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CHAPTER ONE

INTRODUCTION

1.1Backgroundof the Study

CorporateGovernance is a number of process, customers, policies, laws and institutionswhich impacts on the way a company is controlled. An important theme ofcorporate governance is the nature and extent of accountability of people inthe business and mechanisms that try to decrease the principal agent problem(Wikipedia, 2011).

CorporateGovernance also includes the relationships among the many stakeholders involvedand the goals for which the corporation is governed. In contemporary businesscorporations, the main external stakeholder groups are shareholders, debtholders, trade creditors, suppliers, customer and communities affected by thecorporation’s activities. Informal stakeholders are the board of directors,executives and other employees. It guarantees that an enterprise is directedand controlled in a responsible, professional, and transparent manner with thepurpose of safeguarding its long-tem success it is intended to increase theconfidence of shareholders and capital market investors.

TheWorld Bank (2009) states that corporate governance comprises two mechanisms,internal and external corporate governance. Internal corporate governance,giving priority to shareholder’s interest, operated on the board of directorsto monitor top management. On the other hand, external corporate governancemonitors and controls manager’s behaviors by means of external regulations andforce, in which many parties, such as suppliers, debtors

(stakeholders), accountants, lawyers, and providers of credit and investment bank.

In the past, so many corporate organizations have been caught of getting involved in unethical practices, for example the discovery of financial scam by the Central Bank of Nigeria after the consolidation exercise, involving seven top bank executives in Nigeria, which puts the credibility of their corporate image under suspicion, which further shocking investors confidence. Consequently, corporate governance mechanism has been a crucial issue discussed again.

It is against this background that the researcher see the subject matter; corporate governance and its impact on the management of Forte Oil Nigeria Plc, Kaduna as an issue worthy of being investigated.

1.2 Statement of Problem

In the past, so many organizations in Nigeria have been involved in unethical practices, which puts the credibility of their corporate image in doubt. As such Forte Oil Nigeria Limited just like other oil companies have been constrained with issues arising from customer's complaint of exploitation of workers by using contract staff as against direct engagement of workers that would be remunerated according to their condition of service. Previous researches into the subject has brought to light the poor governance of so many companies with indebted accounts in Nigeria economy. Their accounting systems did not reflect the companies financial status. A typical example is the financial scam of Oceanic and Intercontinental Bank after the consolidation. Most management of such outfits were not accountable to stakeholders of the companies. Besides, the counts and the regulatory agencies were short of authority, corruption and kickbacks were part of the system in the companies. The poor governance practices led to the collapse of so many companies in Nigeria. Hence the need to study corporate governance and its impact on the management of Forte Oil Nigeria Plc Kaduna.

1.3 Objective of the Study

The main objective of the study is to examine the corporate governance and its impact on the management of Forte Oil Nigeria Plc. The specific objectives are:

- i) To examine the effect of corporate governance on the performance of Forte Oil Nigeria Plc.
- ii) To examine the internal and external corporate governance control mechanism in Forte Oil Nigeria Plc.

- iii) To identify the systemic problems of corporate governance in Forte Oil Nigeria Plc.
- iv) To proffer workable solutions to the identified problem of corporate governance in Forte Oil Nigeria Plc.

1.4 Significance of the Study

The study will be significant to Forte Oil Nigeria Plc especially as they utilize the findings of this research in enhancing policy governance in their organization. The study will also add to the existing knowledge on the subject matter and will also be a reference material for further research on corporate governance.

1.5 Research Questions

The central research question is: What is the impact of corporate governance on the management of Forte Oil Nigeria Plc? The specific questions are:

- i) How does corporate governance affect the performance of Forte Oil Nigeria Plc?
- ii) What are the internal and external corporate governance control mechanisms in place in Forte Oil Nigeria Plc?
- iii) What are the systemic problems militating against corporate governance in Forte Oil Nigeria Plc?
- iv) What are the solutions to such problems?

1.6 Scope of the Study

The study covers the examination of the impact of corporate governance on Forte Oil Nigeria Plc. The collection of empirical data is limited to Forte Oil Nigeria Plc Kaduna main office. The study covers a time from 2006 – 2011.

1.7 Limitation of the Study

The limitation of this study arises from the shortcoming of the research design, the instrument of data collection and the non-challant attitude of respondents. For the fact that the survey study is used it is not certain whether other research design such as the descriptive design, historical design or ex-post design will yield the same result. It is not also certain if the same result would be obtained if other kind of instrument of data collection other than the questionnaire is used to obtain data. Besides, the non-challant attitude of the respondents and the over exaggeration or understatement of their responses when scoring the items in the questionnaire could affect the validity of their responses. These limitations should be taken cognizance of by other researchers conducting similar studies.

1.8 Definition of Terms

Corporate Governance: This is relationship that exists between the different participants, and defining the direction of the firm.

Corporation: This refers to corporate entity or a body by means of which capital is acquired, used for investing in assets producing goods and services.

Shareholders: People who have invested in a company through subscribing to the company's stock.

Board Structure: Management at the top comprising of board of directors.

Ownership Structure: Shareholders and directors.

CEO: Acronym for Chief Executive Officer.

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