IMPORTANCE OF CORPORATE GOVERNANCE IN IMPROVING GLOBAL ECONOMY

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Abstract

Whenever the issue of "improving global economy" is discussed, the relevance of trade, investments and International Corporation are brought to the fore front of the list. Though rarely talked about in this light, corporate governance is one of the very important factors that that shapes the global economy. Although, this paper expatiates on the often shared view of how corporate governance improve the output of the corporation and the economy of the home country, it uses the often shared view as a stair to climb the height where corporate governance is seen from an international spectrum. It doesn't only dwell on corporate governance as an aspect of economics but also breams a very bright light on the interception between laws and corporate governance. This paper treats the importance of corporate governance to the corporation and to the home nation under one head because in the opinion of the writer, the roles corporate governance play in these two entities are intertwined in most cases as will be properly explained.

Keywords: *Corporate Governance, Law, Corporation and Global Economy*

Introduction

Saying that a nation's economy is dependent on how strong the businesses within it are is only restating the obvious. Hence, proper caution must be taken in order to make sure that corporate entities thrive. Recently, corporate governance is increasingly receiving attention from the government and other international organisations as the lapse in corporate governance of big corporation's in recent years has affected the economy of their nations and in certain cases even led to the enactment of new laws to prevent their reoccurrence. The importance of corporate governance to a company's home nation's economy and to the world's in extension cannot be over emphasised. It is pertinent to mention that the importance of corporate governance is first seen in the company before its effect spreads to the country.

Definition

Patrick Joseph Barrett, Auditor General of Australia (1995-2005) stated:

"Corporate governance is largely about organisational management and performance. Simply put, cooperate governance about how an organisation is managed, its cooperate and other structures, its culture, its policies and ways in which it deals with its various stakeholders it is concerned with structures and processes for decision making and with control and behaviour that supports effective accountability for performance outcome/result"[2]

Cadbury committee 1992 in The Report of The Committee on 'Financial Aspect of Cooperate Governance' called it

"The system by which companies are directed and controlled"[3]

From the above, it can be deduced that corporate governance is basically the structure through which companies are managed and controlled to produce desired results.

Interception between Law and Corporate Governance

Though bulk of cooperate governance is in respect to the agreements and of the shareholders and board of directors, there are laws in every country regulating cooperate governance. In Nigeria For example, we have the Companies and Allied Matters Act 2020 (CAMA) and Nigerian Code of Corporate Governance (2018) and so on. In Australia, we have Corporations Act 2001, In the United States of America, we have Dodd – Franklin Act 2010. The shareholders and board of Directors are not allowed to enter into any agreement or make any decision contrary to the laws regulating Corporate Governance in their countries.[4] In The United States of America, Sarbanes-Oxley Act of 2002 (SOX) imposed more stringent record keeping requirements on companies, along with criminal penalties for violating them. Practically, one cannot speak about cooperate governance without touching law. In Nigeria, there are specific laws regulating the corporate governance

[2] F. Ajogwu *Cooperate Governance in Nigeria*: *Law and Practice* (2nd Edition, Malthouse Press, Nigeria)
[3] https://www.ecgi.global/sites/default/files/codes/documents/cadbury.pdf accessed on October 17, 2025

[4] James Chen [2025]/ Investopedia:https://www.investopedia.com/terms/f/foreign-portfolio-investment-fpi.asp?utm_source=chatgpt.com / accessed October 17 2025

different types of companies, for example, the Code of Corporate Governance for Public Companies which is a code regulating the cooperate governance of all public companies who raise capital through the stock market. It was put into law by the Security and Exchange Commission in 2011. In 2023, the Central Bank of Nigeria also issued the Corporate Governance Guidelines for Commercial, Merchant, Non-interest, Payment Services Banks and Financial Holding Companies in Nigeria.

