

## The Specific Role of Human Resource Management in Corporate Governance and Organizational Performance

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**Abstract:** Human resource management and corporate governance stand side by side to determine organizational performance. Corporate governance is the exercise of power and control or influence over a legal entity. The concept of corporate governance originated in the private sector as a result of corporate failures, weak management boards, over-powerful chief executives, and weak internal controls. The private sector is characterized by: lack of segregation of chairman and chief, executive roles, lack of audit committee/internal audit functions, weak control/override of controls. Now considered a serious issue in the public sector because of concerns about; excessive confidentiality in decision making; influence of special interests; inefficiency in public expenditure. The public sector now has a greater demand for; openness and accountability in government, with greater willingness to challenge decisions. The benefits of corporate governance include: the separation of ownership and control, alignment of the interests of the organization, shareholders, board, employees as well as the community in which the organization operates, protection of organizations as they are important to the welfare of individuals- they create jobs, generate income and income tax, they produce a wide variety of goods and services, they provide mechanisms for savings and investments. Creation of efficient organizations, environmentally and socially responsible corporate organizations, promotes competitiveness and gives confidence to investors. HRM can be involved in the corporate governance in four basic areas such as selection of leaders, designing of benefits and incentives, structuring of control systems particularly board of directors, and fixing of dysfunctional corporate structure. When all these issues are put in place, organization performance has to be definitely realized.

**Keywords:** Corporate governance, Organizational performance, Principles of corporate governance, Human resource management

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### INTRODUCTION

#### Human Resource Management

HRM is the process of hiring and developing employees so that they become more valuable to the organization. It involves recruiting the right people for the job, conducting job analysis, planning employee's needs, orienting and training, managing salaries and wages, motivation, providing benefits and incentives, evaluating performance, resolving disputes, and communicating with all employees at all levels. The basic qualities of a HR manager are extensive knowledge of the industry, leadership, and effective negotiation skills.

#### Corporate Governance

Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders such as financiers, customers, management, employees, government, and the community. These rules and

practices consist of explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances. Every business takes a different approach to stakeholders. The roles of stakeholders differ between businesses, dependent on the rules and responsibilities laid out at the inception of the company or as the business evolved over the years.

#### Concept of Corporate Governance

Corporate governance is a vital ingredient in the maintenance of a dynamic balance between the need for order and equality in society, the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedoms, and the maintenance of an organized corporate framework within which each

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citizen can contribute fully towards finding innovative solutions to common problems. Corporate governance is concerned with ways in which all parties are interested in the well-being of the firm. The stakeholders attempt to ensure managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Corporate governance is concerned with the way in which corporate entities are governed, as distinct from the way in which businesses within those companies are managed. The public sector units with important social responsibilities to fulfill other than make profits also come under the scanner because they use the taxpayer's money for their operations. Emphasizing on the importance of corporate governance, Sile[1] says;

*“Just as a heart is to human being, so is governance to an organization. A faulty heart affects the functioning of the entire body and on the other hand, poor governance can lead to the demise of an organization”.*

Corporate governance comprises a country's private and public institutions, both formal and informal which together govern the relationship between people who manage corporations and all others who invest resources in the corporations in the country. A more fundamental understanding to the meaning of corporate governance is to understand the purpose of corporate governance which is three fold;- facilitate and stimulate performance of corporations by creating and maintaining incentives that motivate corporate insiders to maximize firms operational efficiency, return on assets and long term productivity and growth; limit insiders abuse of power over corporate resources and finally provide the means to monitor managers behavior to ensure corporate accountability and provide reasonably cost-effective protection of investors and society's interests vis a vis corporate insiders. Public sector governance focuses attention more discretely upon governance within the public sector generally, or a designated level of government in particular. Corporate governance in the public sector focuses upon the governance of organization's in that sector, as well as upon the governance of their relations and interactions with others, both within and beyond the sector.' [2]

### **Principles of corporate governance**

The principles of corporate governance varie from country to country. However the general principles include:

