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The Effectiveness of Corporate Governance on the Organizational Profitability of a Firm: Case Study of Green Chemicals, Edo State

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ABSTRACT

This research work explored the effectiveness of corporate governance on the organizational profitability of a firm. Green Chemicals, Edo state was used as a case study. Frequencies, Percentages, Tables and Charts were used to present obtained data while chi-square Tests of independence and association was employed in testing the statistical significance of the null hypothesis. After subjecting each hypothesis under test, findings revealed that corporate governance has a significant influence on organizational Profitability. Effective regulatory mechanism also determines organizational profitability and success. Therefore, it was concluded that organizations need to put in efficient corporate governance and audit committees to ensure maximum profitability so they could survive in the business world.

Keywords: *Corporate Governance; Organizational Profitability; Chi-square*

Introduction

Virtually all branches of economics embrace the notion that firms endeavor to maximize profits. Nevertheless, although some firms are substantially more profitable than others, most earn only a competitive rate of return. Therefore, in order to properly function and develop, an enterprise needs managers who can well understand the economic environment that it operates in. However, this understanding is often limited. This is why many successes and failures that occur in firms are highly unexpected. At microeconomic level, performance is the direct result of proper management of various economic resources and their efficient use within operational, investment and financing activities. To optimize economic results, special attention should be given to the proper grounding of managerial decisions. These should be based on complex information regarding the evolution of all types of activities within the company. A synthetic picture of the company's financial position and its performance is found in the annual financial statements, which therefore become the main information sources that allow the qualitative analysis of how resources are used during the process of creating value. The qualities of managerial options depend on the ability of identifying those elements that could lead to higher productivity which would invariably have a positive impact on the firm's productivity. Hence, the presence of strong governance standards provides better access to capital and aids economic growth.

Business corporations have been created to address objectives which are much more than creating products and services, it has to serve the larger purpose of satisfying multilevel needs of the society. These corporations have always faced the tug of war of protecting the interests of the shareholders - the legal owners or the stakeholders which includes suppliers, customers, creditors, government and communities. Therefore, corporations work on corporate governance (CG) which has been gaining importance ever since the economic turmoil caused by collapse of many business corporations in last two decades such as WorldCom, Enron, and Tyco International. Corporate Governance is basically a detailed disclosure of information and an account of an organization's financial situation, performance, ownership and governance, relationship with shareholders and commitment to business ethics and values. The relevance of corporate governance has increased several times since the concept was introduced. With the introduction of globalization and competition, managing shareholder expectations is no longer amulet for success. The current economic crisis is often blamed at poor regulatory and check mechanisms for the business, which has led to ramifications which are far reaching both geographically and socially (Mobeen, Rehman & Hussain, 2013).

The concept of corporate governance connotes the processes involved in the discharge of the mandate of governance in corporate entities (Okafor, 2011). It refers to the process through which an organization is governed and controlled. Corporate governance codes define the relationship between company management, their boards and their shareholders as well as require that management and directors carry out their duties within a framework of accountability and transparency (Adeola, 2003). Corporate governance has become a topical issue because of its immense contributions to the growth of modern economies where the private sector plays a key role in the growth process. Absence of good corporate governance is often blamed for the woeful performance of business entities. Developed private sector-driven economies with history of established corporate governance structures consistently record high and predictable growth rates. Thus, low economic growth rates that characterize developing nations are often attributed to low level of corporate governance practices in these economies.

In its simplest form a corporation is defined as an organization having its own legal entity separate from its owners thereby having its own rights, responsibilities and obligations. They operate for a profit motive, capitalizing on their expertise, resources and networks. Its owners usually are very high in number (general public, group of investors, consortiums) and they pool their investments in the form of shares, which are traded at stock exchange. It is chartered and regulated by the government. By law, accounts are audited by independent external auditors; the company is subjected to the statutory and financial laws of the land and those of relevant regulatory authorities. While corporate strategy is a strategy for guiding a firm's entry and exit from different businesses, for determining how a parent company adds value to and manages its portfolio of businesses, and for creating value through diversification (Perace & Robinson, 2009). The recent financial crisis that hit the globe in the twenty-first century necessitated the move for good corporate governance practices in corporations. Nielson (2000) opines that the common denominator of these monumental failures was poor corporate governance culture while, Ajagbe (2007) put forward that in poor corporate management, fraud and insider abuse of power by management and board of directors is common place. There is however, a unanimous agreement that the key outcome of poor corporate governance is earnings smoothing. However, poor corporate governance practices invariably result to failure of

