THE INFLUENCE OF CORPORATE GOVERNANCE ON ORGANIZATIONAL PROFITABILITY

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Abstract

The objective of the study was to investigate the effect of CEO duality, board independence, board transparency and board activity intensity respectively on organizational profitability of AIICO Insurance Plc. Data were collected by random sampling technique. 169 questionnaires were administered to employees of AIICO insurance Plc in Lagos through the close-ended structured questionnaires, 157 were correctly attended to while 12 were defective. The data were analyzed using frequency distribution tables and percentages, while Pearson's' product moment correlation was used to test the hypotheses. This study concluded that corporate governance is no longer a new concept worldwide but a norm of corporate behavior and performance expectations, and Nigeria cannot differ in ensuring compliance. As well, the study recommended that, to ensure adherence to corporate governance principles, the management of AIICO insurance should take the issue of board independence, transparency, accountability and disclosure more seriously. In addition, it was suggested that the management of AIICO insurance should have a small but qualitative board size that is made up of financial and legal professionals.

Keywords: Governance, Corporate, Organizational, Profitability

JEL Classification: F16

1. INTRODUCTION

In today's global economy, the success of the national economy depends on the crucial role of organizations. In turn, the success of organizations depends on competitiveness, transparency and governance structure (corporate governance) among other factors. Corporate governance is a set of relationships among a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (Ejike, 2019).

According to Azmy, Anggreini, and Hamim (2019), corporate governance is a set of rules that establish relationships between shareholders, administrators, creditors, governments, employees and other internal and external stakeholders in relation to their rights and obligations. Organization for Economic Co-operation and Development (OECD) defines corporate governance as a system used to direct and manage company activities. The OECD as well acknowledges that good corporate governance structure provides proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate organizational performance (Ugoani, 2018). Based on the above definitions, it can be inferred that corporate governance is a system that regulates, manages and supervises the business control process that runs sustainably to increase company value.

The field of corporate governance (CG) has received considerable attention due to a series of scandals and corporate failures that seemed to be attributed to the implementation of different accounting and disclosure practices. Nevertheless, the implementation of good CG can ensure that companies' assets are professionally managed by agents, which eliminates any conflict of interests and agency fees. The agency problem arises due to a separation between the management and ownership of business entities. In some cases, corporate managers prefer to pursue their personal goals, and interests, such as increasing their pay and remunerations, instead of maximizing the wealth of shareholders (Gerged & Agwili, 2019). Although, understanding the issue of corporate governance goes beyond having political entities running an organization in other to maximize shareholders wealth. However, the fundamental of corporate governance is to promote fairness, transparency, accountability as well as guide corporate bodies in their action and deed.

Malonza and Mohinda (2019), opined that corporate governance plays an important role for improvement of profitability. As well, the application of good corporate governance (GCG) aims to improve company performance (Napitupulu et al., 2020). The improvement of firm's profit is essential to attain overall corporate objectives. Strong corporate governance is necessary for all business organizations because it plays an important role in the management of organizations in both developed and developing countries for the benefits of the company and clients. Corporate governance components like board size, gender diversity, board independence and board competence are factors which determine GCG of a firm. According to Narwal and Jindal (2015), good corporate governance does not only enhance the profitability but also increases firm's performance. By enhancing the overall performance of companies and increasing their access to outside capital, good corporate governance contributes toward economic stability that reduces the vulnerability of the financial crises. This is corroborated by Nor, Tee, and Anitawati (2020), who established that good governance practice, are necessary for enhancement and expansion of the economies. Good governance signifies good management practices, fulfillment of diverse needs of stakeholders and the ability to cope with challenges such as those posed by a dynamic environment. More so, poorly governed corporations not only pose a risk to themselves, but they also cause barrier to others and could indeed pull-down capital market. Corporate governance plays an important role for improvement of profitability. The improvement of firms' profit is essential to attain overall corporate objectives. Anwar, Aziz, and Abbas (2019) espoused that profitability is a fundamental factor of wealth creation thus the board of directors plays a vital role in a successful corporate governance system, its functioning and profitability of the organization.

According to Ofoeda (2017), corporate governance is represented by the structures and processes laid down by a corporate entity to minimize the extent of agency problems because of separation between ownership and control. Corporate governance systems will embody what are legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Hence, the importance of good corporate governance for the survival of firms cannot be overemphasized (Ararat, 2016). The concept of corporate governance has made boards of organizations popular and critical. Shareholders in a publicly held corporation cannot represent themselves therefore they have to select others to perform that function for them. They have to elect a specified number of qualified and respected people to represent their interests as members of a corporation's board of directors (Ejike, 2019).

