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CORPORATE GOVERNANCE STRUCTURE AND ORGANIZATIONAL COMPETITIVENESS OF DEPOSIT MONEY BANKS IN RIVERS STATE

BY

Ogie, Love Ibiobu (PhD)
Department of Accounting
Faculty of Business Studies
Ignatius Ajuru University of Education, Port Harcourt
manlovenig@yahoo.com
08033102319

Abstract

This study examined the relationship between corporate governance structure and organizational competitiveness of deposit money banks in Rivers state. A sample of 122 managers and supervisors were adopted as the sample size since the number is manageable and accessible to the researcher for the eleven deposit money banks in Rivers state. Three testable null hypotheses formulated, tested and rejected, and the alternate hypothesis accepted. Spearman's Rank Order Correlation Coefficient was used to analyze association between the variables and the regression statistical tool was used to examine the causal effects of the dimensions of corporate governance structure on the criterion variable (organizational competitiveness). Hence, there is a significant relationship between corporate governance structure and organizational competitiveness of deposit money banks in Rivers state. It was thus recommended that the Management of deposit money banks should make policies that would enhance board independence of such firms as this would enhance organizational competitiveness. Deposit money banks should come up with policies that would predict accurate board size to enhance competitiveness of the organization. Deposit money banks should enact procedures that would enhance organizational competitiveness through an effective corporate governance structure.

Keywords: Corporate Governance Structure, Board Size, Board Independence, Organizational competitiveness

1.0 Introduction

The banking sector is essential to the functioning of the modern economy. Money, which is the circulatory system of every economy, passes through it like blood does a vein. Between the years 2017 and 2020, the Nigerian banking industry was responsible for contributing around N168.4 trillion to the country's Gross Domestic Product (GDP). To be more precise, the sector's contribution to the country's GDP in 2017 was approximately N34.6 trillion, and it is projected to have contributed N37.8 trillion in 2018, N42.7 trillion in 2019, and N53.3 trillion in 2020 (Ailemen, 2022). Despite this seeming impressive contributions to the nation's economy, banks in the sector are increasingly being bedeviled by some challenges, now exacerbated by the covid-19 crisis, such as revenue pressure and low profitability (low levels of interest rates and higher levels of capital), tighter regulation (after previous financial crisis), and especially, increasing competition from shadow banks and new digital entrants (Carletti et al., 2020).

Competition is a key factor that drives business concerns to either do well or fissile out of the business space. Consequently, meeting the expectations of firms, such as making consistent profits by satisfactorily resolving the inherent business uncertainties, rest on being competitive (Obuba & Omoankhanlen, 2022). Hence every business establishment even the deposit money banks in Rivers State tries to develop a competitive advantage over rival businesses in other to survive, gain and retain greater market share (Nwachukwu & Nwadighoha, 2021). Competitiveness has been described as an organization's ability to build, maintain, use, and create new competitive advantages to outperform competitors in terms of productivity and quality, capture a substantial market share, and produce revenue and long-term growth (Tiran, 2022).

In their work, Adegbite and Nakajima (2011) suggested that the collapse of prominent multi-nationals like Enron Corporation and Worldcom, as well as Intercontinental Bank, Oceanic Bank, Spring Bank, Bank PHB, the bail out of Union Bank, and several mergers and outright take overs in the banking sector are specific instances of corporate governance structure failure in the banking sector in Nigeria. This tends to suggest that poor corporate governance structures contributed to their downfall, which heightened the interest in determining the best practices of corporate governance structure (Adegbite& Nakajima, 2011). Corporate governance is a set of principles that embraces both economic and social goals as well as between individual and communal goals so as to align the interests of various shareholders for the attainment of competitive advantage (Nginyo et al., 2018). Corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the corporation, such as the board, managers, shareholders and other interested parties, and details the rules and procedures for making decisions on corporate matter (Castrillón& Alfonso, 2021).

Certain factors tend to hinder the effectiveness of corporate governance structure from providing good leadership such as lack of board independence and size of the board of the organization (Nicholson, & Newton, 2010; Ogbechie, C. I. (2012). Within the corporate governance literature, the board is seen as a key player in governance of companies and as such there is the need for a better understanding of how this body works.