firms (Enofe & Isiavwe, 2012). Such significant failures have brought to the fore the need for a deeper understanding of the impact of corporate governance on corporate performance

The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. In contemporary business corporations, the main external stakeholders, debt holders, trade creditors, suppliers, customers and communities are affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees. An important objective in corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. In recent years, the discussion has focused on the structure of the board of directors, as the most outstanding governance mechanism of the internal control systems (Jensen, 1993).

Corporate governance also has broader social and institutional dimensions. Properly designed rules of governance should focus on implementing the values of fairness, transparency, accountability, and responsibility to both shareholders and stakeholders. In order to be effectively and ethically governed, businesses need not only good internal governance that includes important internal factors to corporation such as the board of directors, capital providers, stakeholders, and management, but likewise must operate in a sound institutional environment that includes important factors external to the corporation, such as laws and regulations, competitive markets, the media, and transparent external auditing measures. Governance failures or weaknesses can reflect aspects of both (Tura, 2012). Good corporate governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Conversely, weak corporate governance leads to waste, mismanagement, and corruption. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only good governance can deliver sustainable good business performance (Chen and Lee, 2012)

It is widely argued that the transition of global economies from public to private ownership of business equally makes the emphasis on corporate governance more compelling. Adeola (2003) explains that as an economy transits from state ownership of business concerns to a market-based one, the only assurance that the populace will realize the gains of the liberalization exercise is institution of sound corporate governance practice. This may explain why prominent instances of governance-related corporate failures that shook the corporate world at the turn of the century are traced to the US, a known example of a market-oriented economy and they include Enron (2001), Worldcom (2002), Arthur Anderson (2002), etc. A 2003 survey by SEC cited by the CBN (2006) shows that poor corporate governance was identified in most known cases of distress in financial institutions in Nigeria. This emphasizes the need for this study.

Statement of the Problem

One of the main causes of business failures from the 1980s up to now is the issue of improper ethical values and weak corporate governance. The effects of corporate governance on firms' performance is a very vital and important issue that has risen since the last financial distresses all over the world. There is considerable debate about the causes and origin of the global financial crisis, and many debates about the responsibility towards it. Most of studies and researches suggest that the collapse of many of these corporate businesses have led to the loss of existing rights of investors and the loss of new investors' confidence in these companies. The ultimate objective of a corporate governance assignment is to achieve the highest degree of harmony within the organization. A high level of governance will ensure that the firm performs efficiently in a well-controlled environment. The interests of stakeholders, such as customers, potential customers and non-customers impacted by the decisions of a company, may begin to get attention as corporate governance plays an increasingly strategic role.

In spite of consistent evidence that depicts corporate governance as a major driver of corporate performance, it is widely acknowledged that lax or inadequate corporate governance practices promote corporate failures. The OECD (2009), for instance, attributes the 2007 global financial crisis to failures and weaknesses of corporate governance structures. Similarly, the 2009 banking crisis that led to the 2010 banking reforms in Nigeria was attributed to weak corporate governance structures in the affected banks (Sanusi, 2009). According to Richard & Bill (2006), allowing the control of a business rest in the hand of managers who usually own a relatively small proportion of the total

share issued can give rise to self-servicing behavior by managers at the shareholders' expense, leading to distress and in some case collapse of major corporate organizations. In order to check-mate the activities of management, installing a board of directors can be an effective instrument for monitoring top managers and coping with this problem and to reduce agency costs. Therefore, this study aims to evaluate corporate governance mechanism in organizations and how they relate to organizational profitability.