### **Structure of the Board for Value Addition and Performance**

Paul States that governing bodies are responsible for personnel decisions, institutional operation and corporate governance. Like coordinating boards, they plan and budget for the institutions subject

to ultimate decisions by the government[19]. According to Raheja the size of a board represents a difficult balance between diversity of views and skills, and the board's functional effectiveness. The smaller the board, the more likely that it will be able to perform its functions comprehensively particularly as they relate to management[19]. The larger the board, the more diverse its membership will be, but the less likely it will be to reach clear decisions quickly. Larger boards typically rely on the committees to work through issues and to report to the full board, [3]. While much attention has focused on the issue of optimal board size there is no consensus about what the actual ideal size it should have.

### **Clarity of Roles and Responsibility**

The individuals who make up the management should have the ability to influence the direction, decision making and culture of an organization and should be equipped with the responsibility of setting and carrying out strategic priorities. It's therefore important that board members have a good understanding of their roles and responsibilities as it will have direct influence on the performance of the firm [4]. Good corporate governance requires people of integrity. Stakeholder interest can be enhanced if the institution articulates the practices by which it intends directors and key executives to abide. Clarity of roles involve ethics, where ethics is the study of business situation, activities, and decisions where issues of right and wrong are addressed. Clarity of roles is a form of applied ethics and it aims at inculcating a sense within a company's employee population of how to conduct business responsibly. For effective corporate governance, a board member needs to be focused on concerns of the institution. They should not let their personal interests interfere with the decisions they make as directors . Pollit states that directors, at all times have a duty and responsibility to act honestly and with due diligence and care, in their business dealings to ensure that the corporation epitomizes compliance with laws and regulation. Each director must comply with the law and associated regulations, and has a responsibility to ensure that the corporation and its employees do likewise. While the board is accountable to the shareholders of the corporation as the owners of its capital, society expects a corporation to act responsibly in regard to aspects concerning its broader constituency such as the environment, health and safety, employee relations, equal opportunity for all employees, the effect of anti-competitive practices, ethical consumer conduct, etc. According to Garvin and Geoffrey by acting in an open, professional and ethical manner in their dealings with people outside the organization, board members also raise the profile of the firm and enhance its reputation[20]. For any institution to grow, whatever their size or nature of

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business, they need access to outside resources if their activities are to succeed. These resources vary enormously from organization to organization, but fall into main categories, as information and physical resources. Developing business networks and working to promote the reputation of the institution and clearly performing your duties important ways that a board can add value to the institution.

### **Integrity in Financial Reporting**

According to Roberts *et al.*, the board should expect to receive from management regular financial reports comparing financial results with budgetary predictions and reporting on the status of assets[21]. The board should also expect management to make financial disclosures consistent with the board's own reports to trustees, contributors and other stakeholders. This functional approach makes it easier for trustees to analyze and compare costs opinion of the public accounting firm. De Andres *et al.*, [5] argue that the board should appoint a respected public accounting firm to conduct an audit of the financial records and processes of the institution. The public accounting firm is responsible for providing the board with an independent opinion. Independence both from the board and from management is an essential feature of good practice with respect to the external audit. Neither management nor trustees should attempt to influence the opinion of the public accounting firm.

### **Making Timely and Balanced Disclosure of Institutions' Material Matters**

Timely and balance of disclosure of institutional matters are essential elements of a robust corporate governance framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and performance monitoring. Timely and balanced disclosure of corporate matters is a channel through which the existing and potential shareholders can obtain valuation information regarding the firm. If the board is to have a significant role in governing an institution, and if trustees are to minimize their exposure to legal liability, the information available to them about the institution's affairs is crucial. In this manner, low transparency weakens shareholders ability to discipline managers. Consequently, less governance transparency can be related to an insufficient allocation of resources and worse performance. According to Durnev and Kim [6] an effective communication system has several components- making timely and balanced disclosure of issues. Hope and Thomas [7] argue that for timely and balanced disclosure of institutional material matters there should be: specific agenda for each meeting, advance distribution of as much material as possible; preferably material should reach each trustee at least

one week before the meeting; greater disclosure and transparency enhance the reliability of financial information reported, closing the gap on information asymmetry and leading to higher quality of earnings forecasts by investors. Based on the premise that better corporate disclosure and transparency lead to better performance, Loh unraveled a list of potential benefits springing from higher level of transparency. This not only leads to better corporate performance but increases management trustworthiness, widens the investors' base and improves access to capital. For External communication to bear fruit and for everyone to understand what developments are taking place in the organization, timely and balanced disclosure should be made.

