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Corporate Governance Practices and Organizational Effectiveness

(A Study of Selected insurance Companies in Nigeria)

Obamiro, J. K. (PhD), Tijani, A. A. (PhD), Ojo, Christopher Olubunmi
Associate Professor

Business Administration Department
Faculty of Management Sciences
Lagos State University, Ojo, Lagos, Nigeria.

Abstract: *This study was designed to examine the relationship between corporate governance and organizational effectiveness. Some companies had ethical issues hence the need to identify factors that affect implementations of good corporate governance among insurance companies in Nigeria. Questionnaire was used to collect data from the head offices of seven insurance companies that were selected through simple random sampling technique, out of the fifty seven insurance companies registered by National Insurance Commission (NAICOM), Nigeria. The population of the study was 258 element, Taro Yamane technique was used to determine sample size which returned 157 samples. 140 respondents were analyzed which comprises of top management staff, senior managers and managers. Reliability and validity test were carried out with the result of reliability test at r = 0.796. Two hypotheses were developed and tested using correlation (Pearson product moment correlation coefficient). The results revealed that there was a significant relationship between Board composition and company's reputation, code of conduct and corporate social responsibility. This work recommended that insurance companies should improve on their corporate governance practices in order to achieve organizational effectiveness. Shareholders should put in place control measures to checkmate directors high-handedness. The Board should institute a culture of transparency and accountability. NAICOM and FRCN should ensure adherence to code of conduct. NAICOM should send audit queries not only to the management but also to the board.*

Keywords: Corporate governance, Organizational Effectiveness

I. INTRODUCTION

The way organizations are managed or administered is commonly referred to as corporate governance. It entails how officials of the organizations especially members of the Board and management effectively directs affairs in ensuring that there are checks and balances in the running of such organizations.

Corporate Governance is one of the global issues that attract the attention of the corporate investors, researchers and government due to the collapses and failures of the giant corporations in every angle of today's world. Corporate governance was introduced in many sovereign nations including Nigeria to restructure the corporate leadership and management (Nuradeen & Hasnah, 2016).

At this juncture it should be noted that corporate governance has to do also with issues that boarder on ethical practices. This means that it assist the managers of corporations to be guided by code of ethics in carrying out their corporate responsibilities and functions respectively. Incidentally, in reality this has not been the case as most managers of these organizations allow personal interest to rule their sense of judgment in carrying out their duties. In this regard, there is need for good ethical practice to help these directors and managers of the financial entities run their organizations in the best interest of other stakeholders

Osundina, Olayinka and Chukwuma (2016) posit that corporate governance epitomizes the system of controls, processes, policies, rules and proceedings set up by the Board and Management of a company to ensure the smooth running of the company, maximize shareholders wealth and satisfy the interest of every stakeholder. In a similar way, Ajogwu (2007) posits that there is need for regulations that will ensure that companies operating in Nigeria should have structures to assist them implement corporate governance policy. It is in this regard that Irukwu, (2010) reveals that the exact structure of a particular company and the nature of the undertaking generally determine the specific duties, rights, responsibilities and privileges that would be extended to each of the principal stakeholder of the particular corporate body. He added that the nature of, and actual pillars for the system of corporate governance applicable in each case are invariably determined by the nature of the company's operations, its organization and the relevant laws that govern its business activities.

Thus, the essence of implementing the Corporate Governance code in organization is to enable and enhance their Board effectiveness, especially through committees (Ajogwu, 2007). The corporate Affairs commission in its quest for the International Best Practices was prompted to inaugurate a 17- member committee on June 15, 2000 in Nigeria. This committee headed by Atedo Peterside (OON) was mandated to identify weaknesses in the current corporate governance practices in Nigeria and fashion out necessary changes that will improve our corporate governance practices.