Objectives of the Study

i. To examine the relationship between board size and organizational profitability.
ii. To Evaluate the impact of regulatory mechanism on organizational profitability

Research Questions

i. Is there a relationship between board size and organizational profitability?
ii. What are the impacts of corporate governance mechanisms on organizational profitability?

Research Hypothesis

i. There is no significant relationship between board size and organizational profitability.
ii. The regulatory mechanism has no significant influence on the organizational profitability

Theoretical Framework

The theoretical construct that improvements in corporate governance structures in business organizations are associated with operational efficiency therefore provides the theoretical foundation for this study. Researchers studying corporate governance have used a diverse set of theoretical perspectives to understand the characteristics, roles and effects of board of directors (Corbetta and Salvato, 2004).

Agency Theory

One of the theoretical principles underlining the issue of corporate governance is the agency theory developed by Jensen and Meckling (1976) resulting out of the separation of ownership and control. Investors have surplus funds to invest but due to technical constraints such as inadequate capital and managerial expertise to manage the funds, employ the services of managers to invest their funds in profitable ventures to generate good returns and the managers rewarded for their service. Agency problem however arise because the actions of managers do not always promote the interest of the financiers, some of their actions are very detrimental to the fortunes of the financiers. Thus agency problem as described by Jensen and Meckling (1976) focuses on the consumption of perquisites by managers and other types of empire building (La Porta et al., 2000). It is interesting that, these managers often tend to entrench themselves in power. According to Shleifer and Vishny (1989), managers can expropriate shareholders by entrenching themselves and staying on the job even if they are no longer competent or qualified to run the firm. Managerial expropriation of funds can also take more elaborate forms than just taking cash out, such as transfer pricing (Shleifer and Vishny, 1997). Such transfer pricing, asset stripping, and investor dilution, though often legal, have largely the same effect as theft (La Porta et al., 2000). Additionally, managerial expropriation could also take the form of diversion of corporate opportunities from the firm, installing possibly unqualified family members in key managerial positions, or overpaying executives, using the profits of the firm to benefit themselves rather than return the money to the investors (La Porta et al., 2000). As a result of the interest of the opportunistic, self-interested managers, there was an agency loss which is the extent to which returns to the residual claimants, the owners fall below what they would be if the owners, exercised direct control over the company (Jensen and Meckling, 1976). The remedies to this conception of the agency problem within corporate governance involves the acceptance of certain 'agency costs' involved either in creating incentives or sanctions that will align executive self-interest with the interest of shareholders, or incurred in monitoring executive conduct in order to constrain their opportunism (Roberts, 2004). Thus, principles of corporate governance are meant to control the internal and external entrenchment practices of executives through internal and external control mechanisms which either align the interest of executives with the shareholders or monitor them directly (Boyd, 1994; Gibbs, 1993; Hill et al, 1988; Walsh et al., 1990).

Stewardship Theory

The stewardship theory emerged as a result of the seminar work by Donaldson and Davis (1991). The theory is based on the assumption that the interest of shareholders and the interest of management are aligned therefore management is motivated to take decisions that would maximize performance and the total value of the company. The theory believes that there is greater utility in cooperative than individualistic behaviour and hence whilst the actions of management would be maximizing shareholder wealth, it would at the same time be meeting their personal needs. The managers protect and maximize shareholders' wealth through firm performance, because by so doing, their utility functions are maximized (Davis et al., 1997). To achieve this goal congruent, the shareholders must put in place appropriate empowering governance structures and mechanisms, information and authority to facilitate the autonomy of management to take decisions that would maximize their utility as they achieve organizational rather than self-serving objectives. For CEOs who are stewards, their pro-organizational actions are best facilitated when the corporate governance structures give them high authority and discretion (Donaldson and Davis, 1991). Davis et al., (1997) identified five components of the management philosophy of stewardship as trust, open communication, empowerment, long-term orientation and performance enhancement.

