to hold larger amounts of the outstanding shares of a target firm. In particular, in most cases other large shareholders cooperate in order to influence the management of a company.

Relationship Investing Relationship investing is defined as involved ownership in a helping and positively influencing the management for improving corporate performance. It includes an active, two-way communication between large shareholders and the management. Bryan and Patel, (2002), state that relationship investing is often referred to as the approach followed by Warren Buffett. Buffett's approach is perceived as taking an active but friendly role with directors and senior management in a patient, value-added, negotiated involvement. In effect, it is believed that Buffett brings more than money to these corporations, since he brings valuable experience and a helping hand to their management.

3.3 Concentrated and Cross Shareholding Systems

In Germany and Japan large percentages of shares of companies are held by banks, individuals, and other companies. Such a system is perceived as an effective way for monitoring and influencing the management, thus leading to better performance (Shanghai Stock Exchange, 2003). This cross shareholding system is also believed to be a low cost and efficient financing alternative than the capital markets. Banks in Germany are allowed to own stocks in the

companies they lend to. Their large voting rights would allow these banks to remain informed and maintain control over the management (Che & Qian,1998).

. In the Japanese system, the cross shareholding, known as the Keiretsu, provides a mechanism for stockholders to control management's actions. The Presidents' Council meets on a regular basis in which the lending banks, large shareholders, and other investing firms interact with the management. The German and Japanese systems of corporate governance resemble the relationship investing (Mengistae & Xu, 2004).

Naughton and Hovey, (1999) explains that in Germany, the management board is comprised of the top managers. They include the chairman, who is the equivalent of the CEO. The supervisory board, which is the equivalent of an outside board, includes both shareholders and labor representatives. In Japan the board consists of all insiders (Peng, 2001). The president is also the CEO. A few top directors, including the president, are given special rights to represent the company. These are known as representative directors. Large shareholders have the means and the incentives to collect pertinent information regarding investment and financing activities of the firm. Yermack, (1996), state that it is feasible for large shareholders to collect information about the firm and to monitor the management.

However, while large shareholdings are not common in the U.S., majority ownerships are prevalent in Germany and Japan. Management and director turnovers are common in Germany and Japan in response to poor corporate performance. The Japanese large investors appear to be soft with the management and in Germany large investors have few incentives to discipline managers. Anderson & Reeb, (2003).conclude that firms in the U.S. rely on legal protection of investors, whereas in much of Europe and in Japan there is more reliance on large investors to

exert effective internal corporate control. Bhagat and Black, (2002) observes that the difference between countries corporate governance system is as a result of differences in their legal and regulatory environments. Regulatory restrictions and limits placed on investors' holdings in the U.S. have led to dispersed holdings of stocks. Conversely, the absence of such restrictions in Japan and Germany has resulted in concentrated shareholdings.

In both Germany and Japan, unlike the U.S., banks have substantial influence in the companies they lend to. It is therefore, hypothesized that lack of a liquid financial market in Germany and Japan and the availability of low cost, long-term borrowing have contributed to the development of their respective corporate governance systems (Anderson & Reeb,2003).

On the other hand, it is believed that the ample liquidity and marketability in the U.S. financial system has created dispersed shareholdings, block trading, and facilitated relationship investing as feasible forms of corporate internal control in the U.S. Bhagat and Black, (2002) finds that the forced resignations of top managers are preceded by large and sufficient declines in operating performance and followed by large improvements in performance. However, forced resignations are rare and are due more often to external factors than to normal board monitoring. Following the management change, these firms significantly down size their operations and are subject to a high rate of corporate (Anderson & Reeb, 2003).

4.0 CONCLUSION

In this unit, you have learnt shareholder activism and shareholding systems. The conclusion drawn was that good governance has major advantages in corporate organization with the influence of leadership with the situation for the organizational goals to be achieved. Also,

Shareholder activism involves the task of aggressive monitoring and controlling the firm's management for the purpose of enforcing changes in the firm's structure of internal control and increasing shareholders wealth. However, while large shareholdings are not common in the U.S., majority ownerships are prevalent in Germany and Japan. Management and director turnovers are common in Germany and Japan in response to poor corporate performance. The Japanese large investors appear to be soft with the management and in Germany large investors have few incentives to discipline managers.

5.0 SUMMARY

This unit is all about shareholder activism and shareholding systems or corporate designs around the world. Shareholder activism involves the task of aggressive monitoring and controlling the firm's management for the purpose of enforcing changes in the firm's structure of internal control and increasing shareholders wealth. However, while large shareholdings are not common in the U.S., majority ownerships are prevalent in Germany and Japan.

More so, Germany and Japan large percentages of shares of companies are held by banks, individuals, and other companies. Such a system is perceived as an effective way for monitoring and influencing the management, thus leading to better performance (Shanghai Stock Exchange, 2003). This cross shareholding system is also believed to be a low cost and efficient financing alternative than the capital markets. Banks in Germany are allowed to own stocks in the companies they lend to.

5.1 SELF ASSESSMENT EXERCISE

1. Explain the shareholder activism?

2. Explain the shareholding systems?

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the shareholder activisms?

2. What are the shareholding systems?

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