Organizational Performance and Corporate Governance from the Inside Out

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Abstract

The research paper aims to bring into discussion the theoretical approaches of corporate governance but also to identify, through specialized literature, the existing relationships between corporate culture and the governance process improvement as well as the effects of management's orientation towards innovation in terms of organizational culture in the development of effective corporate governance systems, based on generally accepted rules or principles.

The study highlights the complexity of governance, as a result of innovative business models capable of integrating economic, social, cultural, ethical pillars and to generate for stakeholders a unitary information systems. The balance mandatory for organizations to optimally fulfill the set objectives can be achieved all the more easily as corporate responsibility becomes part of the thinking of all members of the organization and responsibility and accountability towards all stakeholders is directed from the inside out.

Key words: organizational culture, corporate governance, shareholders, stakeholders, company performance
J.E.L. classification: M12, M14

1. Introduction

In recent years characterized by rapid changes in economic and social life, the role of the "engine" of economic growth has been attributed to emerging economies, so it was necessary to instrument codes of good corporate practice that would offer attractiveness for investors, aligning, at the same time and to the institutional requirements (Gîrbină et al., 2012). As a consequence of the OECD’s (2015) governance principles adoption and of the World Bank (2009) addressed recommendations, numerous states have taken over and transposed these principles within national governance codes on which a series of economic, social, ethical, cultural or organizational differences have made their presence felt. New development models based on a series of economic advantages make their presence felt among organizations that have chosen to protect, create and improve relationships with all resources categories - technological, financial and last but not least human capital - in accordance with the requirements of innovation and sustainability (Mansour et al., 2023a).

Thus, at the level of the various emerging states, organizational management on the one hand and the organizational structure and culture within corporate governance on the other hand have been progressively substantiated. The totality of management spheres, from activity plans and projects, to internal control and systems for measuring corporate performance and transparency, are involved in corporate governance. The mechanisms and the decision-making processes, the responsibility, the control and the behaviour of top management were, in turn, influenced by these reforms and turned into a complex system, becoming the prerogative of distinct activities within organizations (Mansour et. Al, 2023b).

To date, numerous studies have been carried out, aimed to identify the consequences of governance on companies' results, describing, at the same time, a significant relationship between the different culture dimension (environmental, organizational, cultural, social or other) and the governance effectiveness (Liming et al., 2005; Han et al., 2010; Kurt et al., 2011; Doupnik, 2008). These studies have demonstrated the direct reaction that organizational culture has on the design and effectiveness of corporate governance as a mechanism to constrain earnings management, being a crucial factor in designing a stable governance policy.

A solid relationship between the company's management, the community, investors, regulatory authorities, customers, partners and other interested parties is a real challenge for boards in this period of rapid changes. The stake is extremely high and the margin of error can only be very small, so the pressure on management to adopt sound governance practices is very high. Managerial culture exerts its major role within organizational culture all the more as managers become more aware of their role within the company, not only formally but also informally, and allocate a considerable part of their time to employee training and to the communication of the values, symbols, beliefs, attitudes, tolerances in accordance with the company's managerial philosophy and values’ sets (Mansour et al., 2022a).

The motivation for choosing this topic is based on the intention to contribute to the expansion of a research area with extremely important implications in economic and corporate life, bearing in mind that, at the time of this study, there are, in the specialized literature, numerous researches that study the impact internal and external organizational influences on governance, aspects that are of increased interest in the practice of organizations (Lungu et al., 2020). It is thus necessary to continue research in this field in accordance with the trends and permanent changes that take place both in academically and in the business environment (Mansour et al., 2022b).

The purpose of this paper is the definition and critical analysis of the concept of corporate governance and the establishment of existing relationships between the organization's culture and the improvement of the governance process with the purpose of identifying points that can be improved in the future in the companies’ practice.

In order to achieve this goal, we systematized and analysed relevant works from the specialized literature so that we identified two *objectives* of the work:

Objective no. 1 considers the documentation, based on specialized literature’ review, of the evolution and ways of approaching the concept of governance over time;

Objective no. 2 aims to bring to the fore the link between the organizational culture and the mechanisms of the governance process.

In order to achieve this goal, we studied the specialized literature from which the complexity of governance emerged as a result of innovative business models integrating economic, social, environmental, cultural, ethical pillars, presenting a unified information system to interested parties. Finally, we focused our study on the links between governance and organizational culture, defined by Hofstede (2011) being as the nature of a collective programming of the mind that distinguishes the members of an organization from others.