A code to make provisions for the best practices to be followed by public quoted companies and for all other companies with multiple stakeholders registered in Nigeria in the exercise of power over the direction of the enterprise, the supervision of power over the direction of the enterprise, the supervision of executive actions, the transparency and accountability in governance of these companies within the regulatory framework and market; and for other purposes connected therewith.

The adoption of the code was intended to strengthen governance, transparency and operations of companies and make them more accountable to their owners - the shareholders.

II. Statement of the Problem

The incidence of high profile corporate failures in recent times, as a result of poor corporate governance culture inherent in organizations which are entities that create economic value have spurred the need for the establishment of codes of corporate governance/best practices (Mbu-Ogar et al., 2017).

Between 2002 and 2005, several international non-life insurers and reinsurers failed, including Mutual Risk Management Limited, Equitable Life Assurance Society, United Kingdom collapsed in year 2000 because directors of the company unlawfully used money met for guaranteed annuity rate policies to subsidize current annuity rate policies. Skandia, Sweden's largest insurance company and a world leader in providing variable annuities and other savings products lost its reputation in 2003 when three of its top executives came under investigation for misusing corporate assets

The increasing incidence of corporate fraud relating to exaggerated and overstated accounts have informed renewed global emphasis on the need for corporate governance. For instances; Goldlink insurance plc, a company that was established in 1992 had its board of directors dissolved recently by National insurance commission for offence not unconnected with corporate governance issues. National Insurance commission in January 2018, approved the appointment of a new management for the company, after the restructuring of the interim management board.

III. Objectives of the Study

This study is designed to find out the relationship between corporate governance and organizational effectiveness. Other specific objectives include to:

a) To examine the relationship between board composition and company's reputation
b) To assess the relationship between code of conduct and corporate social responsibility

IV. Research Hypotheses

In carrying out this research, the following hypotheses will be tested

Ho: There is no significant relationship between board composition and company's reputation

Ho: there is no significant relationship between code of conduct and corporate social responsibility.

V. Conceptual Framework

Corporate Governance

Based on literature survey, the conceptual framework below was developed. This conceptual framework establishes link between corporate governance and organizational effectiveness. Corporate governance is a broad concept and it is not easy to describe due to continuous expansion of the boundaries of the concept. The definition may vary based on the different perspective of researchers. In literature the basic definition of corporate governance can be defined as `the system by which companies are directed and controlled' (Cadbury 1992 as cited in Delima & Ragel, 2017).

Jayashree (2006) opines thatcorporate governance when used in the context of business organization is a system of making directors accountable to shareholders for effective management of the companies in the best interest of the company and the shareholders along with concern for ethics and values. It is a management of companies through the board of directors that hinges on complete transparency, integrity and accountability of management. Lai and Bello (2012) concord that corporate governance is concerned with the establishing of a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of corporation affairs.

Osundina,Olayinka and Chukuma (2016) opined that corporate governance epitomizes the system of controls, processes, policies, rules and proceedings set up by the Board and Management of a company to ensure the smooth running of the company, maximize shareholders wealth and satisfy the interest of every stakeholder. Corporate governance relates to the legal way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization (Tukur & Bilkisu, 2014).

Indicators of Corporate Governance

Among the indicators of corporate governance, the following indicators which are of relevence with this study will be conceptualized.

Role of Board of Directors' Composition

The board of directors can play an important role in improving corporate governance and the value of a firm. The board should be composed in such a way as to ensure the diversity of experience, without compromising compatibility, integrity, availability and independence (Adebayo, Ibrahim, Yusuf & Omah, 2014).They provide the shareholders with important financial information, which will decrease the information asymmetry between managers and shareholders as argued by Bhagat & Jefferis, 2002).It is good for an active board to be focused on both financial and industrial areas of the enterprise and while making decisions it takes the consequences of both these aspects into account. A passive board leaves active involvement almost exclusively in the hands of management.