### **Board Effectiveness and Performance**

Board effectiveness as the board's ability to perform its control and service tasks effectively. Individuals perceive effectiveness partially or in different ways. The social constructionist's conception, for instance, holds that there only judgments of effectiveness, thus effectiveness are judgmental [8]. According to Triscott, [9] effectiveness is about doing the right things to achieve the results. In terms of measurement, Novick[10] suggests that the current approaches measure elements associated with effectiveness rather than effectiveness itself. Board effectiveness can be conceptualized as a function of overall contribution of the board to the organization performance, standard of support provided by the organization, individual contribution of directors to organization performance, board dynamics, board performance evaluation and review [11]. Huat and David [12] argue that board performance has been measured along the dimension of the board's ability to perform its functions. Basing on the above literature, it fairly holds that board performance has been largely defined in terms of roles played by the BOMs.

These roles have been identified from various perspectives including; agency, service, resource dependency, legal and strategic theories. However, some of these perspectives are interrelated, for instance resource dependency, service and strategy, agency and legal strategic theories. Using these perspectives, the following roles have been identified; -The board should determine a policy for the frequency, purpose, conduct and duration of its meetings and those of its committees. It should also adopt efficient and timely methods for informing and briefing board members prior to meetings. The information needs of the board should be well defined and regularly monitored. Each board member has a responsibility to be satisfied that, objectively, they have been furnished with all the material facts before making a decision [13]. According to Stiles *et al.*,[14] the board should

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implement a formal internal audit function. An audit committee should be established to keep under review the scope and effectiveness of the audit both internal and external and its relative cost efficiencies. The board should make sure that access between itself and the corporation's internal and external auditors is open and constructive. It should be satisfied that the scope of the audit is adequate, and that management and the internal auditors have co-operated fully. This aspect, while perhaps erring more on the detail than the principle, is critical to assuring the board of the efficacy of a corporation's internal systems of control and financial reporting. However, for all practical purposes, the establishment of an internal audit process may not necessarily be capable of implementation in many of the Commonwealth countries. As with a number of the principles set out in these Guidelines, it is nonetheless an objective to which all business enterprises should aspire in the fullness of time and development of the corporation.

Barker [15] further states that the presence and use of skills and knowledge has been identified as another important dimension of board effectiveness. Board members must have the right mix of skills and knowledge. For instance, they should possess both functional knowledge in traditional areas of business such as accounting, finance, legal or marketing as well as industry specific knowledge that will enable members to truly understand specific company issues and challenges. In addition, board members must have enough general knowledge to provide good input on all topics of discussion, ask questions of all special interest until they are comfortable enough to cast votes [16]. Thus, for boards to work effectively, Nicholson and Geoffrey [20] emphasize that board members must possess necessary knowledge and skills, given the unique nature of their tasks. Similarly, for a board to effectively perform the supervisory role, it should be composed in a manner that enhances the presence of skills and knowledge. According to Adams *et al.*, [17] the education of trustees should not be limited to their orientation. On a regular basis, time should be set aside to cover topics such as the predicted effects of pending legislation, tips for reading financial statements, or fundraising techniques for trustees.

### **Implication and Conclusion**

The connection between human resource management, corporate governance and organizational performance lies in the multi-dimensional nature of (good) governance. Narrowly conceived, corporate governance involves ensuring compliance with legal obligations, and protection for shareholders against fraud or organizational failure. Without governance mechanisms in place – in particular, a board to direct and control -managers might 'run away with the profits.