Resource Dependency Theory

The resource dependency theory was developed by Pfeffer (1973) and Pfeffer & Salancik (1978) with the objective of emphasizing the important role played by board of directors in providing access to resources that would enhance the company's performance and protect it against externalities. Companies require resources in areas of finance, human, technical, information, communication and technology to function properly and to achieve their objectives. Daily et al. (2003) posit that the accessibility to resources enhances organizational functioning, performance and survival. Hillman et al. (2000) argue that resource dependency theory focuses on the crucial role that the directors play in providing or securing essential resources to the company through their linkages to the external environment. They contend that, directors bring resources to the company in the form of information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Organizations depend on each other for business because they form the largest proportion of the organization's customer base, meaning the actions of one organization can greatly influence the financial performance of the other either positively or negatively. Therefore the need for organizations to establish relationships at board levels. Johnson et al. (1996) agreed that the theory provides focus on the appointment of representatives of independent organizations as a means of gaining accessibility to resources critical to the organizations success. According to Pfeffer and Salancik (1978) boards provide advice, counsel and know-how, legitimacy and reputation, channel for communicating information with external organizations, and preferential access to commitments or support from important actors outside the firm. The boards perform these functions through social and professional networking (Johannisson and Huse, 2000) and interlocking directorates (Lang and Lockhart, 1990). Abdullah and Valentine (2009) classified directors into four categories of insiders, business experts, support specialists and community influentials. Zahra and Pearce (1989) posit that the diverse background of the directors enhance the quality of their advice. The theory favours larger boards (Dalton et al., 1999; Booth and Deli, 1996; Pfeffer, 1973; Provan 1980).

Stakeholder Theory

Agency theory holds a contractual view of the relationship between managers and shareholders where the managers have the sole objective of maximizing the wealth of shareholders. Stakeholder theory considers this view to be too narrow since manager's actions have effect on other interested parties than just shareholders. The theory was developed by Freeman (1984) with emphasis on the need for managers to have corporate accountability to stakeholders instead of shareholders. Stakeholders are "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman 1984, p.229). Donaldson and Preston (1995) defined stakeholders as identifiable groups or persons who have legitimate interest in an organization and these interests have intrinsic value. The theory is interested in how managerial decision making affect all the stakeholders and no one interest should be able to dominate the others (Donaldson and Preston, 1995). Stakeholder theory like the resource dependency theory, also proposed for the representation of the various interest groups on the organization's board in order to ensure consensus building and to avoid conflicts. The board therefore serves as arbitration over the conflicting interests of the stakeholders and brings about cohesion needed for the achievement of the organizational objectives (Donaldson and Preston, 1995). In spite of the good intentions of the theory, it has been criticized for putting too much burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests. This situation has given

managers the discretionary powers to decide on whose interest to serve (Jensen, 2001). Jensen (2001) suggested that managers should pursue objectives that would lead to increasing the long-term value of the firm since this would not be attained by ignoring the interest of some of the stakeholders. Jensen (2001) also criticized the theory for adopting a single-valued objective of maximizing wealth of its stakeholders. According to him, the performance of an organization is not only measured by returns to the stakeholders but equally important is the management of information in the organization with particular reference to vertical communication, inter-personal relationships in the organization and the working environment. He refined the theory to "enlighten stakeholder theory" to take care of the shortcomings. With this, the company should take into consideration the interests and influences of people who are either affected or may be affected by company's policies and operations (Frederick et al., 1992). As a result of the complex nature of the stakeholder relationship and the need for the better management of the various stakeholders, Donaldson and Preston (1995) have concedes that stakeholder theory cannot be a single theory but categorized them into three different approaches of descriptive, instrumental and normative.

Empirical Review

Erhardt et al. (2003) carried out an investigation aimed at finding the linkage between board gender diversity and financial performance of firms in the United States of America using correlation and regression analysis. The results show that board gender diversity has a positive linkage with firm financial performance. Cheng (2008) studied the impact of ownership structure on profitability of Chinese firms. The results of the study shows that there is a significant positive relationship between concentrated ownership and firm financial performance. The result also shows that there is no significant relationship between firm performance and ownership concentration in countries which recently joined the Europe Union. Farreira (2010) found that an increase in the number of female directors does not have any significant impact on the return on assets of firms. Sanda et al. (2005) studied the connection between corporate governance mechanisms and financial performance of Nigerian firms using pooled ordinary least squares regression analysis technique (Solomon et al., 2012; Ajagbe, 2007). The results show that board structure has no significant relationship with return on equity while board size has a negative relationship with return on equity.

