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CHAPTER ONE

INTRODUCTION

1.1**Backgroundof 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.

Inthe past, so many corporate organizations have been caught of getting involvedin unethical practices, for example the discovery of financial scam by the CentralBank of Nigeria after the consolidation exercise, involving seven top bankexecutives in Nigeria, which puts the credibility of their corporate imageunder suspicion, which further shocking investors confidence. Consequently,corporate governance mechanism has been a crucial issue discussed again.

Itis 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 anissue worthy of being investigated.

1.2**Statementof Problem**

Inthe past, so many organizations in Nigeria have been involved inunethical practices, which puts the credibility of their corporate image doubt.As such Forte Oil Nigerria Limited just like other oil company have beenconstraint with issues arising form customer's complaint of exploitations ofworkers by using contract staff as against direct engagement of workers thatwould be remunerated according to their condition of service. Previousresearches into the subject has brought to light the poor governance of so manycompanies with indebted accounts in Nigeria economy. Their accountingsystems did not reflect the companies financial status. A typical example isthe financial scam of Oceanic and Intercontinental Bank after the consolidation.Most management of such outfits were not accountable to stakeholders of thecompanies. Besides, the counts and the regulatory agencies were short ofauthority, 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 managementof Forte Oil Nigeria Plc Kaduna.

1.3**Objectiveof the Study**

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

i)To examine the effect of corporategovernance on the performance of Forte Oil Nigeria Plc.

ii)To examine the internal and externalcorporate governance control mechanism in Forte Oil Nigeria Plc.

iii)To identify the systemic problems ofcorporate governance in Forte Oil Nigeria Plc.

iv)To proffer workable solutions to theidentified problem of corporate governance in Forte Oil Nigeria Plc.

1.4**Significanceof the Study**

Thestudy will be significant to Forte Oil Nigeria Plc especially as they utilizethe findings of this research in enhancing policy governance in theirorganization. The study will also add to the existing knowledge on the subjectmatter and will also be a reference material for further research on corporategovernance.

1.5**ResearchQuestions**

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

i)How does corporate governance affectthe performance of Forte Oil Nigeria Plc?

ii)What are the internal and externalcorporate governance control mechanism in place in Forte Oil Nigeria Plc?

iii)What are the systemic problemsmilitating against corporate governance in Forte Oil Nigeria Plc?

iv)What are the solutions to suchproblems?

1.6**Scopeof the Study**

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

1.7 **Limitationof the Study**

Thelimitation of this study arise from the shortcoming of the research design, theinstrument of data collection and the non-challant attitude of respondents. Forthe fact that the survey study is used it is not certain whether other researchdesign such as the descriptive design, historical design or ex-post design willyield the same result. It is not also certain if the same result would beobtained if other kind of instrument of data collection other than thequestionnaire is used to obtain data. Besides, the non-challant attitude of therespondents and the over exaggeration or understatement of their responses whenscoring the items in the questionnaire could affect the validity of theirresponses. These limitations should be taken cognizance of by other researchersconducting similar studies.

1.8**Definitionof Terms**

CorporateGovernance*:*Thisis relationship that exists between the different participants, and defining thedirection of the firm.

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

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

BoardStructure: Management at the top comprising ofboard of directors.

OwnershipStructure: Shareholders and directors.

CEO:Acronym for Chief Executive Officer.

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