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Nexus Between Corporate Governance and Organisational Effectiveness in The Manufacturing Industry

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Abstract: *Corporate governance should be a priority for all businesses, regardless of size, public or private ownership, or public or private trading. To achieve their objectives in relation to their stakeholders, corporate organisations utilise a combination of corporate policies and best practises. The purpose of the study was to determine how corporate governance impacts an organization's effectiveness. The study adopted a survey research methodology, with a formal questionnaire used to collect data. There are 502 population in the study from Sona Agro Allied Foods Ltd. in Sango Ota, Ogun State. For the study, a sample size of 119 respondents was selected. Multiple Regression Analysis was used to test the hypotheses while Ordinary Least Square (OLS) was used to analyse the data in SPSS. According to the study's findings, there is a tenuous positive correlation between corporate governance factors such as management remuneration structure, board size, and board composition with organizational effectiveness. According to the result, organisations should consider corporate governance as a long-term economic opportunity that will be profitable in order to have a deeper understanding of what the ultimate objective of organisational success is.*

Keywords: Corporate Governance, Organisational Effectiveness, Board Size, Board Composition, Management Compensation Program.

Introduction

With its considerable contributions to GDP growth, job creation, and technical innovation, Nigeria's manufacturing industry is essential to the nation's economic success (Adams & Ferreira, 2018). The industry is a vital engine of industrialization and trade in Nigeria due to its wide range of sectors, which include food processing, textiles, pharmaceuticals, and automobile production (Nigerian Investment Promotion Commission, 2019). However, the sector confronts issues with corporate governance practises, which can affect its overall efficacy and performance, just like many emerging economies.

Corporate governance is the set of laws, customs, and procedures that govern and control business operations (Botosan & Ma, 2019). It entails striking a balance between the interests of several parties, including shareholders, management, clients, vendors, financiers, the government, and the community. According to the Organisation for Economic Co-operation and

Development (OECD) (2015), good corporate governance strives to meet organisational goals, promote efficient risk management, and increase long-term shareholder value.

Organisational effectiveness, on the other hand, has to do with a company's capacity to accomplish its aims and objectives in a productive and long-lasting way. It includes elements like customer satisfaction, innovation, financial performance, operational effectiveness, and staff well-being (Cameron, 2018). Organisational effectiveness is essential for the Nigerian manufacturing sector's competitiveness and survival in a fiercely competitive global market.

The significant impact of corporate governance on organisational success has long been acknowledged by academics and practitioners. Due to the difficulties the manufacturing sector faces in Nigeria, including lax regulatory frameworks and problems with accountability and transparency, this connection is especially significant in that country. In order to ensure that management acts in the interests of all stakeholders, effective corporate governance practises encourage transparency and accountability in decision-making processes (OECD, 2019). Strong corporate governance fosters investor trust by protecting shareholder rights and reducing conflicts of interest. This in turn attracts both local and foreign investments, which are essential for the development and growth of the manufacturing sector (Adegbite, Amaeshi, & Amao, 2020).

A strong corporate governance framework also improves the effectiveness of risk management and internal control systems. This improves resource management and enables businesses to react to shifting market conditions and technology improvements more successfully, increasing their overall operational efficiency (Adams & Hermalin, 2021). The reputation and long-term sustainability of the industry may be at risk due to poor corporate governance practises, which can also result in mismanagement, fraud, and unethical behaviour (Sanda, Mikailu, & Garba, 2020).

Statement of Problem

Designing corporate governance structures that are safe, beneficial to all shareholders generally, and effective monitors of management while preventing them from reaping excessively private benefits of control is a difficult issue for policymakers (Adams & Hermalin, 2019). The biggest issues that prevent organisations from achieving their goals include mismanagement, bureaucracy, waste, pilferage, ineptitude, and irresponsibility by directors and staff (Adekunle & Aghedo, 2014).

The manufacturing industry in Nigeria which is a key engine of economic growth is confronted with challenges that reduce its overall efficacy and performance. The effectiveness of corporate governance practices within manufacturing organizations is one important issue. Ineffective corporate governance frameworks continue to exist, impacting transparency, accountability, and decision-making processes despite the sector's potential for growth and competitiveness.

