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CORPORATE GOVERNANCE AND ITS EFFECT ON ORGANIZATIONAL PERFORMANCE

Abstract: Corporate Governance is the technique by which companies are directed and managed. Corporate governance lies in between all these aspects and management of organizational resources fairly while concerning the interests of all stakeholders. However, corporate governance has become a contemporary issue due to its enormous contribution to the economic growth and development of countries. The absence of good corporate governance is a major cause for failure of many well performing firms or organization. The findings of this study revealed that corporate governance ensures the smooth management of the organization that fits the best interests of all shareholders. However, the findings revealed that corporate governance is associated with high cost in running a corporate organization. Finally, the study recommends future studies to be conducted on the research topic to provide corporate organization with more information and knowledge on how corporate governance affect their organizational performance.

Keywords: Corporate Governance

1. Introduction

The term “corporate governance” is the interaction between shareholders, board of directors, and company’s management in shaping corporation’s performance and the way it is proceeding towards. Corporate governance according to Oman (2011), broadly includes the laws, regulations and acceptable business practices of both private and public institutions that governs the relationship between business managers or entrepreneurs (corporate insiders) and the investors or shareholders. Corporate governance is mainly concerned with the rules, laws and regulations that aid in the governance of institutions. According to Gyamerah and Agyei (2016), corporate governance includes the manner in which these rules are applied to regulate the relationship of the various stakeholders in an institution to ensure a legitimate accountability to various corporate constituencies. These rules, laws and regulations reflects the system or mechanism of corporate governance used for establishing the nature of ownership and control of organizations within an economy. The Organization for Economic Co-operation and Development (OECD) (2004), defined corporate governance as a mechanism of bringing into line the interest of investors and managers in order to ensure that firms are operated to benefit investors. That is, corporate governance is a mechanism that lead to a healthy and no conflict between the owners and the managers in an organization.

Corporate governance creates relationship between the owners and the managers in an organization. Corporate governance can be described as the set of relationships between company's board, its shareholders and other stakeholders (Organization for Economic Co-operation and Development, 2004). Corporate governance does not only define relationship between corporate players, but also provides the structure through which the objectives of the firm are set, the means of attaining those objectives and monitoring performance. Corporate governance is regarded as the key foundation of organizations to be more productive, governed and controlled. Corporate governance can be described as the technique by which companies are directed and managed. According to Lee (2008), corporate governance lies in between all these aspects and management of organizational resources fairly while concerning the interests of all stakeholders. Corporate governance ensures that the interests of all shareholders are safeguarded and enable all shareholders fully exercise their rights and that the organization fully recognizes their rights. Clearly, corporate governance distinguishes between the owners and the managers by determining ways to take effective strategic decisions. These gives ultimate authority and complete responsibility to the Board of Directors. Therefore, the managers are the deciding authority.

The concept of corporate governance includes both social and institutional aspects. That is, corporate governance is all about balancing individual and societal goals, as well as, economic and social goals. Corporate governance ensures that the executive management is running the organization in the right direction and also being run well. Corporate Governance encourages a trustworthy, moral, as well as ethical environment. According to Olusegun (2012), corporate governance ensures transparency which ensures strong and balanced economic development. The concept of corporate governance has to deal with the ways in which supplies of finance to corporations assures themselves of getting return on their investment. According to Dzingai and Michael (2017), the principles of corporate governance is to support an approach that considers and balances the legitimate and reasonable needs, interests, and expectations of its stakeholders in an inclusive, ethical, and sustainable manner as part of its decision-making. These decision through corporate governance have an influence on the organizational performance.

2. Literature Review

Many scholars have look at the performance of an organization would never fail to mention of corporate governance. The quality of corporate governance structure of an organization affects its performance. Corporate governance is perceived to influence firm financing or decision related to capital structure which influence the firm's performance. Corporate governance with weak structures lead to poor financial performance and contribute to macroeconomic crises.

The concept of corporate governance is a fundamental in the achievement of the economic growth and efficiency because top level management consider it as a device for the reduction of misconduct or mismanagement in the management of an organization. Kamau Grace, et al. (2018), described corporate governance as a key driving force in a firm's performance. A good corporate governance system plays a vital role in influencing firm performance. According to Organization for Economic Cooperation and Development (OECD) (2004) corporate governance provides the structure through which objectives of a company are set and means for attaining those objectives, leading to higher performance. According to Grove et al. (2011), the adoption of good corporate governance enhance performance. Corporate governance has been linked with negative firm performance. For instance, Adams and Mehran (2011) reported no connection between corporate governance and organizational performance.