According to (Azmy et al., 2019), there are five basic principles of corporate governance that must be implemented by companies so that corporate governance practices can be implemented well, namely transparency, accountability, responsibility, independency and fairness.

The board characteristics of a firm do affect its profitability. Hence, efficient governance involves the prudent use of company funds by managers, which lead to better utilization of assets and improved financial and profitability of the firm. Profitability may be defined or measured in terms of ratios namely: Return on Assets (ROA) and Return on Equity (ROE). The relationship between corporate governance and profitability is that a good corporate performance will reflect a good impression on investors which will increase the organizations' ability to obtain high profits (Al-Gamrh, et al., 2020).

2. STATEMENT OF THE PROBLEM

Over the years, the profitability level of firms generally in Nigeria has been a critical issue with some firms experiencing a continuous decline resulting to the shocking collapse of many vibrant firms in the past (Tamnyegeya & Micah, 2019). To some extent, the absence of good corporate governance is often blamed for the woeful and sluggish profitability of business entities. Boards of directors have been largely criticized for the decline in shareholders' wealth and corporate failure. They have been in the spotlight for the fraud cases that had resulted in the failure of major corporations, such as Enron, WorldCom, Global Crossing and the Bank of Credit and Commerce International (BCCI) in the UK and US. In Nigeria, a series of widely-publicized cases of accounting improprieties have been recorded, Wema Bank, NAMPAK, Finbank, Spring Bank and recently, Diamond Bank, all of which have stimulated the recent interest in the subject of corporate governance (Ejike, 2019; Tamnyegeya & Micah, 2019). Some of the reasons stated for these corporate failures are unethical practices, the lack of vigilant oversight functions by the board of directors, the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders.

A good corporate governance synthesis constitutes a set of processes of apparatuses adopted to manage a corporation’s activities profitably. The enhancement of the shareholders wealth is the primary aim of the corporate governance philosophy (Ofoeda, 2017). Corporate governance is corporate management and an unblemished, thorough and obvious conduct to intersect positive well-determined objectives; however, this is not often so with Nigerian firms especially.

Over the years, corporate failures have led to firm failures as such; principles of good corporate governance are needed to deal with the economic crisis and to rise from an economic crisis (Napitupulu et al., 2020). It is also imperative to emphasize the relevance of good corporate governance beyond the primary role of board of directors to include the need of transparency, accountability and ethical standards, in accordance with the code of good management practices in developing countries and in tandem with the stewardship theory (Ugoani, 2018).

From all the above, it is clear that a lot of researches have been carried out in the field of “Corporate Governance and related disciplines. However, evidence has shown that profitability is still facing challenges, yet the extent to which corporate governance has affected profitability ROA & ROE particularly in AIICO Insurance Plc has not adequately been explored hence, this research.

3. METHODOLOGY

3.1 POPULATION OF THE STUDY

The target population of this study consists of the entire employees of AIICO Insurance Plc in Lagos State. This figure was put at two hundred and ninety-one (291) staff members as obtained from the organizations’ HR unit.

3.2 SAMPLE SIZE AND SAMPLING PROCEDURE

To study the entire population is not always feasible due to constraints such as time, cost and other logistics. Hence, this research resorted to the adoption of the random sampling technique to select a sample of respondents to be used for the study. This is as determined by Taro Yamane’s sample size determination formula.

The sample size for the research is determined thus:

$$n = \frac{N}{1 + N * e^2}$$

Where, n = required sample size
N = population of the study
e = 95% confidence level = 0.05
Hence,

$$n = \frac{291}{1 + 291 * 0.05^2}$$

$$n = \frac{291}{1 + 291 * 0.0025^2}$$

$$n = 168.5$$

Therefore, the sample size of this study is 169 AIICO insurance employees.

3.3 METHOD OF DATA ANALYSIS

Descriptive analytical tool of frequency counts, and percentages were used to present and analyze data in line with the stated research questions. However, to test the hypotheses, inferential statistics of the Pearson's product moment correlation was used.