Several factors have been adduced by scholars as possible predictors of competitiveness such as: inventory management practice (Atnafu et al., 2018); process quality and quality control (Alzoubi, 2021); tacit knowledge strategies (Boma-Siaminabo, 2022); networking (Hettey et al., 2022); integration capability (Obuba & Omoankhanlen, 2022); sensing capability (Obuba & Alagah, 2022); corporate social responsibility (Melo et al., 2022); etc. Despite all of these studies, there appears to a dearth of studies that have empirically examined the nexus between corporate governance and competitiveness, especially of deposit money banks located in Rivers State. Consequently, this study is unique in its attempt to investigate the relationship between corporate governance and organizational competitiveness of deposit money banks in Rivers State.

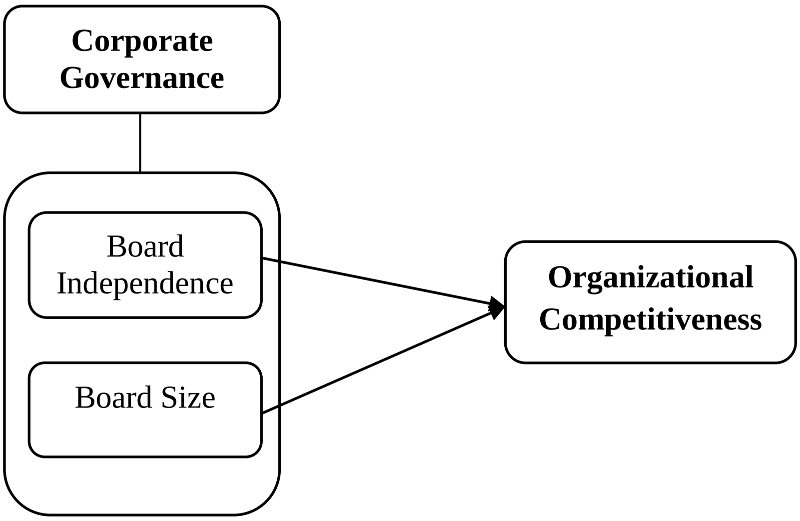

Figure 1: A Model of the Relationship between Corporate Governance and Organizational Competitiveness, conceptualized by the researcher.

Research Hypotheses

In furtherance of the study, the following hypotheses were formulated:

Ho$_1$: There is no significant relationship between board independence and organizational competitiveness.

Ho$_2$: There is no significant relationship between board size and organizational competitiveness.

Literature Review

Theoretical Framework

The theoretical framework of this study is anchored on two theories namely: agency theory and stewardship theory.

Agency Theory

In 1976, Jensen and Meckling were the ones who initially put up the idea of agency theory, which has since contributed to the formation of more contemporary codes of practise in corporate governance. Managers and shareholders have different information needs, and this information gap is at the heart of agency theory. The notion, when applied to corporate governance, raises serious concerns for absent or uninvolved owners/shareholders who rely on the services of professional executives. These executives, in their agent capacities, are obligated to prioritise the interests of the company's stockholders. However, in practise, they often behave in their own self-interests, calling for the establishment of a checking and balancing system to ensure that professional managers are held accountable (Waweru & Riro, 2013).

The separation of the chief executive officer and chairman of the board is a crucial agency monitoring technique (William et al., 2003). According to the research referenced by Adeusi (2013), when organisations have more agency difficulties, managers are able to generate personal gains that serve their own interests rather than those of the stakeholders, leading to bad performance. It is widely held that an effective governance structure is a crucial factor in reducing the prevalence of agency difficulties (Bino & Romar, 2010). Nonetheless, the assumptions of agency theory have had substantial impact on the development of new approaches to corporate governance. According to agency theory, incentives and self-interest are crucial to effective organisational decision making. Without wanting to admit it, agency theory shows how much of business is driven by greed.

Stewardship Theory

The concept of stewardship was first proposed by Donaldson and Davis in 1993. It presupposes that the interests of shareholders and management are aligned, and that management will be prompted to implement measures that reveal fundamental truths about the company's health and performance. Further, this theory stresses the presence of a trustee who protects and enhances shareholder value through the firm's behaviour resulting from performance (Subramanian, 2018). The steward's usages obligations are enhanced by this action. They serve in a representational capacity, acting in the best interests of the shareholders. According to the stewardship theory, when the goals of the organization's resources are met, the stewards are rewarded for their efforts. This research is grounded on this theory because of the importance of having a diverse board and a share of foreign ownership.