Al-Sa'eed (2012), study the - The Role of Corporate Governance on the Reduction of the Global Financial Crisis Implications: Evidence from Banking Sector of Jordan‖. The study aimed to determine the relationship between the independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: Reduction of the global financial crisis implications. The study revealed that a positive significant relationship between independent variables and dependent variables is found, and that Corporate Governance's Principles have reduced the implications of the global crises on the Jordanian Banking Sector. Additionally, the study found that the economy does not get the expected benefits from CBJ regulation. In addition to that, Abu Risheh and Al-Sa'eed (2012) found in their study that the banking sector of Jordan is complying with corporate governance and disclosure, and this is improving the quality of financial reporting, while Al-Sa'eed (2013) conducted a study that aimed to empirically explore to what extent Jordanian banks are complying with OECD's principles of Corporate Governance from the viewpoint of the Audit Committee Members in Jordanian Banks, his study has found that the banking sector of Jordan is complying with OECD's principles of Corporate Governance and all regulatory bodies are applying the same tools and pillars to control and oversight the banking sector of Jordan

Abu-Tapanjeh (2006) evaluated the connection between good corporate governance mechanism and financial performance of Jordanian firms using multivariate regression technique. The results of the study show that board structure has positive relationship with financial performance. Rose (2007) also investigated the impact of female board representation on financial firm performance of selected quoted Danish companies. The result shows that gender diversity does have significant impact on firm financial performance. Aljifri & Moustafa (2007) employed cross-sectional regression analysis technique to find out the impact of board characteristics on performance of firms in United Arab Emirates. The results reveal that board size has an insignificant impact on firms' performance. The results further reveal that governmental ownership has a significant relationship with firm performance while the institutional ownership has no significant relationship with firm performance.

Tomer and Bino (2012) and Al-Smadi et. al. (2013) have concluded that the ownership structure and board composition have a strong impact on the firm's efficiency and effectiveness and thus its overall performance. The positive effects returned on companies' performance in Jordan is due to the higher freedom of royal family to choose the strategic partners and lower governmental interventions. Surprisingly, board size has no effect on companies'

performance. Saif (2013) explores the corporate governance at private hospitals in Jordan. The study revealed that workers at those hospitals are possessed weak understanding and awareness of corporate governance although governance serve and protect both of workers and shareholders' rights. Basically, the study highlights some conflicts might arise in absence of implementing principles of corporate governance in private health sector in Jordan. In their study, Suwaidan et. al. (2013) examine if better corporate governance practices can increase attractiveness of Jordanian shares for foreign investors in Jordan. Their study revealed that institutional ownership, ownership concentration, total assets and audit size are related to non-Jordanian investor. This result builds on the importance of non-Jordan shareholders in enhancing corporate governance mechanism.

Zaloom's (2013) in his study entitled "Disclosure of commitment to implement guidelines on corporate governance and its impact on the value of the company aimed to explore the extent of the obligation to apply guidelines on corporate governance in service companies Jordanian public shareholding, The study found that the highest level of commitment was to the rules guiding the special disclosure and transparency (95%), and less reached the level of commitment to the rules guiding the special meetings of the General Authority (86%). With regard to the rules guiding the corporate governance, the study found that there is no trace of these rules in the value of the company, to the lack of awareness of the importance of the rules of corporate governance in the value of the company by investors and regulators, which may be the main reason of lack of this effect. Al-Beshtawi et. al (2014) investigated the role of corporate governance in the commercial banks and Islamic banks in Jordan and its impact on financial and non-financial performance because it has an impact on improvement and development of managerial decision-making processes and stages that enhance internal activities of banks and raise the level of performance. The study found that corporate governance was implemented through identifying its principles and components in addition to formulating committees that would activate the applications of CG.