Importance of Cooperate Governance to the Cooperation and the Host Country

1. Increases Foreign Direct investment (FDI) and Foreign Portfolio Investment (FPI): For the purpose of clarity, FPI consists of securities and other financial assets held by investors outside of their domestic market. It does not provide the investor with direct ownership of a company's assets and is relatively liquid, depending on the volatility of the market (definitions of FPI). The International Money Fund (IMF) in its publication titled **Foreign Direct Investment, Appendix IV** stated that "DI arises when a unit resident in one economy makes an investment that gives control or a significant degree of influence over the management of a company that is resident in another economy". This concept is operationalized where a direct investor owns equity that entitles it to 10 percent or more of the voting power (if it is incorporated, or the equivalent for an unincorporated company) in the direct investment enterprise (DIENT).[5] Investors are more willing to commit capital to companies in countries with transparent governance systems FDI and FPI help to encourage cross boarders' economic cooperation. Fuels industrial growth, infrastructure development, and overall economic expansion. Though this paper isn't trying to sweep the negative effects of foreign direct investment on a nation's economy under the carpet, this writer posits that the advantage of FDI on the economy of the host country,

2. Expansion of The Capital Market: Strong cooperate governance enables company growth which in turn leads to the development of new financial instruments such as derivations and securities which deepen the financial market.[6] The development of new financial instrument deepens the financial market by giving investors new opportunities to invest.

3. **It helps build investor's confidence:** A company with sound corporate governance structure will attract more investors because investors will prefer to invest in a company that is well managed with a good record of cooperate governance and a transparent record of how they have been handling other people's investment. A company with good cooperate governance structure will have a strong risk management framework[7] and this also boosts the investors' confidence as he will believe that his money is in safe hands.

4. Corporate Governance Contributes to Macroeconomic Stability: Sound corporate governance strengthens economic stability by promoting transparency, accountability, and ethical practices, attracting investment and fostering growth. It ensures efficient resource allocation, enhancing productivity and overall economic performance. Strong governance boosts financial market credibility, encouraging participation and capital market development. By reducing corruption and mismanagement, it creates a more

[5]https://www.imf.org/external/pubs/ft/bop/2014/pdf/BPM6_A4F.pdf?utm_source=chatgpt.com >accessed October 17 2025
[6] Ibid
[7] Ibid

trustworthy business environment. Well-governed firms generate employment and wealth, positively impacting national income. Additionally, robust governance frameworks enhance crisis resilience, as businesses adopt effective risk management strategies, ensuring long-term economic stability and sustainability.

5. It Facilitates Access to Global Markets: Companies with robust corporate governance structures, characterised by transparency, accountability, and compliance with international standards (such as transparency, auditing, and ESG reporting), are better positioned to access global financial markets. This, in turn, enhances global trade and capital flows, ultimately boosting worldwide output. By fostering investor confidence and reducing risk, good governance enables companies to attract foreign capital, participate in global trade, and seamlessly integrate into the international economy.

6. It ensures that the Continuity of a company's Lifespan: Corporate governance is key to ensuring a company's sustainability because no matter how big a company is, it will wind up in the twinkle of an eye if poorly managed a good example is Enron Corporation who had a high stake in America's financial market, but wound up due to lack of transparency in its cooperate governance operations. [8]

7. Corporate governance improves a company's productivity: It does this by ensuring that leadership is accountable and decision-making processes are transparent, which reduces inefficiencies and misuse of resources. It aligns the incentives of executives, managers, and employees, promoting performance-based behaviour and innovation. Rigorous internal controls and independent oversight help detect and prevent fraud or waste early, saving costs and time. When stakeholders trust the organization's reporting and governance, access to finance becomes easier, enabling investment in technology, skills, and expansion. Overall, good governance fosters a culture of discipline and continuous improvement that boosts output and competitiveness.[9]

Importance of Good Corporate Governance in Improving the Global Economy

The term global economy refers to the interconnected economic activities and systems of all countries worldwide. It encompasses the production, distribution, and consumption of goods and services across international borders, integrating national economies into a single, interdependent system[10]