Code of Conduct of Corporate Governance for the Insurance Industry 2009

In March 2009, NAICOM made a giant step when it issued the Code of Conduct of Corporate Governance for the Insurance Industry in Nigeria. The 2009 NAICOM Code is mandatory for all insurance and re-insurance companies under the regulatory supervision of NAICOM. It issued the 2009 NAICOM Code in a bid to rebuild and sustain declining confidence of stakeholders in insurance sector. In its preamble, the code stated that the hidden potential of the sector will be unleashed for maximum impact that will induce economic growth in Nigeria.

The NAICOM 2009 Code was issued during the major causal factor of the global meltdown which was attributed to unwholesome and sharp practices of corporate leaders in advanced jurisdictions and our local environment. There is high expectation that sound corporate governance practice in the insurance industry would promote corporate transparency, accountability and enhanced shareholders value.

Organizational Effectiveness

There are many definitions of organizational effectiveness, and the term is often used inter-changeably with organizational performance. However, most researchers agree that organizational effectiveness extends beyond organizational performance (market share, profits, return on investment, or efficiency) to embrace measures such as customer service and social responsibility. Campbell (2006) identified many possible indicators of organizational effectiveness. Such as Customers satisfaction, Employees commitment, reputation of the organization, quality of techniques, response rate of managers to the feedback, working environment of organization, corporate social responsibility, relationship with external interested parties with management.

Indicators of Organizational Effectiveness

The researcher will try to conceptualize two of the variables that serves as indicators for measuring organizational effectiveness.

Company Reputation

Lauterbach and Pajuste (2017) stated that One of the basic assets of a firm is its public image or more precisely its reputation vis-à-vis the business community with which it regularly interacts. The premise is that reputation affects valuation. Good reputation promotes firm profitability and business success, hence contributes positively to share price. In contrast, bad reputation and public image (due to poor corporate governance, for example) weaken businesses and discount their share prices.

Corporate Social Responsibility

Zuva and Zuva (2018) stated that Corporate Social Responsibility (CSR) advocates for organizations and corporations to have an obligation to seek the interest of customers, employees, shareholders, communities and ecological considerations in all aspects of their operations. Jimi (2008) observes that presently, CSR is a family of concepts dealing with corporate philanthropy, corporate citizenship, community relations, community advocacy, corporate governance, accountability and transparency, corporate competence, corporate ethics, employee relations, human rights among other aspects.

VI. Theories relevant to the Study

Agency Theory

Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises wherever one or more individuals, called principals, hire one or more other individuals called agents, to perform some services and actions then delegate decision- making authority to agents. Agency theory assumes that agents (that is, managers) should always act in principals (owners') interests. However, if taken either (a) the principals interest are always morally acceptable ones or (b) manages should act unethically in order to fulfill their "contract" in the agency relationship. Clearly, these stances do not conform to any practicable model of business ethics (Bowie & Freeman 1992).

Stakeholder Theory

The provision of resources for a corporation as the foremost objective of its board member is the thrust of the stakeholder theory. Therefore, the Board of Directors of a corporation has to be represented by allthe parties that are crucial to the corporation's success. The outcome of this is the corporation's ability to arrive at a consensus among all crucial stakeholders, creating the cohesion needed to move the corporation forward and avoiding any inimical interest clash (Tricker, 2009 cited in Osho & Ogodor, 2018).

Freeman (1984) offers a traditional definition of a stakeholder thus, "any group or individual who can affect or is affected by the achievement of the organization's objectives" Therefore, the general idea of stakeholder theory is a redefinition of the organization. According to Elkington (2002), stakeholder theory appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituent; employees, banks, governance, relevant stakeholders.

Transaction Cost Theory

Transaction cost theory was initiated by Cyert and March (1963), and subsequently theoretically examined by Williamson (1996). For Williamson (1996), firms and markets are alternative modes of governance; and the allocation of activity between firms and markets is not taken as given, but is something to be derived. Transaction cost theory uses explicit concept of governance to explain undertaking of economic transactions through the efficiency of the chosen governance structures, tailored to undertake the transactions at hand (Wieland, 2005).

