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A Study of the Relationship Between Corporate Governance and Organizational Performance

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Abstract

This study examined whether the relationship between corporate governance and organizational performance exists or not. Conceptual framework has been developed to measure with the help of questionnaire data, which has been collected from different organizations. Factor analysis has been used for the purpose of this study. From the data analysis, it has been shown that corporate governance and organizational performance relation are at high level and corporate governance significantly impacts on organizational performance.

Keywords: corporate governance, organizational performance, factor analysis, LODR, relationship

1. Introduction

The purpose of corporate governance is to facilitate efficient, entrepreneurial and sensible management that can deliver the long term prevalence of the company. In today's global economy corporate governance plays a crucial role in the success of the national economy. In the global context, the need for trust and transparency in the corporate governance organization has been one of the major concerns. The term corporate governance has been identified to mean different items to different people.

As per Cadbury Committee (1992) "corporate governance most widely used in the system by which companies are directed and controlled".

As per OECD Principle "corporate governance involves a set of relationship between its shareholders, its board and its management"

As per James Mc Ritchie "corporate governance is viewed as both the structure and the relationship which determine corporate direction and performance".

A strong theoretical and practical experience management facilitates the efficient discharge of the responsibilities and duties imposed his jurisdiction. Shareholders are the main concerned for the organization. The shareholders have got rights and privilege to protect their interest. The principle actors of corporate governance are the board of directors, shareholders and audit committee. A majority of the directors should have independent status and minds. The independent authorities should state clearly the indexes of moral behavior which are required of all concerned.

2. Literature Review

Mudashiru, Bakare and Ishmel (2014) noted that large board size, board skill, management skill, longer serving CEO's, size of audit committee, dividend policy and many other things are positively associated with the performance of organization. Organization also encouraged adopting a good corporate governance practices to improve their performance and also protect the interest to the stakeholders.

Mbu-ogar, Effiong and Abang (2017) highlighted on the issue that recent global incidence of corporate failure have heralded the consciousness for the adoption of good corporate governance for sustained firm value. This study mainly focuses that regulatory bodies should ensure that the board size maintained by manufacturing companies is adequate and manageable. They have order to facilitate decision making and operation efficiency.

Delima and Ragel (2017) examined whether corporate governance has impacted on organizational performance in financial institution or not? They build up a linkage between corporate governance and financial institution performance. They observed that good corporate governance can rely changed the whole structure of financial performance in a organization.

Zuva and Zuva (2018) observed that good corporate governance framework can enhance the performance of organization. They followed some theory and guided by a fusion the following theories are, the agency theory, the ethical theory, the stakeholder theory, the corporate social responsibility theory and the steward theory. This paper mainly focused on governance system that advances transparency, accountability business ethics.

Tijani and Olubunmi (2019) highlighted some issues that affect implementation of good corporate governance among insurance companies in Nigeria. Insurance companies should improve on their corporate governance practices in order to achieve organizational effectiveness.

Diriba and Basumatary (2019) explained about the impact of corporate governance on the company performance in Indian leading companies. Here mainly discuss about the variables of corporate governance like the board size, chief Executive Officer (CEO) duality etc. but this study shows that there is no direct impact of corporate governance on the company performance of India.

Al-Hattami, Al-Maqtari, Al-Nuzaili and Bukhrani (2020) focuses on the issues of various corporate governance mechanism like board and audit committee, foreign and institutional ownership etc. This study also focus on the various government agencies work like SEBI, Ministry of Corporate Affairs and also discuss what has been done and what is left to be done on corporate governance matter.

3. Objectives

1) To examine the relationship between corporate governance committee and other organizational performance committee.

2) To analyze the organizational success with the help of corporate governance.

4. Hypothesis

H0: There is significant relationship between corporate governance committee and other organizational performance committee.

H1: There is no significant relationship between corporate governance committee and other organizational performance committee.

5. Methodology

5.1 Collection and Sources of Data

The data have been collected from the various organizations mainly private concerns with the help of questionnaire by using Likert-5 point scale. Side by side various reports have been collected from secondary sources.

5.2 Variables Used

Variables have been selected on the basis of relationship between organizational performance and corporate governance in the related field survey. 8 variables have been selected from the questionnaire and these are 1) same role between management and corporate governance (VAR-1) 2) monitoring overall system (VAR-2) 3) rules, practices and processes (VAR-3) 4) effect on profitability (VAR-4) 5) environment awareness and ethical behavior (VAR-5) 6) improves supply chain management (VAR-6) 7) solved critical ethical issues (VAR-7) 8) balancing interest of shareholders (VAR-8). 6 variables have been considered for further analysis for this study.

5.3 Tools for Analysis

While analyzing the data, reliability test has been done with the help of Cronchbach Alpha and KMO and Bartlet Test have been used for testing sampling adequacy. Factor analysis, regression model have also been used for testing the data for this study.