The work is structured in five chapters. The first of these presents a brief introduction as well as the motivation of the chosen theme. The second chapter presents the interest of specialists regarding the corporate governance system and the existing relationships between the organization's culture and the improvement of the governance process. In section number three we described the methodology used but also some of this work´ limitation. The fourth section begins with the corporate governance concept presentation at the international level and the different meanings found in the analysed works and continues with an analysis of the existing relationships between it and the organization culture. Finally, section number five summarizes the results and future research opportunities.

2. Literature review

The subject of the mechanisms underlying a transparent and effective corporate governance that influences the organization's results and the decision-making process presents an oscillating interest (Lungu et al., 2020) from the academic community, of the decision-makers but also of the other stakeholder categories, which is why this approach continues to be topical. This trend has led to a focus on the empirical examination of governance diversity, with cultural diversity among the aspects studied.

The spread of corporate governance principles can be attributed to the itself concept evolution, as it developed from a simple set of governance rules to strategic governance, a situation that determined other categories of governance: public and proprietary governance, hierarchical and market governance (Aluchna, 2016), internal and external governance (Daley et al., 2003), organizational and personal governance, entrepreneurial governance (Barns, 2016), internet and IT governance (Grembergen, 2004; Weber, 2010) or academic governance (Hogler et al., 2009), while the foundation of the corporate integrity' is represented by the personal integrity of management members (Rampersad et al., 2014). As companies' interest in social, environmental or ethical responsibilities registers a growing trend (Hemphill, 2010), it is expected that governance systems will also evolve and emerge new guiding directions.

The organization' governing bodies exercise the monitoring, supervision and advisory function over the strategies but, at the same time, can also ensure the necessary conditions for the effective connection for all resources (Endrikatet al., 2021). Finding indicators that determine the strength of corporate governance is one of the key challenges in this field research (Bhagal et al., 2008). Along with classic indicators (composition of the board of directors, frequency of meetings, level of remuneration) of governance quality, there are also informal mechanisms – managerial attitude, organizational culture which, although they cannot be directly quantified, are likely to have a significant influence (Llopis et al., 2007).

The term *corporate culture* is used in the specialty literature as an omnibus term that includes a multitude of organization relevant components: norms, values, knowledge, habits, beliefs, aspects that are quantified through different innovative methods. These empirical measures of corporate culture highlight, among other things, mergers, acquisitions, risk-taking, profiteering, failure, or even unethics observed within corporations. Gorton et al. (2022) argues that the theory of decision-making based on organizational culture is more relevant to the practical realities of companies' internal organization than the prevailing theories based on property rights and costs. The same direct relationship between governance and national culture is also highlighted by (Licht, 2005; Li et al., 2008; Breuer et al., 2012). Hassan and Karim (2022) highlight in their research the culture relevance as a determining factor for the governance' structure and design, also highlighting the possibility of negative influences on the latter.

3. Research methodology

The study brings to professionals and decision-makers' attention new perspectives in the approach and employment of corporate governance policies, taking into account the dominant influences that the national and, implicitly, the organizational culture can have. The theoretical framework of the present research was analysed in two directions - the first followed the evolution of corporate governance concept and the second the implications of organizational culture on governance. To achieve the objectives, we analysed the specialized literature from the Gruyter, Scopus and WoS databases. The results showed the effectiveness of corporate governance, the decision-making process and the perception of management practices are directly influenced by the organizational culture.

Among the limitations of this work, we can mention the general nature of the aspects presented and the limited number of countries to which the analysed studies refer, limits that can be overcome by additional research focused on certain specific geo-political regions or on certain economic sectors.

4. Findings

4.1. Corporate governance

Corporate governance involves a set of relationships between management, shareholders and interested parties (OECD, 2023) and brings together a mechanism of rules and procedures that ensure companies the premises of effective internal management in order to protect all interested parties (Feleagă, 2011), provides the necessary tools for the fair distribution of rights and responsibilities between the organization members and establishes the set of well-defined rules and procedures for making those best decisions, ensures better transparency of financial information (Albu et al., 2012). So, it provides the framework on the basis of which the objectives are found, and, on the other hand, the means necessary to achieve these objectives under conditions of efficiency maximization.

The OECD definition (2023) on governance emphasizes its role in building an environment of trust, transparency and responsibilities that encourage investors, ensure the organization's financial stability, business integrity and support a sustainable development of society, taking into account the principles of sustainability.