Empirical Review

In the course of studying related literatures, many researchers have examined corporate governance on management and organizational effectiveness and have been able to arrive at certain findings. The researcher looks at the findings of others researchers in the field of management sciences as it relates to corporate governance with a view to criticizing or accepting their findings.

Klapper and Love (2002), examined corporate governance and performance in a sample of firms in 14 countries, most of which are developing economies. Their findings result that better corporate governance is associated with better performance in the form of Return On Asset and that good governance seems to matter more when the legal environment provides investors with weaker protections.

Momoh and Ukpong (2013) in their study of corporate governance and its effects on Nigerian Insurance Industry while examining the relationship between corporate governance and organizational profitability , from the level of profitability of the industry before and after the 2007 insurance recapitalization exercise in Nigeria, collected data from five insurance companies listed on the Nigerian Stock Exchange. It used reliability and statistical inference analytical tools found that there is significant relationship between corporate governance and insurance industry financial performance.

Research Design

According to Oyeniyi et al (2016) research design are blueprints, guides or planned course of actions on the objectives intended in the study, source of data, variables under consideration, and justification of the various aspects. This study adopted survey method which is descriptive, while making use of closed ended questions in the questionnaires to sample respondents which will be scientifically selected from the population of study. The administered questionnaires was analyzed using parametric statistical tools.

Population of the study

Population of the study is the total elements, units and/or items from which samples are drawn for research measurement (Oyeniyi et al., 2016). It is the universal set of elements under consideration by the researcher. The population of the study is made up of managers, senior managers and top level management staff of seven selected companies (Leadway Assurance co Ltd, Aiico insurance plc, Custodian and Allied Insurance Plc, NEM insurance plc, Mutual Benefit Assurance plc, Law Union & Rock insurance plc and Consolidated Hallmark Insurance Plc) in their head offices located at Iponri, Victoria Island, Sabo, Obanikoro, Anthony, Alago Meji, Anthony respectively, all in Lagos, Nigeria..

Population breakdown

Leadway Assurance Co Ltd = 42

Aiico Insurance Plc = 50

Custodian and Allied Insurance Plc = 37

Nem Insurance Plc = 36

Mutual Benefit Assurance Plc = 37

Law Union & Rock Insurance Plc = 29

Consolidated Hallmark Insurance Plc = 27

Total Population = 258

Sample size and Sampling Technique

The seven insurance companies were selected by simple random sampling technique, this ensured that every insurance company has equal chance of being selected. For the researcher to determine the sample size, Taro Yamane method as shown below:

Formula:

Where

n= required sample size

N= Population of the study

e= maximum margin error at 5% level of confidence

1= constant

Therefore

n= 157

Operationalization of variables

This study "corporate governance and organizational effectiveness" has two (2) variables, the independent variable "corporate governance" and the dependent variable "organizational effectiveness". Each of these variables has indicators which the researcher will be looking at as a measure of the variables under consideration.

Mathematical operationalization of the above model as follows:

Y= f(X) denoting Y as a function of X,

Where Y is the dependent variable Organizational effectiveness;

X is the independent variable corporate governance, therefore

CR = f(BC) Corporate reputation is a function of Board composition;

CSR = f(CC) Corporate Social Responsibility is a function of the Code of Conduct;

VII. DATA PRESENTATION AND FINDINGS

Data was analyzed using statistical package for social science (SPSS) version 20.0, where frequencies and percentages, means and standard deviation were used to interpret the findings. The presentation of data was done using tables. Correlation analysis was used to test the hypothesis formulated. In this study, the researcher sent out 157 questionnaire and received 151 but 11 were badly completed leaving 140 as being valid.

Test of Hypotheses

In this section attempt is made to test each of the stated hypotheses one after the other using appropriate statistics. Correlation analysis was used to test the stated hypotheses at 0.05 level of significance (95% confidence level).