Bathula (2008) performed a study in New Zealand to find out the relationship between gender diversity using the general least square analysis technique. The findings of the study reveal that gender diversity was positively related with firm performance while director ownership is negatively related with firm financial performance. Babatunde & Olaniran (2009) investigated the relationship between governance mechanism and performance of corporate firms in Nigeria. The results show that there is an inverse relationship between director's shareholdings and return on asset. The results further show that there is a positive relationship between board size and ROE, and a negative linkage between board independence and ROA. It was observed that the impact of female board members depends on the nature of the tasks performed. The result shows that the ratio of female directors has a positive direct relationship with board strategic control but no direct relationship with board operational control among Norwegian firms. Ibrahim et al. (2010) investigated the impact of corporate governance on performance of Pakistan chemical and pharmaceutical companies. The results of the study show that board independence has positive impact on return on equity but has no significant impact on return on asset. The results also show that ownership structure has a significant impact on return on equity but has significant on return on equity.

Amran (2011) studied the relationship between board characteristics and performance of Malaysian firms using panel data methodology. His findings reveal that board size has a significant negative relationship with firm performance. Adusei (2011) find out the relationship between board structure and bank performance of Ghanaian firms employing panel data. The finding of the study reveals that, as board size of a bank's board of directors decreases its profitability increases. Al-Hawary (2011) studied the influence of banks corporate governance on performance. The result of the study shows that board independence has a significant influence on performance. Al-Manaseer et al. (2012) employed pooled data analysis technique to investigate the impact of corporate governance on performance on Jordanian banks. The results reveal that there is a significant negative relationship between board size and return on equity. Claessens & Yurtoglu (2012) in their study on the Czech Republic find that the higher the level of ownership concentration, the higher the value and profitability of the company.

Al-Hazaimeh et. al. (2014) investigated the relationship between corporate governance and ownership structure on voluntary disclosure, with a particular focus on variables affecting in voluntary disclosure of listed companies in the Amman Stock Exchange (ASE). The study revealed that a significant degree of voluntary disclosure in line with greater corporate governance awareness and implementation in Jordan. Particularly, the study found that the board activity, foreign ownership, non–executive directors and block holder ownership to be significant in influencing voluntary disclosure. Eventually, the voluntary disclosure in the annual reports does potentially affect the market capitalization.

Abadi (2012) investigated the relationship between corporate governance, organizational learning and strategic planning effectiveness. The study findings showed that corporate governance has significantly associated with strategic planning effectiveness but both corporate governance and organizational learning were jointly enhanced the effectiveness of strategic planning. Similarly, Effiok et. al. (2012) study entitled - Corporate Governance, Corporate Strategy and Corporate Performance: Evidence from the Financial Institutions Listed on the Nigerian Stock Exchange, aimed at exploring whether or not corporate governance structures works in tandem with other stakeholders of the company to fashion a robust corporate strategy for effective corporate performance. The study revealed that a strong relationship between corporate governance and firm performance, and talented board has a great impact on achieving corporate strategy through effectively implementing corporate governance.

In their study, Ilyas and Rafiq (2012) trying to explore the impact of corporate governance principles on perceived organizational success in Pakistan. Their study concluded that discipline, social awareness, accountability, fairness and responsibility have significant effect on organizational success but effect of discipline and social awareness is higher than accountability, fairness and responsibility. Moreover, the study showed that independence and transparency do not effect on organizational success significantly. Ndlovu et. al. (2013) conducted a study aimed at analyzing the corporate governance practices by multinational banks in comparison to domestic banks in Zimbabwe. Their study results were so impressive; the study revealed that the general awareness on the importance of sound corporate governance practices was of substandard levels for both bank categories. Domestic banks, in particular, had more shortfalls compared to multinational banks, they did not represent shareholders' interests in their corporate governance practices, and their levels of compliance to Reserve Bank of Zimbabwe's corporate governance requirements was still lacking. Although corporate governance strategies by multinational banks were superior to domestic banks it was established that multinational banks needed to accept local central bank requirements on corporate governance as an engine to enhance their corporate governance strategies.