The Institute of Internal Auditors (2003) defines governance based on stakeholder theory, so that governance processes bring together all the procedures that stakeholders' representatives use to optimally oversee risk and control processes and to guarantee the mitigation of these risks and contribute to the achievement of the organization's objectives and the maintenance of organizational values. Governance is the key element that mediates the link between the company's ability to attract investors and the increase in performance and competitiveness in the market (Feleagă et al., 2011)

Figure no. 1. Corporate governance definitions

Author	Definition
OECD, 1999	A set of relationships between a company's management, its board, its shareholders and other stakeholders.
Dimsdale, 1997	Is concerned with the way in which corporations are governed the relationship between the management of a company and its shareholders.
(OECD, 2004)	Is the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors.
(DIGNAM, 2005)	A set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled, and its purpose is to influence directly or indirectly the behaviour of the organization towards its stakeholders.
(Handley et al., 2007)	Is concerned with structures and the allocation of responsibilities within companies.
(Berthelot et al., 2010)	The ways in which both fund providers and corporations must ensure their return on investment.
(Haspeslagh, 2010)	The system of rules, regulations and practices by which we hold managers and owners accountable and responsible for whatever performance society expects.
(Talamo, 2011)	The system of monitoring devices, internal and external, specific to each organization, that defines how these mechanisms are set up and how each will fulfil its monitoring role.
(du Plessis et al., 2012)	The system of regulating and overseeing corporate conduct and of balancing the interests of all internal stakeholders and other parties (external stakeholders, governments and local communities).
(Rampersad, 2014)	The systematic process of continuous, gradual, and routine improvement, steering, and learning that lead to sustainable high performance and ethical excellence.
(Honoré et al., 2015)	Refers to the set of internal and external control mechanisms that minimize the conflicts of interest between managers and shareholders arising from the separation of ownership.
(Hong et al., 2016)	Is concerned with the mechanisms through which shareholders ensure a financial return on their investments.
(Hussain et al., 2017)	CG characteristics play an important role in enhancing a firm's environmental

	and social performance, across all industries.
(Crifo et al., 2019)	Corporate governance mechanisms are fundamental to align shareholder (and/or other stakeholders) and manager interests and can be split into several categories: internal, external and intermediate.
(OECD, 2023)	Provides the structure and systems through which the company is directed and its objectives are set, and the means of attaining those objectives and monitoring performance are determined.

Source: made by authors based on studied literature

Analysing these definitions, three directions of theoretical approach can be identified: part of them proceed toward corporate governance as a vast field that covers both internal and external aspects of the company, a way in which all interested parties must ensure the maximum of profitability; the second category is that of narrow definitions that limited the concept only to the organization interest, referring only to structures and responsibilities, or focused on certain theories such as the stakeholder theory, governance referring to the way in which organizations build relationships between management and shareholders; and the third category is the one that details and highlights the extremely complex architecture and with major implications of governance viewed as a system of regulations and supervisions, of conduct and action aimed to ensuring the balancing of the shareholder interests as well as the other participants of social-economic life. It is obvious that there are divergent opinions regarding the involved parties in this process of corporate governance, its success or failure affecting them directly. So, these different approaches have also generated different models of governance, two of which dominate the literature and practice at the international level: the model focused on stakeholders and the model focused on shareholders.

However, if we analyse the issue of the of an efficient governance system´ features, we find the convergence of opinions towards a system that allows for the optimization of relations between management, capital holders and the rest of the interested parties, the quality of this system being a mediating variable between the nature of the capital and the transparency of reporting, along with the quality of external auditing (Dobre et al., 2015).

Fahy's study (Fahy et al., 2004) demonstrates the direct support that good governance provides to company strategy, while poor governance results in poor strategy. The company's system of internal and external relations with its environment is built on the basis of corporate governance strategic commitment, in the long-term providing the organization with a sustainable competitive advantage.

With all the benefits that corporate governance presents to organizations and its relevance in designing structures and a system of highly important tasks and responsibilities for senior management and its relationship with different stakeholders, the literature highlights a number of challenges realities that governance continues to face. Shkeifer & Vishny (1997) highlight the existing disagreements about the operation mechanisms. Despite its positive effects on shareholder rights protection and organizational commitment (Purwanto, 2021), organizational performance (Adebayo, 2014), governance continues to be associated with corporate failure (Lakshana et al., 2012, Basco, 2023) - the real estate bubble that hits the USA in 2008, continued to affect financial system for a much longer period (Altug, 2010) - with corporate scandals (Greve et al., 2010; Agrawal et al., 2005), with associated internal financial control systems with underperforming performance (Jensen, 2001), with over-rewarding top management – the "fat cat problem " (Lin et al., 2013). It is the role of the regulatory authorities to temperate and to ensure compliance with good governance principles (de Villiers et al., 2021).

It can be concluded that the various ways of formulating and adopting the corporate governance definition are due to the differences in environment, experience and, last but not least, to the culture of the researchers but also to the analysed organizational cultures. Along the same lines of the local environment relevance, the studies demonstrate that there is no single formula for building and applying the principles of corporate governance, each company has its own economic, social and cultural particularities and, as a consequence, they will influence the implemented model (Răileanu et al., 2011).