Hypothesis One

There is no significant relationship between board composition and company's reputation.

Correlation analysis was used to test this hypothesis.

Correlations Output

		Board Composition	company's reputation
Board Composition	Pearson Correlation	1	.637**
	Sig. (2-tailed)		.000
	N	140	140
Company's Reputation	Pearson Correlation	.637**	1
	Sig. (2-tailed)	.000	
	N	140	140

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

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Pearson correlation result suggests that there is a high positive relationship between Board Composition and Company Reputation ($r = 0.637$). This relationship is statistically significant. The generated p-value for the result (0.000) is less than the level of significant (0.05) used for the study, therefore the null hypothesis is hereby rejected

Decision

Null hypothesis is rejected while the alternative hypothesis is accepted. This infers that there is a significant positive relationship between Board Composition and Company Reputations.

Hypothesis Two

There is no significant relationship between Code of Conduct and Corporate social Responsibility. Correlation analysis was used to test this hypothesis.

Correlations Output

		Code of conduct	Corporate social responsibility
Code of conduct	Pearson Correlation	1	.550**
	Sig. (2-tailed)		.000
	N	140	140
Corporate social responsibility	Pearson Correlation	.550**	1
	Sig. (2-tailed)	.000	
	N	140	140

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

Pearson correlation result suggests that there is a high positive relationship between code of conduct and corporate social responsibility because r = 0.550. This relationship is statistically significant. The generated p-value for the result (0.000) is less than the level of significant (0.05) used for the study, hence the null hypothesis is hereby rejected.

Decision

Null hypothesis is rejected while the alternative hypothesis is accepted. This infers that there is a significant positive relationship between Code of Conduct and Corporate social responsibility.

Findings and Conclusion

This study examines the link between Corporate Governance and organizational effectiveness. The result of this study suggests from the findings that majority of the respondents indicated that there is a relationship between Corporate Governance and organizational effectiveness

1. The study discovered that there was a significant positive relationship between Board composition and company reputation. This submission is consistent with the result of Osundina et al. (2016) in their work titled Corporate governance and financial performance of selected manufacturing companies in Nigeria which stated that board composition is vital element in effective governance of any company. It means that board composition of any insurance company is key and that it is the responsibility of the board to ensure credible governance system is put in place and this can be achieved through the election of credible directors by the shareholders The work of Mbu-Ogar et al(2017) titled " Corporate governance and Organisational performance: Evidence from Nigerian manufacturing industry, also supported this submission.
2. The result of the second hypothesis revealed that code of conduct has a significant relationship with corporate social responsibility. There is also a confirmation in Hong et al. (2015) in their work titled "Corporate governance and executive compensation for corporate social responsibility. They tested their predictions using novel executive compensation contract data, and found that firms with more shareholder-friendly corporate governance were more likely to provide compensation to executives linked to firm social performance outcomes. Also, providing executives with direct incentives for CSR is an effective tool to increase firm social performance. The findings provided evidence identifying corporate governance as a determinant of managerial incentives for social performance, and suggest that CSR activities are more likely to be beneficial to shareholders, as opposed to an agency cost.

The study therefore concludes the relationship between corporate governance and organisational effectiveness is significant

Recommendations

Based on the aforementioned findings, the following recommendations are consequently germane and imperative;

- Insurance industry should improve on their corporate governance practices in order to achieve organisational effectiveness.
- The shareholders of insurance company should put in place measures to control directors high-handedness so as to achieve corporate reputation. There is no company that is greater than its reputation becausereputation is a great asset of any company.
- A fair and balanced board composition should be adopted by Insurance Companies to ensure proper implementation of strategy and long-term maximization of owners' value.
- NAICOM and FRCN should ensure that every code of conduct released to the industry is implemented.
- The board should institute a culture of transparency and accountability.

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