Understood in this way, good governance minimizes the possibility of poor organizational performance. As noted earlier, however, good governance emphasizes improved organizational performance. By highlighting the strategic role of the board, legal compliance, ongoing financial scrutiny and control, and fulfilling accountability requirements are fundamental features of good corporate governance. However, a high-performing board will also play a strategic role. It will plan for the future, keep pace with changes in the external environment, nurture and build key external relationships (for example, business contacts) and be alert to opportunities to further the business. The focus is on performance as well as conformance. The board is not there to simply monitor and protect but also to enable and enhance. The question arises then: what are the governance elements that add value to organizational performance. The connection between corporate governance and organizational performance lies in the multi-dimensional nature of (good) governance. Narrowly conceived, corporate governance involves ensuring compliance with legal obligations, and protection for shareholders against fraud or organizational failure. Without governance mechanisms in place – in particular, a board to direct and control managers might 'run away with the profits Understood in this way, good governance minimizes the possibility of poor organizational performance.

According to Armstrong [18] organization performance is the prime responsibility of top management who plan, organize, monitor and control activities and provide leadership to achieve strategic objectives and satisfy the needs and requirements of multiple stakeholders. The aim of managing organizational performance is to increase organizational capability the capacity of an organization to function effectively. It is about the ability of an organization to guarantee high levels of performance achieve its purpose deliver results and, importantly, meet the needs of its stakeholders. Nadaraja asserts that HR ensures corporate governance mindsets, culture and thinking top down are enshrined in everyone in the organization for the overall success of the organization. Without doubt, HR's role and contribution ought to be important items on the Board's agenda when discussing corporate governance - how HR can motivate a workforce to execute the business strategy through sourcing, applying appropriate capabilities and managing related investments. Armstrong[18] further explains that a policy provides continuing guidelines and generalized guidance on how HR issues should be dealt with to ensure that an appropriate approach is adopted throughout the organization.

The relationship between HR management and corporate governance can be discussed relation to the

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recent corporate scandals. The recent corporate governance failure has been attributed to failure of the senior HR managers to play a leadership role in governance. The board of directors has the power to appoint all levels of senior management – including the CEO – and remove them if necessary. Members of the board dictate the future of the company and are involved in all major business decisions. The effect of the governance structure is the inability of the HR Managers to adequately monitor and control top executives behaviour who engage in unethical and even illegal decision making that line their own pockets. While the board of directors is a more “hands off” approach to controlling a company, some stakeholders prefer the “hands on” approach by directly assuming management positions. Stakeholders can take over certain departments such as human resources management to micromanage the business and ensure success. This has led to recruitment of wrong people for the job, poor job analysis and lack of benefits and incentives for the employees.

The HRM can be involved in the corporate governance in four basic areas such as selection of leaders, designing of benefits and incentives, structuring of control systems particularly board of directors, and fixing of dysfunctional corporate structure. These are areas of concern because HRM is seen as having the competence and the deeper knowledge of human behaviour. For instant, the HR managers should always adhere to rules and procedures for selection, recruitment and development of company leaders. This is to ensure that competent executives who are honest, upright and of highest integrity are recruited for the top management jobs. The structure of the benefits and incentives should be designed in such way that it does not encourage unethical behaviour and illegal decisions by the top management. The composition of the board of directors should be inclusive of the representatives of all the stakeholders.

In conclusion, all board members must be on the same page and share a similar vision for the future of the company. Ethical behavior violations in favor of higher profits should discouraged and underpaying and abusing employees can come back and bite the company hard if ignored. A code of conduct regarding ethical decisions should be established for all members of the board. Business transparency is the key to promoting shareholder and employees’ trust. This enhances employees’ motivation increasing productivity for the company. Most stakeholders would like to steer clear of companies that trample human rights and environmental laws. They monitor company’s outsourcing activities and globalization initiatives, and may vote against business decisions if

they are deemed harmful to the company’s long-term goals.

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