PDF - CORPORATE GOVERNANCE AS A CATALYST FOR ORGANIZATIONAL EFFECTIVENESS - researchcub.info**CHAPTER ONE**

INTRODUCTION

1.1. BACKGROUND TO THE STUDY

Considerable attention given to the issues of corporate governance as a veritable tools for organizational effectiveness in recent years shows that when corporate governance mechanisms are strong, managers find less time to deceive and this consequently increases the quality and reliability of their financial reporting. Academic researches show that the weaker the corporate governance mechanism, the higher the profit management; and this ultimately indicate low earnings quality. Researches also revealed that weak corporate governance mechanism is connected with weak financial managements and high cheating levels.

In today's global economy, the success of the national economy depends on the crucial role of organisations' competitiveness, transparency and governance structure which operate within her territory, since organisations are the entities that create economic value (ICAN, 2009).

Indeed, the need for trust and transparency in the governance of corporate organizations has been one of concern for standard setters all over the world. This need has obviously spurred renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability and economic performance (ibid). The position above could not be separated from prior submission where Nwachukwu (2007) emphasize the growing consensus that good corporate governance has positive link to national economic growth and development. The degree of trust accorded to the managers of companies by its owners is strengthened through corporate governance. Directors without corporate governance mechanism may paint misleading pictures of financial and economic performance of their company to lure unsuspecting investors.

A corporation is a 'congregation' of various stakeholders, namely, customers, employees, investors, vendor-partners, government and society. The relationship between shareholders and corporate managers is fraught with 'conflicting' interests that arise due to the separation of ownership and control, divergent management and shareholder objectives, and information 'asymmetry' between managers and shareholders. Due to these conflicting interests, managers have the incentives and ability to maximize their own utility at the expense of corporate shareholders. As a result, corporate governance structures evolve that help in mitigating these agency conflicts (Dey 2008). Simply stated, "Corporate governance (henceforth Corporate Governance) is the system by which businesses are directed and controlled." In fact, Corporate Governance deals with conducting the affairs of a corporation in such a way that there is 'fairness' to all stakeholders and that its actions benefit the 'greatest' number of stakeholders.

Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the 'true' owners of the corporation, and of their own role as 'trustees' on behalf of the shareholders. This has become imperative in today's globalized business world where corporations need to access 'global' pools of capital, need to attract and retain the 'best' human capital from various parts of the world, need to 'partner' with vendors on mega collaborations, and finally, need to live in 'harmony' with the community.

Corporate Governance is the system of rules and norms, either institutional or market, within which arise or are pursued various categories of stakeholders, shareholders, management, public administration, personnel, customers, suppliers, etc.. This definition should be completed with the expressly stated objective supplemented by the „Principles of Corporate Governance" issued by OECD (1999), i.e. „providing

company's strategic direction, effective control management of the board members, trust and loyalty of the shareholders". Systems of governance have in fact two main objectives: ensuring the integrity of the management and to guide it to maximize the value created for shareholders. In the pioneer countries in Corporate Governance, such as the U.K. and U.S., public regulations follow the private ones. Continental European countries, notably in Italy and France, market regulation and companies' management is prevalent public, this difference having a substantial meaning – the „origin" public intervention is inserted in a context less receptive and exposed to many environmental adverse conditions.

Corporate Governance mechanisms generally include shareholders and their ownership structure, board members and their composition, and management of the company which is driven by the managing director or chief executive and other stakeholders that may affect the company's movement, and it against this reasons, that this study tends to investigates the effect of corporate governance mechanisms on organizational effectiveness.

1.2. STATEMENT OF PROBLEM

The increasing incidence of corporate fraud relating to exaggerated and fleeting reports have reinforced the renewed global emphasis on the need for effective corporate governance. CBN (2006) reported that despite the significance of good corporate governance to national economic development and growth, corporate governance was still at rudimentary stage as only 40% of publicly quoted companies, including banks had recognised corporate governance in place.

The separation of ownership from the management of business organisations spurs a divergence of interest amongst the parties. The divergence of the interests of the management and its owners has undermined investors' confidence in the Board. Hence, investors are interested about the level of accountability displayed by the Board of directors. The outcry of investors and other stakeholders as a result of mismanagement and inadequate financial disclosures given by the management has deemed it necessary for the institution of sound corporate governance procedures .

Furthermore, many country leaders all over the world has increased concern over corporate governance due to the increase of reported cases of frauds, inside trading, agency conflicts among other corporations saga (Enobakhare, 2010). Corporate failure has recently witnessed in both developed and developing countries with the reported cases of the collapse of Enron in 2001 and WorldCom in 2002, (Inyang, 2009) and theongoing economic financial in Nigeria 2015/2016.

The crises emanated from the poor governance practices from the financial sector (the mortgage market). Since mortgage market was the mother of the crisis, this has triggered the world leaders to enact some laws, which increase banks governance. This is supported by Ahmad (2006) who argued that a sound financial system in any organisation requires appropriate infrastructure to support efficient conduct of such business operating environment, governance and regulatory framework at domestic as well as international levels in order to reduce the financial crisis and inversely improve organizational efficiency.

1.3. OBJECTIVES OF THE STUDY

The main objective of the study is to assess effect of corporate governance as catalyst for organizational performance in banking sector.