3.4 RESULTS AND DISCUSSION

Table 1: *Distribution of Respondents Demographics*

S/N	Items		Frequency	Percentage (%)
1	Gender	Male	91	58.0
		Female	66	42.0
		Total	157	100 %
2	Respondents Age	18-30 Years	45	28.7
		31-45 Years	63	40.1
		46-60 Years	30	19.1
		Above 60 Years	19	12.1
		Total	157	100 %
3	Marital Status	Single	67	42.7
		Married	90	57.3
		Separated	-	-
		Divorced	-	-
		Total	157	100 %
4	Educational Qualification	SSCE	17	10.8
		Diploma	42	26.8
		B.Sc/HND	87	55.4
		Master's Degree	11	7.0
		Total	157	100 %
5	Number of years working with AIICO insurance	0-2 Years	63	40.1
		3-5 Years	68	43.3
		6-10 Years	26	16.6
		Over 10 Years	-	-

Source: Field Survey, 2021

Table 1 shows the demographic distribution of respondents used in the study. From the Table, it can be seen that 91 respondents representing 58.0% were male while 66 respondents constituting 42.0 % were female. This implies that majority of the respondents were male.

Table 1 also shows that 45(28.7%) of the respondents were between 18-30 years of age while 63(40.1%) were between the ages of 31-45. However, 30 respondents representing 19.1% were between 46 and 60 years while 19 respondents representing 12.1% were above 60 years. This shows that most of the sampled respondents hover around the middle-age.

In line with marital status, 67 respondents representing 42.7% were single while 90(57.3%) respondents were married.

Table 1 further shows that 17(10.8%) respondents were high school certificate holders; 42(26.8%) were holders of Diploma; 87(55.4%) were in the B.Sc/HND category while 11(7.0%) said they were master's degree holders. Lastly, from Table 1, 63(40.1%) respondents said they had worked with AIICO insurance for 0-2 years, 68(43.3%) respondents said they had worked with AIICO insurance for 3-5 years, while 26(16.6%) respondents said they had 6-10 years working with AIICO insurance.

3.5 TEST OF HYPOTHESES

Hypotheses One

Ho: CEO duality does not have significant effect on organizational profitability

H_1: CEO duality has a significant effect on organizational profitability

Table 2: *Pearson's Product Moment Correlation Matrix for Hypothesis One*

Correlations

		CEO Duality	Organizational Profitability
CEO Duality	Pearson Correlation	1	.516**
	Sig. (2-tailed)		.000
	N	157	157
Organizational Profitability	Pearson Correlation	.516**	1
	Sig. (2-tailed)	.000	
	N	157	157

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation: Given the above test result, the p-value (0.000) is less than alpha (0.05), hence the null hypothesis is rejected, and the alternative hypothesis is accepted. The result also shows a correlation coefficient of r = 0.516 which further implies that CEO Duality and organizational profitability have a positive and moderately strong association.

With evidence from the sample data, it can be concluded that CEO duality has a significant effect on organizational profitability. The result of the test is also significant at 0.01 alpha level.

Hypothesis Two

Ho: Board Independence has no significant effect on organizational profitability

H_1: Board Independence has a significant effect on organizational profitability

Table 3: *Pearson's Product Moment Correlation Matrix for Hypothesis Two*

Correlations

		Board Independence	Organizational Profitability
Board Independence	Pearson Correlation	1	.568**
	Sig. (2-tailed)		.000
	N	157	157
Organizational Profitability	Pearson Correlation	.568**	1
	Sig. (2-tailed)	.000	
	N	157	157

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation: Given the above test result, the p-value (0.000) is less than alpha (0.05), hence the null hypothesis is rejected and the alternative hypothesis. The result also shows a correlation coefficient of r = 0.568 which further implies that board independence and organizational profitability have a strong and positive association.

With evidence from the sample data, it can be concluded that board independence has a significant effect on organizational profitability. The result of the test is also significant at 0.01 alpha level.

Hypothesis Three

Ho: Board Transparency has no significant effect on organizational profitability

H_1: Board Transparency has no significant effect on organizational profitability

Table 4: *Pearson's Product Moment Correlation Matrix for Hypothesis Three*

Correlations

		Board Transparency	Organizational Profitability
Board Transparency	Pearson Correlation	1	.844**
	Sig. (2-tailed)		.000
	N	157	157
Organizational Profitability	Pearson Correlation	.844**	1
	Sig. (2-tailed)	.000	
	N	157	157

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation: Given the above test result, the p-value (0.000) is less than alpha (0.05), hence the null hypothesis is rejected and the alternative hypothesis. The result also shows a correlation coefficient of r = 0.844 which further implies that board transparency and organizational profitability have a strong positive association.

With evidence from the sample data, it can be concluded that board transparency has a significant effect on organizational profitability. The result of the test is also significant at 0.01 alpha level.