Meanwhile, Antwi and Binfor (2013) conducted a study aimed not only at investigating the role of corporate governance on strategic change in rural banks in eastern region of Ghana, but also at exploring the importance of governance mechanisms and strategic decisions on weaknesses and threats to the banks of effective operation and the ownership, board, and the top management team in strategic change on the bank value. The study revealed that the importance of governance mechanisms and strategic decisions on weaknesses and threats to the effective operation of banks were highly important and the management personnel strongly support formal policy development and implementation of the bank. Moreover, the corporate governance has an effect on strategic change on rural banking. The study recommended that strategic changes in rural banks can be implemented if the top management team and Board of Directors agreed and placed high importance on it that would improve their performance.

Baxter (2014) investigating the relationship between the corporate governance ratings of Australian publicly listed companies and their financial performance. The results of the study provide consistent evidence over the three years that companies with higher quality corporate governance have higher levels of financial performance. The study therefore makes important contributions to the existing literature and will be of value to investors, companies and regulators in assessing the extent to which a corporate governance ratings system explains variations in company financial performance. Lehlou et. al. (2014) examined the role of different internal corporate governance mechanisms in predicting the probability of default through building a model that integrates financial ratios and corporate governance-related variables to predict the probability of default and find that board of directors-related variables increase the power of the model to predict the default probability. The study reached some remarkable findings that firms with larger boards and CEOs performing multiple functions within their corporations are associated with lower default probability. However, CEO-chairman duality and the number of internal directors increase the credit risk. Moreover, the model used shows that the importance of board of directors' characteristics for predicting the probability of default in public firms.

Research Methodology

In this study the descriptive survey design was used. This is because the method helps the researcher to describe examine, record analyze and interpret the variables that exist in the study. The researcher also considered it necessary to employ oral interview because of its factual implication on the study.

The data used in the research work was obtained from two sources, namely: primary and secondary sources.

Primary data was collected by the researcher through a structured questionnaire. The Lickert-Summated Rating scale was used in the questionnaire to elicit information from the respondents. The Licker- Summated Rating scale is given below:

Strongly Agree (S A)

Agree (A)

Disagree (D)

Strongly Disagree (S D) (Samie, 2006)

The secondary data used for the purpose of this research were obtained from books, internet, academic articles and journals.

The population size for this study is made up of all Firms and companies in Edo state. This study will be focusing on all the staff of Green Chemicals in Edo state Staff members.

According to Mugenda and Mugenda (2003), a representative sample should be at least 10% of the population. For this study stratified purposive sampling method was used. Leedy (1989) states that a purposive sampling procedure is one which individuals or samples thought to be most important and relevant to the issue are targeted for the research. Population was stratified into three strata's: Upper management; Middle level management Lower level employees. The questionnaire was designed to suit the test of the respondents as they said they would prefer a short questionnaire.

Table 1: Population and Sample size

Respondent	Population	Sample size
Upper Management	8	8
Middle level Management	13	13
Lower Level Employees	27	27
Total	48	48

Among the 48 distributed questionnaires, only 4 were returned and it forms our sample size.

Statistical analysis is a vital aspect of research. The choice of an appropriate statistical method depends on factors such as sample size and characteristics, hypothesis being tested, and research design. In this research work, the responses of the respondents are analyzed with SPSS (Statistical Package for Social Sciences) Version 25. Also, the hypotheses are tested using the Chi-Square test of independence and association and Correlation. The Chi-Square test, X2, is a test of independence where the concept identified in one variable is not necessarily affected or related to another variable within measure (Ewurum, 2005). The Chi-Square test of independence is used to estimate the likelihood that some factors other than chance (sampling error) account for the apparent relationship.

