Corporate governance and elites☆

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ABSTRACT

Using a qualitative methodology (interviews), we examine the relationship between the effectiveness of corporate governance mechanisms and elitist interventions. In doing this, we identify three elitist groups – political, cultural and religious, and investigate how they shape the legitimacy and effectiveness (or otherwise) of the institutional drivers of corporate governance in Nigeria. We caution the widely-held notion in the literature which suggests that institutions act as a check on the behaviour of elites and influence how elites compete and emerge. Alternatively, we argue that elites, in the presence of institutional voids, can invent, circumvent and corrupt institutions.

1. Introduction

In the last two decades, the institutional theory has contributed to a richer understanding of the behaviour and reactions of stakeholders to issues of corporate governance (Aguilera & Jackson, 2003; Judge, Douglas, & Kutan, 2008). It has stimulated research towards understanding the macro and micro institutional influences on corporate governance in varieties of capitalism (Adegbite & Nakajima, 2011; Filatotchev, Jackson, & Nakajima, 2013; Lien & Li, 2013). However, given the promising prospects of the institutionalism-based corporate governance discourse, its usefulness in explaining corporate governance, especially in weak institutional contexts, has suffered from an important limitation. This relates to the role of elites (see Domhoff, 1990; Vergara, 2013) in shaping corporate governance through their influences on institutional (e.g. regulatory) mechanisms.

‘Elite’ was used in the 17th century to describe items of particular excellence, but the usage has been extended to refer to superior social groups (Bottomore, 2006). Elites represent a small group of influential people that control a disproportionate amount of wealth, privilege or power in society (Mills, 2000). Elites, in each sphere of activity, have succeeded or arrived at a higher echelon in the hierarchy (Aron, 1999). They include business (corporate) elites (Sikka, 2017), community elites, religious elites (Barro & McCleary, 2003), political elites (Aplin & Hegarty, 1980; Hadani, 2012) and professional elites (Aron, 1999). Essentially, elites have no restriction regarding their locale. They dictate the governance process in institutional settings, be it religious, military, academic, professions, community, or industry (Rizvi, 2015). In doing this, they use power and domination to influence the governance networks that promote institutional and organisational goals (Maclean, Harvey, & Chia, 2010).

The relationship between elites and institutions is important, given that elites influence institutions and vice versa (Acemoglu & Robinson, 2008). Higley and Lengyel (2000) note that institutions limit elite unity or disunity, differentiation or circulation, but these elite groups, in turn, influence the operation of institutions and may be able to overwhelm existing institutional structures. On the one
hand, Higley and Lengyel (2000) note that in stable democracies, institutions constrain elites strongly; however, in economies undergoing fundamental changes where institutions are typically in flux (deinstitutionalisation), elites possess wider latitudes of choice and action. On the other hand, multinational corporations are expected to accommodate operational dynamics that allow them to respond appropriately to local institutional demands. As a result, multinational firms who are subject to institutional control in their home country may find the void of such control filled by elites in their host (developing) countries. Ahrens and Ferry (2015, 2016) show how elites (e.g. government agencies), using state machinery, can influence the perception of citizens and stakeholders. However, despite the vital role of elites, especially in weak institutional contexts, there is a limited research on them. This is because elites are, by their nature, difficult to penetrate (Hertz & Imber, 1995). They characteristically invent barriers that set their members apart from the rest of the society, resulting in ‘class belongingness’ (see Catchpole & Smyth, 2016). Therefore, in this paper, we examine the relationship between elitist influences and the effectiveness of institutional mechanisms for corporate governance in developing economies.