5.4 Corporate Governance vs. Organizational Performance

In early 2000's accounting scandals collapsed many large corporations such as Xerox, Tyco, Worldcom, Enron etc. Due to lack of efficient mechanism of corporate governance many organizations face difficulties for running their management in several times. The private sector is the most dynamic and economically viable sector in any country for its economic development. Corporate governance is initiated for public sector and its conception traditionally focuses on its relationship with the shareholders. OECD (2004) defines that corporate governance as the full set of shareholders management and other stakeholders. In other words organizational performance comprises achievements mainly focus on three things i.e. shareholder value, market performance and financial performance. Many strategic planners, professionals focus on organizational performance. It is the basic steps without this corporate governance committee can't achieve their goals. Achieving organizational goals depends largely on how an organization adopts to changes in the internal or external environment. Every organization wishes to develop continuously and it is important to note that organizational performance is correlated with the performance of corporate members, stakeholders and other management officials. Measuring an organizational performance is particularly important for board members and management also applies for financial assistance. Performance measurement indicates a successful team management and it takes to the next level of successful governance. Monitoring and evaluation both are the important term associated with corporate governance and organizational performance. Monitoring is the regular collection of information where evaluation is thorough analysis of all the collected information. Monitoring and evaluation both functions carry out by the board of directors. The board of directors is the driving mechanism of the firm mainly responsible for monitoring managerial performance and guided by a successful governance system.

Some similarity of objectives between Corporate governance and Organizational Performance:

Setting and Defining Goals: Setting a goal always been one of the most important aspects to improve the performance of an organization. Some key benefits to setting a goal is to allowing employees to focus on future target, optimizing employee's individual performance.

Setting Utmost Expectations: It is too difficult to setting a manageable expectation for the employee consistent performance can setting a expectations, it is another advantage for setting expectation is to increase the employee's performance.

Establishing Effective Communication: To enhance the organizational performance, communication is an essential factor. Team members should have a clear understanding of what other active projects their teammates are engaged in promote and encourage communication among team members as an essential part of the workplace culture.

5.5 Listing Obligation and Disclosure Requirements 2018 (LODR)

The stakeholders of the company deal with several corporate governance matters in daily manner of companies' activities. Due to different problems faced by the stakeholders, SEBI had been stricter and they analyzed the requirements that are pretty essential for proper corporate governance, as a result Listing Obligation and Disclosure Requirements 2018 (LODR) suggested by the Kotak Committee to make proper control and functioning regulations for company. On 9th May' 2018 SEBI released the LODR regulations on corporate governance and give effect to issue a circular on 10th May' 2018. The objectives of implementing LODR by the Kotak Committee are as follows:

To improve the role and effectiveness of the board and its committees, including several evaluation practices.

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To improve transparency and disclosure in accounting and auditing practices

↓

To improve disclosure and safeguard pertaining to related party disclosure

↓

To enhance the monitoring of group ethics

↓

To disclose and maintain transparency in respect of related issues of corporate governance etc.

5.6 Data Analysis

Table 1. Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
.756	6

Source: Result calculated by the researcher.

To judge the reliability of these primary data that we have collected from our questionnaire, we have used cronbach's alpha test. The results of cronbach's alpha value is 0.756, it means the data we have used satisfied the reliability.

Table 2. KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.619
Bartlett's Test of Sphericity	Approx. Chi-Square	66.863
	df	15
	Sig.	.000

Source: Result calculated by the researcher.

Kaiser-Meyer-Olkin measure of sampling adequacy measure varies between 0 and 1, and the value of 0.6 is standard. Our result shows that the value is greater than 0.6, it means acceptable.

Table 3. Factor Analysis

VARIABLES	EFFECT ON PROFITABILITY AND OTHER ISSUES (FACTOR-1)	IMPROVE SYSTEMS (FACTOR-2)	COMMUNALITIES
Monitoring overall system (VAR-2)	-	0.786	0.659
Effect on profitability (VAR-4)	0.439	-	0.248
Environmental awareness and ethical behavior (VAR-5)	-	0.743	0.609
Improves supply chain management (VAR-6)	0.726	-	0.550
Solved critical ethical issues (VAR-7)	0.699	-	0.500
Balancing interest of stakeholders (VAR-8)	0.570	-	0.617
Eigen values	1.941	1.231	-
% of variance	32.343	20.252	52.865
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			

Source: Result calculated by the researcher.

In the factor analysis communalities explain the each variable variance that can be explained by the factor. The variable of the communalities with high value are well represented in the common factor space. The communalities value between 50 to 66 per cent. Here all the values are well explained.

Here each variable well explained the factor, such as variable-4 (effect on profitability), variable-6 (improves supply chain management), variable-7 (solved critical ethical issues) and variable-8 (balancing interest of stakeholders) are strongly correlated with Factor-1 named 'effect on profitability and other issues'. So we observed from the above details that Factor-1 indicates 'effect on profitability and other issues' with loading score 0.439, 0.726, 0.699 and 0.570. Factor-2 named 'improve systems' is strongly correlated with variable-2 (monitoring overall system) and variable-5 (environmental awareness and ethical behavior). From factor-2 indicates 'improve system' with loading score 0.786 and 0.743. Eigen value is also called characteristics roots and the value also well explained. Here in case of first Factor i.e. 'effect on profitability and other issues' the Eigen value is 1.941 and Factor-2 i.e. 'improve system' the Eigen value is 1.231. From the communalities column we see that factor has been explain 52.865 per cent variance. The first factor will explain 32.343 per cent variance and the second factor will explain 20.252 per cent variance.