4.2. Corporate governance and cultural values

Organizational culture is a values and concepts system, shared by members of all hierarchical levels within an organization that determines the employees' character and behaviour. The better integrated thinking is embedded in an organization's activities, the more naturally information connectivity will flow in management reporting, analysis, and decision-making processes, and there will be a better information systems integration' that support internal and external reporting and communications.

Corporate governance can be outlook from two perspectives: on the one hand there is a number of organization internal factors and, on the other hand, over it enforces a number of external factors – governance codes, standards, reports and mandatory or voluntary frameworks. Internal governance reflects how external governance is respected and embedded in the organization's culture and values. Implementation, enforcement and compliance with rules, regulations and codes of practice can only be effective to the extent that a climate of compliance designed to support such structures and mechanisms is promoted within the organization. Without these conditions, the governance framework cannot play its role effectively. It is also necessary to have a deep culture able to identify all the management responsibilities and requirements regarding the shareholders rights or other interested parties. The promotion of a transparent and objective climate, the existence of internal systems, procedures and structures designed to comply with external requirements but also to prevent behaviour directed excessively towards stakeholders is the result of effective governance (Mansour et al., 2023c). The gap of expectations between the interests and motivations of the "agent" and the "principal" can be diminished by the "force" of internal corporate governance - corporate culture. Organizational culture has the ability to determine the theoretical paradigm for research in the field of corporate governance (Gorton et al., 2022).

Previous studies have demonstrated the direct link between the organizational culture different dimensions and governance policy (Guan et al., 2005; Han et al., 2010; Kesender et al., 2011; Doupnik, 2008; Kanagaretnam et al., 2011; Purwanto, 2021). In addition, geographic positioning, as a organizational culture factor, influences the organization earnings management policies (Elias, 2004; Geiger et al., 2006; Geiger et al., 2010; Calabrò et al., 2022). When efficiency and effectiveness are promoted at every organizational level and every activity is considered an important link in the final chain, when people are valued and respected and the impact of decisions is anticipated openly, publicly, transparently, will certainly result an organizational culture primarily focused on quality (Mansour et al., 2023).

An innovative climate, open to organization internal members that provides them with the whole set of knowledge necessary to be aware of the economic, social and ethical consequences of their decisions and behaviour (Basco, 2023), ensures an efficient governance functionality and a protection of stakeholder interests (Endrikat et al., 2021). Top managers are the ones responsible for ensuring a transparent framework of responsibility and accountability (Purwanto, 2021), for ensuring efficient structures (Adebayo, 2014) and sustainable development plans (de Villiers et al., 2021). The means by which these mechanisms can be ensured are represented by the appropriate corporate codes of ethics achievement (Bhagal et al., 2008) and by the existence of a system of cultural values intrinsically linked to the assessment of individual performance (Geiger et al., 2010) and the professional development of all members of the organization (Hofstede, 2011). The team spirit in which all members converge towards a common goal can be ensured by a good promotion of consonance between the objectives of employees and those of other interested parties (du Plessis et al., 2012). A clear corporate mission with well-defined strategic goals and objectives (Shleifer et al., 1997), coherent, sustainable, transparent, realistic, which can be divided into measurable departmental objectives (Talamo, 2011) has a positive impact on the achievement of the common goal. Organizational culture has proven to be the lens through which the organization's goals, mission, vision and plans are projected (Acosta et al., 2016). The involvement of authorities, professional organizations, the provision of information and promotion campaigns in the business environment of this behaviour implication type can mediate the access of SMEs to innovative methods inspired by successful business models (Mansour et al., 2023d; A. Kwarteng et al., 2018).

A strong organizational commitment, a recruitment policy that maintains employee commitment and loyalty leads to an effective governance policy (Kamesaka, 2019). Governance does not focus only on control and power (Jarne-Jarne et al., 2022).

5. Conclusions

The sustainable balance between the long-term compatible needs and interests of equity holders, top management, creditors, employees, suppliers, customers, business partners, regulatory bodies can be ensured, maintained, developed and balanced through a corporate culture.

The monolithic lens of performance through which shareholders and boards view governance performance is broadened by the increasing role of corporate culture. Its variables have a positive impact on the quality of the information provided and, implicitly, on the decision-making process.

The triad of effective management - corporate governance - organizational culture works in close connection, ensuring the necessary resources for the decision-making process and effective means of fulfilling the organization's objectives under the influence of cultural dimensions.

This balance can only realistically be achieved if the actual acceptance of corporate social responsibility, rather than compliance only with governance structures, becomes part of the 'thinking' of all those working in business organisations; so that accountability and responsibility to all stakeholders is provided from the inside out.

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