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[8] https://www.investopedia.com/terms/e/enron.asp#:~:text=The%20Enron%20bankruptcy%2C%20at%20$63.4%20billion%20in,executives%20at%20the%20company%20concoct (accessed on the 17th of October, 2025)

[9] T Gloria & T Garry/ 'Corporate Governance, External Market Discipline and Firm Productivity' / [2011] (Journal of Corporate Finance,) https://www.sciencedirect.com/science/article/abs/pii/S0929119910001094 >accessed October 17 2025

[10] 'What is The Global Economy? A Guide 2025' Express Economy April 17, 2025 https://expresseconomics.com/what-is-the-global-economy/#:~:text=The%20global%20economy%20refers%20to,and%20services%20across%20international%20borders >accessed October 17 2025

i. **<u>Encourages Global Economic Stability:</u> Strong governance frameworks reduce financial scandals, fraud, and corporate collapses. This stability fosters sustainable economic growth and avoids disruptions that can harm global trade and output. A good example of such disruption is Volkswagen emissions scandal of 2015 which was reported by the Schmalenbach Journal of Business Research (2022) to not just drastically reduced their share value and negative effects in the equity value of its competitors, but have caused losses to car manufacturers worldwide with European firms appearing to drive global losses.**[11]

ii. **<u>It increases Global Capital Flow:</u>** As previously enunciated, Strong corporate governance encourage FDI and FPI and this in turn improve the global capital flow. Capital flows refer to the movement of money across international borders for investment purposes, encompassing both inflows and outflows of funds. These flows play a role in global economic integration, facilitating investment, trade, and financial intermediation. (What are Capital Flows?). It increases when nations attract Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI brings long-term capital, technology, and job creation through business ownership, while FPI provides short-term, flexible funds through stock and bond purchases. Both forms of investment enlarge global financial integration and improve resource allocation. Together, they enhance economic growth, market liquidity, and cross-border development worldwide.

iii. **<u>Ensures Efficient Resource Allocation:</u>** As earlier stated, good corporate governance ensures the sustainability and productivity of a venture. Transparent decision-making and sound management within corporate governance structures across the world help channel global financial, human, technological, and natural resources toward productive and sustainable ventures.[12] Such ventures neither waste resources nor divert them into individual pockets but instead promote continuous improvement and boost global output.

iv. **<u>Drives Innovation and Competitiveness:</u>** By protecting encouraging cross boarder trades and foreign investment, innovation spreads and are exchanged across boarders and these innovations from various great minds lead to new technologies, better productivity, and global economic progress. On a global scale, it ensures

[11] Barth, F., Eckert, C., Gatzert, N. Et al. 'Spillover Effects from the Volkswagen Emissions Scandal: An Analysis of Stock and Corporate Bond Markets'. Schmalenbach Journal of Business Research (2022) 74:37–76 https://doi.org/10.1007/s41471-021-00121-9 > accessed October 17 2025

[12] T Gloria & T Garry, 'Corporate Governance, External Market Discipline and Firm Productivity' (2011) Volume 17 / Issue 3 / Journal on Cooperate Finance/ https://doi.org/10.1016/j.jcorpfin.2010.12.004 > accessed October 17 2025

Conclusion

In conclusion, the importance of good corporate governance is wide and overreaching as it spans across the cooperation itself, the home country and the global economy. It is relevant because notable amount its wide range of relevance, it encourages Global Economic Stability, increases Global Capital Flow, Ensures Efficient Resource Allocation and Drives Innovation and Competitiveness

Recommendations

This article recommends as follows:

Firstly, the nations of the world who are yet to enacts laws forming a good legal framework for cooperate governance should enact good laws in line with International Best practices

Secondly, nations should enforce their corperate governance laws and put structures and associations in place to serve as watch dogs to erring cooperation.

Finally, better legal and technological structures should be put in place to protect those involved in whistle blowing as it is one of the most effective ways to expose corperate governance scandals.

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