Table 4. Multiple Regression Analysis between Factor-1 (Effect on Profitability and Other Issues) and Other Variables

Model	Unstandardized Coefficient	S.E.	T	Prob.	VIF
Constant	-14.548	.000	-259584460	.000	-
Monitoring overall system (VAR-2)	-.599	.000	-91501630	.000	1.152
Effect on profitability (VAR-4)	.689	.000	93214560	.000	1.123
Environmental awareness and ethical behavior (VAR-5)	.112	.000	15413283	.000	1.280
Improves supply chain management (VAR-6)	1.140	.000	183478606	.000	1.127
Solved critical ethical issues (VAR-7)	1.034	.000	160502011	.000	1.212
Balancing interest of stakeholders (VAR-8)	.671	.000	97446855	.000	1.384
Durbin-Watson	0.150				
Prob.	0.000				

Source: Result calculated by the researcher.

Table-4 shows that Variable-4 (Effect on profitability), Variable-6 (Improves supply chain management), Variable-7 (Solved critical ethical issues), and Variable-8 (Balancing interest of stakeholders) are positively associated with Factor-1 (Effect on Profitability and Other Issues) which is statistically significant at 5% level. When variable-4 will change by 1 unit the Factor-1 result will also change by .689. When variable-6 will change by 1 unit the Factor-1 result will also change by 1.140. When variable-7 will change by 1 unit the Factor-1 result will also change by 1.034. When variable-8 will change by 1 unit the Factor-1 result will also change by .671.

As per F-statistics, value is less than 5%, it means there is influence between the dependent and independent variables. Durbin-Watson shows the autocorrelation, the value (0.150) also well explained.

Table 5. Multiple Regression Analysis between Factor-2 (Improve Systems) and Other Variables

Model	Unstandardized Coefficient	S.E.	T	Prob.	VIF
Constant	-13.716	.000	-186911970	.000	-
Monitoring overall system (VAR-2)	1.374	.000	160253585	.000	1.152
Effect on profitability (VAR-4)	.267	.000	27582927	.000	1.123
Environmental awareness and ethical behavior (VAR-5)	1.205	.000	126848156	.000	1.280
Improves supply chain management (VAR-6)	-.483	.000	-59349079	.000	1.127
Solved critical ethical issues (VAR-7)	-.171	.000	-20232076	.000	1.212
Balancing interest of stakeholders (VAR-8)	.663	.000	73602256	.000	1.384
Durbin-Watson	0.346				
Prob.	0.000				

Source: Result calculated by the researcher.

Table-5 shows that Variable-2 (Monitoring overall system) and Variable-5 (Environmental awareness and ethical behavior), are positively associated with Factor-2 (Improve Systems) which is statistically significant at 5% level. When variable-4 will change by 1 unit the Factor-1 result will also change by .689. When variable-6 will change by 1 unit the Factor-1 result will also change by 1.140. When variable-7 will change by 1 unit the Factor-1 result will also change by 1.034. When variable-8 will change by 1 unit the Factor-1 result will also change by .671.

As per F-statistics, value is less than 5%, it means there is influence between the dependent and independent variables. Durbin-Watson shows the autocorrelation, the value (0.346) also well explained.

6. Conclusion

During pandemic like Covid-19, companies face considerable challenges. Several governments handling these situations in a very restricted manner. Corporate faced several risk and challenges. During these pandemic corporate governance emerged several issues. Not only corporate governance, organizational performance also hampered due to covid-19. Many small and medium enterprises fight against their survival.

Covid-19 crisis may trigger several changes in governance mechanism in the long term manner. In this context listing obligation and disclosure requirement 2018 (LODR) may some solve in this matter. But in this pandemic situation relationship between corporate governance and organizational performance are more relevant. In our study it has been found that organizational performance has highest influence in corporate governance mechanism. A sound organizational performance makes better decision and future planning for companies. In our study factor analysis and other analysis exposed the strong relationship between corporate governance and organizational performance. Simultaneously, it has been observed that sound corporate governance also considered as a way out to fight against the most deadly situation which has been faced by the organization.

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QUESTIONNAIRE

NAME:

ORGANIZATION:

CONTACT NO:

QUESTIONS	1.STRONGLY DISAGREE	2.DISAGREE	3.UNDECIDED	4.AGREE	5.STRONGLY AGREE
1.There are no difference between boards role in corporate governance and managements role.					
2.Proper monitoring will help to improve the corporate governance system and management system.					
3.Corporate governance just only system of rules, practices and processes.					
4.Bad corporate governance can cast doubt on a company's operations and its ultimate profitability.					
5.Corporate governance not only operates in efficient management it also entails the environmental awareness and ethical behavior.					
6.Corporate governance improves the supply chain management system.					
7.Good corporate governance simply solved critical ethical issues in business today.					
8.Corporate governance balancing the interest of a company many stakeholders and community					