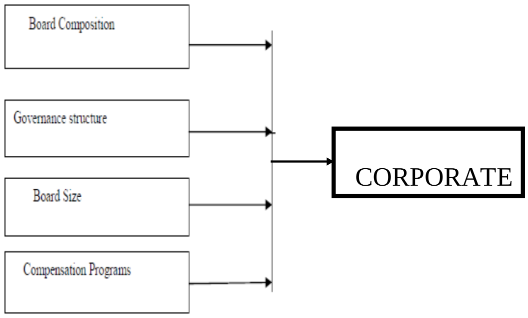
In the ongoing drive to sanitise corporate reporting and boost public confidence in the achievement of stated objectives of organisations around the world, corporate governance has taken on a central role. Setting up the proper rules, laws, and incentives to maintain secrecy and accountability in the management of business entities' affairs appears to be the main problem. Organisations do, however, intend to enhance the corporate governance system in order to boost the organization's effectiveness.

Now that business leaders and auditors are being held to increasingly greater levels of accountability, this interest seems more justified. Due to the fact that investors and other participants in the financial market consider corporate governance as a crucial component of market discipline, there is an increase in the demand for robust corporate governance procedures

(Abdulazeez, Ndibe & Mercy, 2016).

Objectives of the Study

This study's major goal is to investigate how corporate governance affects Sona Agro Allied Foods Ltd.'s effectiveness.



The following hypotheses were synthesized:

H01: There is no significant correlation between organization effectivess and governance structure

H02: There is no significant correlation between Management compensation plans and organisational effectiveness.

H03: There is no significant correlation between Board composition and organisational effectiveness

H04: There is no significant correlation between Board size and organisational effectiveness

Conceptual Review

Corporate governance is a fundamental concept that refers to the set of laws, customs, and procedures used to direct, control, and manage organizations (Cai *et al.*, 2019). It establishes the foundation for balancing the interests of different stakeholders, including shareholders, management, employees, consumers, suppliers, financiers, and the larger community. In order to maximise long-term shareholder value, organisations must exercise sound corporate governance to ensure that they act responsibly, transparently, and accountable (OECD, 2019).

The composition and operation of the board of directors are two key components of corporate governance (Yermack, 2018). The board is crucial in ensuring that the interests of shareholders are represented and that the company's performance and strategic direction are under control (Adams & Hermalin, 2019). A diverse and independent board improves decision-making and lowers conflicts of interest, according to research (Khan, Muttakin, & Siddiqui, 2018). In order to provide objective judgement, enhance the efficacy of board monitoring, and reduce agency issues between management and shareholders, independent directors are essential (Nguyen & Nielsen, 2021).

Fig. 1
Components of Corporate Governance

The function of executive compensation is another crucial aspect of corporate governance. The interests of top management and shareholders are aligned when executive compensation is properly structured, which encourages executives to pursue long-term sustainable growth (Cai, Garner, & Walkling, 2019). But excessive executive remuneration, particularly if it is unrelated to performance, can result in mismatched incentives and possible agency conflicts (Chen, Lam, & Su, 2020).

Effective corporate governance also depends on the degree of corporate disclosure and transparency. The company's access to both the loan and equity markets is facilitated by transparent financial reporting, which increases investor confidence and attracts much-needed funding (Al-Shammari, Brown, & Tarca, 2018). improved disclosure practises encourage improved stakeholder participation and decision-making, which helps businesses succeed in the long run (Botosan & Ma, 2019).

Components of Corporate Governance (Adopted from Cross, Bazron, Dennis & Isaacs, 1989)

a. **Governance Structure:** The organization's membership is represented by the board of directors. The board uses a governance model to implement policies, practises, values, and long-term planning in order to fulfil the organization's objective.

b. **Board Composition:** It is focused on concerns relating to CEO duality, company and industry experience, functional backgrounds, and board diversity (particularly the independence of board committees).

c. **Compensations Programs:** it refers to the elements of a compensation package (wages, salaries, and perks), how it will be paid, and the reasons why employees receive incentives like bonuses and pay raises.

a. **Board Size;** For each accounting year, it refers to the total number of directors on the board of each sample company, including the CEO and Chairman. Size of the board and performance have a positive, statistically significant link, according to research by Saravanan (2012) conducted in India on manufacturing enterprises.

Relationship between Corporate Governance and Organization Effectiveness

For organisations to succeed, there must be a relationship between corporate governance and organisational performance (Nguyen & Nielsen, 2021). Corporate governance best practises support increased organisational effectiveness in a number of ways. First off, effective corporate governance improves decision-making processes by bringing a wider range of knowledge and viewpoints to boards with diverse and independent members (Adams & Ferreira, 2018). Decisions are made that are more informed and more comprehensive as a result, which may have a favourable effect on a company's performance and strategic direction.

Secondly, corporate governance encourages accountability and transparency because organisations with strong governance frameworks are more likely to follow legal and ethical obligations (Yermack, 2018). Such openness fosters confidence among all parties and improves the organization's reputation, which can increase consumer loyalty and investment faith. Additionally, through appropriate executive remuneration practises, efficient corporate governance harmonises the interests of management and shareholders (Smith & Wang, 2019). This alignment motivates leaders to prioritise long-term value creation over short-term advantages, thereby enhancing the organization's overall sustainability and effectiveness.