Relationship between corporate governance and organizational performance is still a fundamental issue for the researchers. Brown and Caylor (2004) found a positive relationship between governance and performance. Among the measures of performance where return on equity, profit margin and sales growth by which a conclusion was drawn that good governance (based on factors) is related to good performance the vast majority of the time (Brown and Caylor, 2004). Fooladi and Nikzad (2011) who also adopted measures of return on equity and return on assets in investigating the relationship between corporate governance and performance found a negative relationship between performance and CEO duality. However, despite finding positive relationships between performance and board independence, board size and ownership structure there was no significance to firm performance.

Factors of corporate governance that affect organizational performance

These are elements of corporate governance that negatively or positively influence the performance of any corporation. Dewji and Miller (2013), classified these factors of corporate governance into internal and external aspects. Internal factors are under firm's control and include board composition, management remuneration structure, ownership concentration and debt level, while external components include market for corporate control, labour market and the regulatory framework. Narwal and Jindal (2015), also include board independence, board committees, board skills, board size and board diversity as factors of corporate governance affecting corporation performance. The following below are some possible factor of corporate governance that may affect organizational performance:

Board size: The board size of corporations is determined bas on the nature, size and complexity of the company as well as its stage of development. Larger boards often bring the benefit of a broader mix of skills, backgrounds and experience, while smaller boards may be more cohesive and may be able to address issues and challenges more quickly. According to Osei (2014), larger boards are more difficult to coordinate, and may have communication and organisation problems whilst a small board size experiences efficiency problems. In most modern corporations, the size of the boards varies from seven to eleven directors, with an average of about nine directors (Gillan, Hartzell & Starks, 2007).

Board diversity*:* These is the behavioural dynamics of the board, i.e. customs, decision making activities (including quality of board meetings), the formality of board proceedings and the interactions between executives and non-executives in and around boards (Moxey and Berendt, 2008). Diverse backgrounds and experiences on corporate boards, including those of directors who represent the broad range of society, strengthen board performance and promote the creation of long-term shareholder value. Boards should develop a framework for identifying appropriately diverse candidates that allows the corporate governance committee to consider women, minorities and others with diverse backgrounds as candidates for each open board seat.

Board independence: Director independence is critical to effective corporate governance, and providing objective independent judgment that represents the interests of all shareholders is at the core of the board's oversight function. Accordingly, a substantial majority of the board's directors should be independent, according to applicable rules and regulations and as determined by the board. An independent director should not have any relationships that may impair, or appear to impair, the director's ability to exercise independent judgment. Many boards have developed their own standards for assessing independence under stock market definitions, in addition to considering the views of institutional investors and other relevant groups.

Board committee: These are the committees required by law and as a best practice for any corporation to create board sub-groups in the form of committees as part of its governance structure. These board committees are appointed standing or adhoc committees (Ghana Institute of Directors). An effective committee structure permits the board to address key areas in more depth than may be possible at the full board level. Decisions about committee membership and chairs should be made by the full board based on recommendations from the corporate governance committee. Examples of a board committee may include audit committee, compensation committee, etc. The responsibilities of the committee and the qualifications required for committee membership should be clearly defined in a written charter that is approved by the board. Each committee should review its charter annually and recommend changes to the board. Committees should apprise the full board of their activities on a regular basis. Board committees make recommendations to the board on various technical issues. Board committees have significant impact on corporation performance. Carter et al. (2007) observed audit, executive, remuneration and nomination committees to be positively associated with firm performance. Board committees should meet all applicable independence and other requirements as to membership prescribed by applicable law and stock exchange rules.

3. Methodology

The research design used in this study was descriptive survey. Descriptive survey simply describes what is or what the data shows. Descriptive survey helps to simplify large amounts of data in a sensible way. The descriptive survey reduces lots of data into a simpler summary. According to

Avoke (2005), descriptive surveys are designed to portray accurately the characteristics of particular individuals, situations or groups. A purposive sampling technique was used to obtain a sample size of 100 within targeted population. This sampling technique is used where the sampling units are chosen because they meet set criteria of importance. The technique proved too effective because numbers of people who served as primary data sources due to the nature of research design and aims and objectives were limited. Unlike some alternative sampling techniques, purposive sampling technique do not allow; highly vulnerable to selection bias and influences beyond the control of the researcher and high level of sampling error, which lead to little credibility of the studies.