Conceptual Review

Corporate Governance Structure

Discussions about corporate governance typically centre around bridging the gap in interests between shareholders and management (Sarbah & Xiao, 2015). The understanding of how corporate governance affects a company's management, strategies, and performance has been greatly expanded by the recent surge of interest in the field of corporate governance among academics and practitioners. It could be said that corporate governance is the means through which businesses are steered and managed (Astrachan, 2010). It focuses on setting up controls with the aim of reducing issues that can arise from competing interests among the firm's various stakeholders (managers, shareholders, employees, creditors, etc.).

The term "corporate governance structure" is used to describe the organisational frameworks used by both public and private entities to establish and enforce ethical standards for conducting business. By maintaining the board's autonomy, shareholders in a market economy can ensure that management is looking out for their best interests and acting accordingly.

Board Independence

The main argument supporting board independence is that the non-executive (or independent) members actively engage in board meetings, provide relevant and independent views on many issues and challenge important decisions of the executive board members (Fuzo et al., 2016). Many firms prefer to increase the proportion of outside directors rather than enlarging the board itself, reducing any costs related to the excessive number of directors and to avoid large dysfunctional boards since smaller boards are also related to faster decision making (Yermack, 1996). Moreover, the presence of independent directors supports the notion of equal treatment of shareholders, by curbing extraction of private benefits of control by affiliated directors and thus increasing firm value.

Accordingly, it provides reputational advantages for the firm, as it becomes associated with more professionalism and ethical conduct. Outside directors and their unbiased approach also effectively improve the monitoring abilities of the boards, decreasing any agency costs that might arise between shareholders and managers. By definition, the monitoring activities of the board must be improved in order to cover the disparity between management and various shareholders and can be achieved by the inclusion of independent directors (Lipinski, 2018).

As non-executive directors usually come from different backgrounds, the external connections and access to resources might be beneficial to the company. What is more, independent directors can play a role of a mentor for other directors, especially for young firms, which need specific expertise in various areas in order to grow, like in case of adequate strategic planning processes. Therefore, the presence of independent directors is an internal corporate governance mechanism.

Board Size

The number of board members is a significant aspect of the board of directors, and many businesses struggle to find the right number of directors to serve on the board (Graf & Stiglbauer, 2009). The term "board size" is used to describe the total number of directors on a company's governing board. These directors may play a hands-on role in running the company or may act in a more passive, overseeing capacity (Kazan, 2022). The subject of what constitutes an optimal board size for a firm has persisted from a corporate governance standpoint, and numerous studies have examined the correlation between board size and company success (Bermig & Frick, 2010; Darmadi, 2011). Companies with both large and small boards have been studied, and the reasons for opting for either size have varied (Hidayat & Utama, 2016). Different perspectives on board size can be gleaned from the discussed theories of corporate governance. For instance, agency theory primarily argues that smaller boards are preferable to larger ones since an increase in board members generates an increase in agency costs and the efficiency of the board diminishes, ultimately resulting in bad business performance (Li et al., 2015). Boards with fewer members tend to have less information asymmetry and fewer disputes amongst members than those with more people (O'Connell & Cramer, 2010).

However, according to the resource dependence principle, a larger board means more resources for the business. It is hypothesised that when a board has more people with diverse backgrounds and experiences, it makes better decisions (Latif et al., 2013). Additionally, the key tenet of stewardship theory is that every manager or employer is a good steward of the company, with their interests aligned with those of the owners. This means that the number of board members will not affect the board's dedication to the company or its professionalism. Companies already have a hard time deciding on a board size without the added complexity of conflicting notions from several ideologies.

There is no fixed number of people required or permitted by law or agreements to serve on the board of directors or management. When constructing a management board, the owners and supervisory board in charge often decide how many people will sit on the board. Therefore, it is dependent on the characteristics of the firm as well as the supervisory directors (Bermig & Frick, 2010).

Organizational Competitiveness

Organizational competitiveness is a concept that is usually not well-defined but persistently used by political class, economists, strategists, business firms and media. It has regained attention in today’s era of particularly in firms that makes practical efforts to return their level of productivity to a higher growth (Porter, 1990).

Organizational competitiveness in terms of interpretation implies that cost reduction is the only effective policy response. Firms losing competitiveness focus on how to reduce cost component, and extend to high energy in an attempt to compete favourably in the market. To some degree, this preoccupation with costs comes from the origin of the concept of competitiveness at certain level of the firm. However, even at this level, the theory of the firm and management theory emphasize that success of the corporate structure in place depends on competitive advantage and capabilities generated by innovation (Porter, 1990).