The literature on corporate governance in developing countries has adopted an institutional perspective (Peng, Wang, & Jiang, 2008), but what remains unknown is a clear identification of the shapers of corporate governance institutional effectiveness. The extant literature in this space (Lau et al., 2007; Zattoni & Cuomo, 2008; Ntim & Soobaroyen, 2013) has documented weaknesses in the business environments at both macro and micro levels. This literature has however paid limited attention to the relationship between institutions and elites (Zald & Lounsbury, 2010; Khan, 2012). We contribute to the literature on the institutional theory of corporate governance, by examining the role of elites, as institutional influencers, especially in developing economies. We rely on the notion of “institutional void” to deepen our understanding of elitist influences. Institutional voids can provide opportunities for substitution by other institutional arrangements established by elites to influence institutional outcomes (see Lepoutre & Valente, 2012; Sikka, 2017). As such, we investigate the extent to which institutional voids and elites have provided the conditions for the growing levels of corruption and poor corporate governance in weak institutional contexts. In doing this, we identify the instruments employed by elites in influencing corporate governance outcomes. Our research, therefore, seeks to address the question:

**To what extent is the corporate governance system in Nigeria a reflection of elitist influences?**

Nigeria, as a research context, presents an appropriate case study to understand how the main institutional factors of corporate governance respond to the influences of elites (Yakasai, 2001; Ahunwan, 2002; Okike, 2007). Apart from being a leading economy in Africa, it is at the forefront of corporate governance research in the continent, particularly regarding the institutional antecedents of good corporate governance (Adegbite, 2015). As most Anglophone countries in Africa share similarities in their institutional environments (Tsamenyi & Uddin, 2009), our findings provide relevant cross-country insights into the role of elites in corporate governance. We show how the institutional elements which permit a robust corporate governance system are frustrated by institutional voids that mirror elitist preferences. For example, we examine the herding power of religion to understand how under-researched religious elites influence corporate governance outcomes.

The rest of this paper proceeds with a literature review and the theoretical frame of the research study. Here, we focus on institutional theory and its elements mainly institutional environment, institutions and institutional voids to examine the role of elites in corporate governance. Following on, we present our research design and methodology as well as the analysis and discussion of our findings. We conclude with some contributions, implications for practice and areas for future research.

### 2. Corporate governance, institutional theory, elites and corruption

Corporate governance denotes a system for directing and controlling companies (Cadbury, 1992), assures finance suppliers to firms of getting a return on their investment (Shleifer & Vishny, 1997), and establishes a system of checks and balances (Solomon, 2013). The concept of corporate governance is deeply situated within the sphere of agency theory (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Lubatkin, Lane, Collin, and Very (2007) however note that the agency theory relies on assumptions that reduce the complexity of the corporate governance phenomenon. Aguilera and Jackson (2003), for instance, argue that the agency theory fails to sufficiently explore how institutional embeddedness influence corporate governance. Alternatively, institutional theory examines the deeper and more resilient aspects of social structure, investigating the processes by which certain structures become established as guidelines for social behaviour (Scott, 2004). Institutional theory helps us to understand why and how organisations relate to their institutional environments (Suddaby, 2010). Institutional environments have become the anchor for understanding the institutional theory, with institutional theorists contending that the institutional environment, rather than market pressures, inspires the formal structures in an organisation (Meyer & Rowan, 1977).

In addition to the institutional environment, scholars have also studied institutional theory by exploring institutions. Institutions, as enduring features of social life (Giddens, 1984), are any collectively accepted system of rules by which societies establish institutional beliefs (Searle, 2005). They not only represent a system of established and accepted social rules that structure social interactions (Hodgson, 2006), but comprise elements that provide stability and meaning to social life (Scott, 2014). Thus, institutions not only possess the capacity to constrain or enable behaviour (North, 1990) but also exhibits a permanency characteristic, as a tool for building robust institutions (Dulbeco & Renard, 2003). On this understanding, institutional theory acknowledges that institutions are enduring entities (Maguire & Hardy, 2009), maintained over prolonged periods (Dacin & Dacin, 2008), and highly resistant to change (Zucker, 1987).

Institutions can also mirror social problems, such as corruption (Omololu, 2007). Institutions may be corrupt giving rise to political or country risk (see Everett, Neu, & Rahaman, 2007). This risk is prevalent in developing economies with considerable natural resources but weak regulation, thereby offering immense possibilities for corruption (Ferry, Zakaria, Zakaria, & Slack, 2017).
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