Other specific objectives include:

Determine corporate governance impact on banks productivity

Examine the relationship between corporate governance and organisational performance.

Ascertain whether good corporate governance practices enhances organizational effectiveness

Determine how good corporate governance practices protect the interest of the shareholders.

Identify the causal links between corporate governance and audit committee of corporate organizations.

To give recommendations to the stakeholders on strategies that can improve corporate governance practices so as to improve the performance of commercial bank.

1.4. RESEARCH QUESTION

In order to achieve the above stated objectives, this study has asked the following questions:

1. Do corporate governance has impact on organisation productivity?

What are the relationship between corporate governance and organisational performance?

Whether good corporate governance practices enhances organizational effectiveness?

Determine how good corporate governance practices protect the interest of the shareholders?

Are there any causal links between corporate governance and audit committee of corporate organizations?

What are the possible recommendations to the stakeholders on strategies that can improve corporate governance practices so as to improve the performance of commercial bank?

1.5. STATEMENT OF HYPOTHESIS

Following from the objectives of the study, the following hypothesis were tested under the present study:

Hypothesis One

H0: There is no significant relationship between corporate governance and organizational performance.

H1: There is significant relationship between corporate governance and organizational performance.

Hypothesis two

H0: There is no significant relationship between corporate governance practices (board size ratio, board composition ratio, internal board committee`s ratio and board diversity ratio) and commercial banks efficiency.

Hi: There is a significant positive relationship between corporate governance practices (board size ratio, board composition ratio, internal board committee`s ratio and board diversity ratio) and commercial banks efficiency.

1.6. SIGNIFICANCE OF THE STUDY

This study shall provide knowledge on the effort in strengthening corporate governance beyond the rights and responsibilities of different stakeholders in the management of an organization into areas involving the relationship between finance providers and an organization, compliance with legal, ethical and environmental needs of the society, among others.

Furthermore, this study shall set out to further develop our understanding of corporate governance and its affect on corporate performance and economic performance. In doing so, it addresses some of the underlying factors that promote efficient corporate governance, and examines some of the strengths, weaknesses and economic implications associated with various corporate governance systems.

It shall also seeks to enhanced our understanding about the interpretations which have shaped corporate governance in relation to organizational performance and effectiveness both in theory and practice.

This study will be of great importance to the corporate world, government, corporate individual or firms, SMEs, financial and non-financial institution since it will help to determine the actual roles played by accounting department/unit of various organisation, as it will also provide indepth knowledge on the role of

accounting information in a corporate settings.

Finally it will be of great significance to schools and students, it will serve as a reference point for future researchers who will want to research more on the topic.

1.7. SCOPE OF THE STUDY

In most recently, researchers worldwide have grown interest on corporate governance and organsational performance of corporate organizations as witnessed by an explosion research on corporate governance (Adams, 2012).

Commercial banks usually show good corporate governance since they play a critical role in the corporate governance of other firms (Franks & Mayer, 2001; Santos & Rumble, 2006), as creditors or equity holders of firms.

Commercial banks must be transparent, accountable, trustworthy and responsible to the public.

In this regard, the scope of the study shall hovers around commercial banks around Ikeja Local government of Lagos Metropolis.

1.8. LIMITATION OF THE STUDY

One of the major problems of this study was lack of accessing the exact information about the ownership combination of the companies. Notes associated with financial statements include the combination of stakeholders which is usually presented by arbitrary and inconsistent information.

Other stakeholders are just the group or general entities that some individuals are disparately located in them. Companies, pension funds and individuals are located in the group of other shareholders that are very diverse in their nature and function.

If access to more accurate information was available, it was possible to achieve different results.

Due to the calculations done to achieve the last digit of a variable, possible errors made in calculation can also be considered as one of the limitation of the study.

Financial constraint was one of the limitation faced in the course of the research study.

1.9. DEFINITION OF TERMS

1. Corporate governance

Corporate governance is the system of rules and norms, either institutional or market, within which arise or are pursued various categories of stakeholders, shareholders, management, public administration, personnel, customers, suppliers, etc.

2. Board Diversity

Board diversity is the mixture of men and women, people from different age brackets, people with different ethnic groups and racial backgrounds

3. Board Committees

Board committees are internal regulatory and supervision board chaired by an external director which over sees the effective operation and acts of the board of directors (RBZ, 2004). They are calculated as the total minimum number of internal committees, which the central bank and international corporate governance codes needs

4. Audit committee and Risk management committee

Audit committee and Risk management committee - review the financial conditions of the banking institution, internal controls, bank performance and the findings of the internal auditors will be reported to the board with some recommended

5. **Board Composition**

According to Enobakhare (2010) board composition is the total number of directors brought from outside the company to sit on the board divided by the board size in a given period.

6. **Profitability**

Profitability is the relative tendencies of profit making in alternative courses of action or decision (Ilaboya, 2005: 56). Profitability is a relative measure showing a more profitable alternative.

A corporation is a 'congregation' of various stakeholders, namely, customers, employees, investors, vendor-partners, government and society.

8. **Organizational effectiveness**

Organizational effectiveness was succinctly defined by Daft (1983) as "the degree to which an organization realized its goals". However, Mondy, (1990) defined it aptly as "the degree to which an organization produce the intended output".

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