The role of productivity is sometimes emphasized to the extent that some authors consider productivity as the only meaningful concept of competitiveness (Kohler, 2006; Porter, 1990). Organizational competitiveness came to be seen as more than an accounting result comparing costs and revenues at one point in time. A broader interpretation of the term evaluates the sources of competitiveness of firms as well as their future prospects. This involves examining the processes that lead to a favourable cost or productivity position and the opportunities to sustain or improve it. Kohler (2006) noted that competitiveness in this sense is about processes and abilities. In the literature, terms like quality competitiveness or technological competitiveness are used to describe this broader interpretation, although both expressions could be seen as narrowly focusing on two specific aspects (quality and technology).

Corporate Governance Structure and Organizational Competitiveness

In reality, as argued by Bates (2013), corporate governance in its practical application is an important key, which unlocks the true value of a business regardless of the firm size. Willan et al. (2016), whose study revealed that organisations whether large or small have the same benefits, influences and challenges when it comes to the application of corporate governance, confirmed this. In other words, corporate governance can shift a firm from a survivalist entity incapable of growing past the abilities of its owners, to being an enterprise with factual and sustainable growth through improved competitiveness (Bates 2013).

For a firm to attain competitiveness in the market, it is essential that the firm first achieves a competitive advantage, which refers to the firm's doing its activities better or differently from its competitors (Maniak, 2006). There are numerous ways to gain competitiveness obtainable for firms. This study describes corporate governance as one of the sources for firm competitive advantage. It contends that the adoption and effective compliance with corporate governance principles by business owners may create a distinctive capability for the organization, minimise the general costs of the business, enable them to acquire a competitive advantage over their competition and enhance their competitiveness.

Methodology

The study is descriptive in nature and employs the cross-sectional survey design. The sample element for the study comprises of one hundred and twenty two (122) managers and supervisors of various deposit money banks operating in the Rivers State. A census study was adopted given the manageable nature of the sample elements. A test-retest of the research instrument was conducted to ascertain the reliability of the instrument, and the outcomes met the Nunnally and Bernstein's (1994) .07 minimum threshold. The Spearman Rank Order Correlation Coefficient was adopted to test the afore-stated null hypotheses.

Results and Data Analysis

Table 1: Spearman Correlation Coefficient (Spearman's rho): Test of Association between the variables

Correlations					
			Board Independence	**Board Size**	**Organizational Competitiveness**
Spearman's rho	**Board Independence**	Correlation Coefficient	1.000	.926**	.875**
		Sig. (2-tailed)	.	.000	.000
		N	122	122	122
	Board Size	Correlation Coefficient	.926**	1.000	.949**
		Sig. (2-tailed)	.000	.	.000
		N	122	122	122
	Organizational Competitiveness	**Correlation Coefficient**	**.875****	**.949****	**1.000**
		Sig. (2-tailed)	**.000**	**.000**	**.**
		N	**122**	**122**	**122**
****. Correlation is significant at the 0.01 level (2-tailed).**					

Source: SPSS Output Version 20

The Spearman rank correlation table above measures the strength of association between the variables as follows:

The result reported a strong positive correlation between board independence and organizational competitiveness (rho = .875**, n = 122, $p < 0.01$), also a strong positive correlation value was reported between board size and organizational competitiveness (rho = .949**, n = 122, $p < 0.01$). Consequently, the afore-stated null hypotheses were rejected and their alternate accepted. To this end, the study empirically establishes that there is a significant positive association between board independence and organizational competitiveness; and there is also a significant positive relationship between board size and organizational competitiveness of deposit money banks in Rivers State.

Table 2: Model Summary of the Variables

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	**.931[a]**	**.868**	**.865**	**1.437**
a. Predictors: (Constant), Board Size, Board Independence				

Source: SPSS Output Version 20

From the model summary above, the R Square value of .931[a] represents the correlation coefficient values of the variables which showed a high positive correlation among the variables; however the R square value of (86.8%) indicates the degree of change in the criterion variable (organizational competitiveness) as caused by the dimensions of corporate governance structure (board independence and board size).

Conclusion and Recommendation
Following the result of our findings - in line with literature; it was concluded that corporate governance structures with respect to board independence and board size, could significantly enhance the competitiveness of deposit money banks and boost high level performance and profitability. Consequently, it was recommended that the management of deposit money banks should:

i. Make policies that would enhance board independence as this would enhance organizational competitiveness.
ii. Come up with policies that would predict accurate board size to enhance competitiveness of the organization.
iii. Should enact procedures that would enhance organizational competitiveness through an effective corporate governance structure.

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