Theoretical Framework

Agency Theory

According to the Stephen Ross and Barry Mitnick (1973)-proposed agency theory, separate people are in charge of a company's ownership and management, creating a conflict of interest between the two (Juliet, Aduda, Gituro, & Mwangi, 2016). Williamson (1975) asserts that managers may prioritise their own interests over the interests or value of the shareholders. Therefore, despite the fact that they are frequently regarded as rational, managers cannot be trusted. According to this school of thought, Jensen and Meckling (1976) claimed that since managers do not always act in the best interests of shareholders, corporate governance is a useful tool for resolving the agency issue through the creation of a board of directors.

Many different corporate governance concerns are explained using agency theory. The separation of ownership and control in huge organisations is the fundamental tenet of the philosophy. To maximise the return to the shareholders, managers (agents) are employed to operate and make decisions on behalf of the owners (principals) in such organisations. However, when an agent fails to act in the principal's best interest and instead acts to maximise their own value, a conflict of interest between the agent and the main invariably arises. This conflict of interest arises because managers and stockholders may have different objectives, depending on their preferred amount of managerial effort, their attitude towards risk, and their time horizons. In order to align the interests of management and shareholders, several control measures should be implemented, either internally or externally to the company. However, contend that principal-agent interest is a product of assumptions made in agency theory about individualistic utilitarian motivation.

Empirical Review

Nguyen and Nielsen(2021)looked at the connections between audit fees, good governance, and board independence. Using information from numerous companies, the researchers conducted empirical study. They evaluated the quality of governance, the extent of board independence, and the impact of these elements on audit fees. The results showed that lower audit fees were related to greater board independence and better governance. This implies that audit expenses are decreased since organisations with independent boards and solid governance practises are viewed as lower risk. According to the study's findings, improving board independence and governance standards can have a favourable effect on audit engagements' financial transparency and cost-effectiveness.

Chen, Lam and Su (2020) examined how CEO arrogance affects Chinese companies' management of profitability. The researchers used empirical analysis to evaluate the association between CEO overconfidence and earnings management practises using data from diverse Chinese enterprises. The results showed a favourable correlation between CEO overconfidence and earnings management behaviour. According to this, CEOs who are overconfident may be more inclined to use aggressive accounting techniques to inflate reported profitability. The study comes to the conclusion that CEO overconfidence can affect the quality of financial reporting and urges better awareness of its possible effects on corporate governance and financial transparency in Chinese companies.

Sanda, Mikailu, and Garba (2020) looked at how corporate governance and fraud risk are related in Nigerian businesses. The researchers looked at how corporate governance structures affected the likelihood of fraud using empirical analysis. The results showed that a decreased probability of fraud was connected with stronger corporate governance practises. This shows that organisations with strong governance frameworks and open control systems are better able to spot and prevent fraudulent activity. According to the study's findings, raising corporate governance standards can significantly contribute to reducing the risk of fraud and boosting overall financial integrity in Nigerian businesses.

Methodology

This study employed a quantitative research design in line with the survey research methodology. Sona Agro Allied Foods has 502 employees throughout all three levels of management, including top level, middle level, and lower level management. This information was gathered during the process of gathering data on the number of employees in the organisation. The sample size was determined using the Taro Yamane method.

Thus $n = \dfrac{N}{1 + N(\varepsilon)^2}$

Where: n = Sample size

N = Population (502 staffs)

1 = Unity (a constant) ε^2 = level of significance ε

= 0.07 or 7%

n = 502 / 1 + 502(0.07)^2= 502 / 1 + 502(0.0049)

n = 502 / 3.45

n = 144.9275

Approximately 145

A structured questionnaire was used to obtain the primary data used in this investigation. Secondary data is gathered online, via articles, research projects, books, and other sources.

With the use of the statistical package for social sciences (SPSS), multiple regression analysis was performed to investigate the association between corporate governance and organizational effectiveness.

Cronbach's Alpha	Valid Number	Number of Items
0.842	119	20

Source: Author's Computation, July 2023.

The information above demonstrates the reliability of the survey research questionnaire.

The questionnaire utilised for the research work has a Cronbach's alpha of 0.842, which indicates that it is quite reliable. Thus, a more in-depth examination of the fieldwork results can be done.