4. Analysis

Reliability Analysis

According to Joppe (2000), reliability data test is the extent to which results are consistent over time and an accurate representation of the total population under study. A questionnaire is said to be reliable if someone answers the statement consistently or it is stable over the construct variable or the time variable. According to Cooper and Shindler (2007), 0.70 is an acceptable reliability coefficient. Thus, when the value items are more than alpha (α=0.70) value then it indicate that the scale can be considered consistent, sound and reliable. The figures below show test reliability;

Table 4.4.1 Reliability analysis

Cronbach's Alpha	N of Items
.910	4

Note: N of Items are the number of research objectives stated in chapter one

The table above show the reliability analysis of the data obtained from the respondents. The reliability values from the results is 0.910 greater than the prescribed threshold of (α=0.70) and in comparison Cronbach's Alpha values are compatible to reliability test of the conducted pilot study with Cronbach's Alpha value (α=0.910), hence the scale is sound and reliable.

5. Discussion

"Corporate governance" influences how the objectives of the company are set and achieved, how risk is monitored and assessed, how performance is optimized. Corporate governance is the system of principles, policies, procedures, and clearly defined responsibilities and accountabilities used by stakeholders to overcome the conflicts of interest inherent in the corporate form. The findings of the survey revealed that organization adopt corporate governance to promote accountability and transparency in all business transactions where corruption would certainly fade out. As affirmed by Gyamerah and Agyei (2016), corporate governance improved management accountability and operational transparency fulfil investors' expectations and confidence on management and corporations, and in return, increase the value of corporations. The finding from the survey revealed that corporate governance enhanced investor trust and also enhance the business value by attracting investors. The finding from the survey suggested that organization adopt corporate governance t**o** reduced risk of corporate crisis and scandals. As affirmed by Osei (2014), corporate governance ensures efficient risk mitigation system in place. Corporate governance provides a transparent and accountable system makes the Board of a company aware of the majority of the mask risks involved in a particular strategy, thereby, placing various control systems in place to facilitate the monitoring of the related issues. The finding from the survey revealed that organization adopt corporate governance to improved governance structures and processes that ensure quality decision-making, encourage effective succession planning by management.

Good governance means that business's processes are aimed at producing results which meet the needs of society and organisational prosperity while making strategic use of its available resources. Good corporate governance has become a key focus area for businesses to position themselves favourably in order to withstand a difficult economic climate. The finding from the survey revealed that good corporate governance ensures corporate success and economic growth, also minimizes wastages, corruption, risks and mismanagement and maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively. Good corporate governance has become a key focus area for businesses to position themselves favourably in order to withstand a difficult economic climate. The finding from survey suggest that corporate governance ensures that the organization is managed in a manner that fits the best interests of all shareholders.

Corporations are separate legal entities, wholly distinct from their shareholders. Shareholders elect the board of directors which, in turn, manages the business. Usually the board employs officers and managers to run the daily operations of the corporation. However, in small corporations, all of these shareholders, board, officers and managers may be one and the same. The finding from survey suggested all that corporate governance has brought about the huge formalities associated in corporate governance which sometimes leads to financial fraud in the corporation. Corporations, shareholders and board directors and officers must follow all the corporate formalities, including keeping annual meeting minutes for both shareholders' meeting and board of directors' meetings, documenting major decisions as board-approved. Even corporations owned and governed by one shareholder in multiple director roles must adhere to all formalities. The finding from survey suggest that shareholders elect the board on the base of favouritism and nepotism which affect the governing of the organization. The finding from the survey also revealed the principal agent conflict that arise between a corporation's shareholders and management bring about corporate governance and corporate governance have increase cost in running the organization. As affirmed by Gyamerah and Agyei (2016), conflicts arise when a corporation's shareholders do not actively participate in the business and instead hire professional management to run the business. The manager represents the shareholders but often has different goals and perspectives. The manager acts in his best interest as an employee but not in the best interest of the shareholders.

6. Recommendation

Base on the findings of the study, the following recommendations were made; the shareholders should elect the board on the base on competence not favouritism and nepotism which will affect the governing of the organization in the long run; the corporate organization should try and reduce the formalities associated with their corporate governance to prevent or reduces financial fraud in the corporation; the corporate organization should reduce the size of the board of directors to about seven competent people since smaller boards are more cohesive and may be able to address issues and challenges more quickly and there should be some level of independence of the board of directors in the corporate organization.

7. Conclusion

The performance of any organizations or corporations solely depends on how corporate governance is conducted. The organizational performance can be improved by the transparency and confidence in the governance of corporate firms. Corporate governance regulate and segregate clearly the power, responsibilities and interests; and mutual checks relationship between shareholders including stockholders, the board of directors, the board of supervisors and the executive. Indeed, corporate governance has been one of the major concern for standard setters all over the world. Dough globalization have increase the complexity of business there is a greater reliance on the private sector as the engine of growth in both developed and developing countries. Hence, the absence of good corporate governance is a major cause for failure of many well performing firms or organization.