Hypotheses Four

Ho: Board Activity Intensity does not have a significant effect on organizational profitability

H_1: Board Activity Intensity does not have a significant effect on organizational profitability

Table 5: *Pearson's Product Moment Correlation Matrix for Hypothesis Four*

Correlations

		Board Activity Intensity	Organizational Profitability
Board Activity Intensity	Pearson Correlation	1	.509**
	Sig. (2-tailed)		.000
	N	157	157
Organizational Profitability	Pearson Correlation	.509**	1
	Sig. (2-tailed)	.000	
	N	157	157

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation: Given the above test result, the p-value (0.000) is less than alpha (0.05), hence the null hypothesis is rejected and the alternative hypothesis. The result also shows a correlation coefficient of r = 0.509 which further implies that board activity intensity and organizational profitability have a strong and positive association.

With evidence from the sample data, it can be concluded that board activity intensity has a significant effect on organizational profitability. The result of the test is also significant at 0.01 alpha level.

4. DISCUSSION OF FINDINGS

Based on the results of the four correlation tests carried out in this study, hypothesis one with a correlation test result of ($r=0.516$, $p<0.01$) revealed that CEO duality has a significant effect on organizational profitability. It was also found that board independence and board transparency have a significant effect on organizational profitability with correlation results of ($r=0.568$, $p<0.05$) and ($r=0.844$, $p<0.01$) respectively. Lastly, hypothesis four found that board activity intensity has a significant effect on organizational profitability with a correlation coefficient of ($r=0.509$, $p<0.01$). This result is consistent with prior studies (Ikue-John & Mica, 2019; Gerged & Agwili, 2019) that reported the existence of a positive relationship between corporate governance and organizational profitability. These studies further buttressed the alignment of their results with the stewardship theory whereby the stewards ought to be responsible in managing the organization by aligning their conduct with organizational goal while satisfying stakeholders' needs in the most ethical manner. However, result of this study contradicts the finding of Purwani et al. (2017), and Dethamrong et al., (2017) who reported that corporate governance has no effect on organizational profitability. As well, the study of Ejike (2019) found that some of the board composition drivers such as board size, independency of board member and competency of director does not have a significant impact on profitability of organizations.

5. CONCLUSION

Following the global financial crisis, many academic and legal bodies have concentrated on the issue of corporate governance and the role it plays in preventing unexpected business shocks. More so, separating ownership from managerial control in organizations today has made corporate governance a matter of necessity, due to the possibility of principal agent problem. Mostly, managers protect their own self-interest without regard for shareholders' returns on investment and this often leads to agency conflict and consequent loss.

The need for corporate governance in Nigeria extends far beyond resolving problems stemming from the separation of ownership and control. Corporate governance is no longer a new concept worldwide, but a norm of corporate behavior and performance expectations and Nigeria cannot differ in ensuring compliance. Until recently, corporate scandals were unheard of in Nigeria and even where they were reported, no known deterrent sanctions have been meted out on the culprits. This is because Nigeria lacks the necessary political and institutional framework to enforce good corporate governance. However, with increasing attention to the subject, corporate governance has become about ensuring transparency, building credibility and ensuring accountability as well as maintaining an effective channel of information disclosure that would enhance good corporate practices in an organization. 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.

Unarguably, corporate governance embodies structures, systems, mechanisms, and framework through which organizations are directed and controlled by those saddled with the duties and responsibilities to drive performance for an organization in the interest of shareholders and other stakeholders.

6. RECOMMENDATIONS

Based on the findings of this study, the following recommendations are made:

Firstly, to ensure adherence to corporate governance principles, the management of AIICO insurance should take the issue of board independence, transparency, accountability and disclosure more seriously.

Secondly, the management of AIICO insurance should have a small but qualitative board size that is made up of financial and legal professionals.

Thirdly, the board should from time to time carry out board evaluations to obtain powerful and valuable feedback mechanism for improving board effectiveness, maximizing strengths and highlighting areas for further development.

Again, to ensure good corporate governance practices, policymakers of AIICO insurance are to make sure that members of the board are conversant with oversight functions and should be selected on the basis that they are very qualified and professional.

Furthermore, the Board of directors should be diversified in terms of gender, skills and expertise. The board of directors and shareholders should encourage effective, independent and strong audit committee to improve corporate governance policies and practices equivalent to global standard.

Moreover, also, to ensure that organizational performance is driven in a positive direction, its corporate governance culture should have a degree of flexibility to enable the firm to adapt to changing patterns within the business world.

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