Results and Discussion

Table 4.2.1a: Summary of result of hypotheses

Statistics	Values
Multiple R	*0.204*
R-squared	*0.042*
Adjusted R-squared	*0.007*
F-value	*1.213*
Standard Error	*5.778*
p-value	*0.009*

Source: Author's Computation, July 2023

Table 4.2.1b: Summary of result of hypotheses

Level of significant p≤0.05

Source: Author's Computation, July 2023

Variable	Regression Coefficient	Standard Error	t	Sig
Constant	10.369	1.232	8.416	0.000
GS	0.014	0.106	0.135	0.003
BC	0.017	0.094	0.185	0.004
BZ	0.021	0.049	0.438	0.002
MCP	0.285	0.131	2.170	0.032

Discussion of Results

The analysis of findings, presented in table 4.2.1a demonstrated a weakly positive association between the size of the board, its compensation, the governance structure, and management compensation programmes, with a regression coefficient of 0.204. Additionally, it is noted that factors like board size, board salary, governance structure, and management compensation plans account for around 4.2% of the variation in organisational effectiveness. The addition of new independent factors also showed that the joint effect of the independent variables would account for around 0.7% of variability in organisational performance. However, the F-value is 5.778 and the significance level is 0.0090.05.

As contained in table 4.2.1b above, each independent variable's contribution, including board size, board makeup, governance structure, and management compensation programmes, is also included. The contribution to organisational effectiveness in the absence of the independent variables is indicated by the gradient of the regression line, which is 10.369 in this case. Additionally, the regression estimate for governance structure is 0.014 with a standard error of 0.106 and a t-value of 0.135 when the other three independent variables are not present. The board composition result is similar, with a regression coefficient of 0.017, standard error of 0.094, and t-value of 0.185. Additionally, the regression coefficient for board size is 0.021, with a standard error of 0.049 and a t-value of 0.438. Finally, the management compensation programmes' regression coefficient is 0.285, with a standard error of 0.131 and a t-value of 2.170.

With their respective significant values of 0.003 for governance structures, 0.004 for board composition, 0.002 for board size, and 0.032 for management compensation programmes, it can be shown that all four independent variables are significant. As a result, we accept the alternative hypotheses, according to which there is a substantial association between management compensation programmes and organisational effectiveness for hypothesis 1. This shows that all of the variables are significant. According to hypothesis two, there is a strong correlation between management compensation plans and organisational effectiveness. For both hypotheses three and four, there is a significant association between board composition, board size and organisational effectiveness.

The F-value of 5.778 and p-value of 0.05 show the model's overall performance. This finding shows that the model's ability to relate the dependent and independent variables is appropriate and sufficient.

The model for the research work is given as:

OREF = 10.369 + 0.014*GS + 0.017*BC + 0.021*BZ + 0.285*MCP

Where,OREF represents organizational effectivenessGS represents governance structures. BC represents Board Composition, BZ represent Board Size MCP represents management compensation programs

According to model (1), if all other independent variables remain constant, every unit increase in governance structure will result in a 1.4% improvement in organisational effectiveness. Additionally, if all other independent factors remain constant, there is a 1.7% improvement in organisational performance for every unit increase in board composition. Similar to this, if the other three independent variables remain constant, there is a 2.1% rise in organisational effectiveness for every unit increase in board size. Last but not least, organisational effectiveness increases by 28.5% for every unit rise in the management compensation programme. This outcome demonstrates that, in comparison to other variables, the management compensation programme has a greater impact on organisational effectiveness.

Conclusion and Recommendations

According to the study, there is a weak but significant correlation between Sona Agro Allied Foods Ltd.'s efficacy and corporate governance. Additionally, it is concluded that organisational effectiveness is influenced by elements of corporate governance, including board size, board composition, governance structure, and management compensation programmes. However, this conclusion is supported by the finding that the management compensation programme has a greater impact on organisational effectiveness than other factors. The study comes to the conclusion that there is enough data to support the need for a good management compensation programme that helps the organisation become more effective.

In order to serve as a guide and focus efforts on the use of effective corporate governance in achieving organisational success, the study suggests, among other things, that corporate governance requires more attention and commitment from corporate organizations in the formulation of customs, polices, and laws. Effective management compensation programmed that support employees in making the proper decisions that will increase effectiveness should be implemented by the company.

Corporate organizations should step up their efforts to guarantee that the governance structure supports the organization's effectiveness and that executive directors are assigned to handle organizational affairs because of their in-depth knowledge of how those organizations operate. Organizations should make sure that all board members have the essential industry expertise, credentials, experience, and skills needed to manage the organization, which will increase its effectiveness.

In conclusion, businesses should view corporate governance as a long-term profitable business opportunity. Their understanding of the ultimate objective of organizational success will be enhanced by this.

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