The Chi-Square test of independence is denoted as follows:

$$X^2 = \frac{\sum (Fo-Fe)\ 2}{Fe}$$

Where:

X^2 = Chi-Square

∑ = Summation

Fo = Observed frequency

Fe = Expected frequency

Decision Rule: Reject H0, if p-value (Sig.) ≤ 0.5, otherwise do not reject H0

H_0 1: There is no significant relationship between board size and organizational profitability

Table 2 Cross Tab for Hypothesis One

			A Relationship exists between board size and organizational profitability				
			Strongly Agree	Agree	Disagree	Strongly Disagree	Total
Measures are put in place to explore the use of past data in predicting customer interest	Strongly Agree	Count	19	0	0	0	19
		Expected Count	9.3	6.6	.9	2.2	19.0
		% of Total	44.2%	0.0%	0.0%	0.0%	44.2%
	Agree	Count	2	7	0	0	9
		Expected Count	4.4	3.1	.4	1.0	9.0
		% of Total	4.7%	16.3%	0.0%	0.0%	20.9%
	Disagree	Count	0	8	1	0	9
		Expected Count	4.4	3.1	.4	1.0	9.0
		% of Total	0.0%	18.6%	2.3%	0.0%	20.9%
	Strongly Disagree	Count	0	0	1	5	6
		Expected Count	2.9	2.1	.3	.7	6.0
		% of Total	0.0%	0.0%	2.3%	11.6%	14.0%
Total		Count	21	15	2	5	43
		Expected Count	21.0	15.0	2.0	5.0	43.0
		% of Total	48.8%	34.9%	4.7%	11.6%	100.0%

Table 3 Chi-Square Tests for Hypothesis One

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	74.613[a]	9	.000
Likelihood Ratio	74.264	9	.000
Linear-by-Linear Association	35.410	1	.000
N of Valid Cases	43		

a. 14 cells (87.5%) have expected count less than 5. The minimum expected count is .28.

Decision

The P-value on which basis we can reject the null hypothesis that there is no significant relationship between board size and organizational profitability is [p-value (.000) < .05]. Hence, the researcher rejects the null hypothesis and states alternatively that there is significant relationship between board size and organizational profitability.

H_0 2: The regulatory mechanism has no significant influence on the organizational profitability.

Table 4 Cross Tab for Hypothesis Two

			Organizational Profitability is influenced by the regulatory mechanism.				
			Strongly Agree	Agree	Disagree	Strongly Disagree	Total
Sales predictions are always achievable	Strongly Agree	Count	19	0	0	0	19
		Expected Count	8.4	6.6	2.2	1.8	19.0
		% of Total	44.2%	0.0%	0.0%	0.0%	44.2%
	Agree	Count	0	15	0	0	15
		Expected Count	6.6	5.2	1.7	1.4	15.0
		% of Total	0.0%	34.9%	0.0%	0.0%	34.9%
	Disagree	Count	0	0	5	1	6
		Expected Count	2.7	2.1	.7	.6	6.0
		% of Total	0.0%	0.0%	11.6%	2.3%	14.0%
	Strongly Disagree	Count	0	0	0	3	3
		Expected Count	1.3	1.0	.3	.3	3.0
		% of Total	0.0%	0.0%	0.0%	7.0%	7.0%
Total		Count	19	15	5	4	43
		Expected Count	19.0	15.0	5.0	4.0	43.0

% of Total	44.2%	34.9%	11.6%	9.3%	100.0%

Table 5 Chi-Square Tests for Hypothesis Two

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	112.875[a]	9	.000
Likelihood Ratio	97.742	9	.000
Linear-by-Linear Association	40.993	1	.000
N of Valid Cases	43		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .28.

Decision

The P-value on which basis we can reject the null hypothesis that the regulatory mechanism has no significant influence on the organizational profitability [p-value (.000) <.05]. Hence, the researcher rejects the null hypothesis and state alternatively that the regulatory mechanism has a significant influence on organizational profitability.

Research Findings

1. There is significant relationship between board size and organizational Profitability.
2. Board independence has a significant impact on organizational profitability.
3. Regulatory mechanism has a significant influence on organizational profitability.

Conclusion

The study has shown that profitability of any organization is greatly influenced by the corporate governance of that organization. Hence, it is of necessity that organizations set up efficient regulatory mechanisms, and governance committee to ensure that their firms achieve maximum profitability.

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