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Corporate Governance and Performance of Organizations

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Abstract: There is renewed interest in the need to focus on corporate governance in an environment where it is a performance imperative for all small and large organizations, private and public, beginner or established.The purpose of this study is to demonstrate the place of corporate governance practices in organizations to ensure that the board, officers, and directors take action to protect shareholder interests and all stakeholders. It is important to focus on the effect of these practices on improving performance and competitiveness. To do so, we opted for the hypothetico-deductive method with a quantitative approach. Our theoretical foundation is theory is agency theory.

Key words: corporate governance; agency theory; performance; practices; mechanisms
JEL codes: M00

1. Introduction

Today, corporate governance practices play a key role in improving the performance and competitiveness of organizations. It is important for each organization to define the governance rules and mechanisms it will follow that are both specific and effective in an environment marked by perpetual change in order to promote the achievement of very positive results. However, poor governance can be detrimental to the organization and its results, especially in terms of reputation and credibility, two very valuable values.

Today, the subject of organization management is at the center of the concerns of various researchers and practitioners. As a result, there are several problems within the company, such as the divergence of stakeholder interests and information asymmetry that generate costs and hinder the smooth running of the business.

From this perspective, it is clear to shed light on the essential role that leaders play in order to increase the value of the company, ensure its durability and improve its performance.

For that, the theoretical framework of this study is based on the theory of the agency which analyzes the relations of delegation and control established between the various actors in particular between the owners and the leaders.

In this regard, to address this theme, we have found it necessary to answer the following questions:

How to ensure that executives act in the interests of shareholders?

What are the best practices for effective performance improvement of organizations?

In this perspective, the objective of this paper is to highlight the interaction between performance and governance practices of Moroccan organizations. We will adopt the deductive method with a qualitative approach that seems to be the right approach to collect the information and build the data needed to build answers for our

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problem.

The technique and tool of the research work will be to conduct a face-to-face survey by a questionnaire administered to 15 Moroccan organizations that constitute the size of the study sample.

2. Corporate Governance: A Necessity for Organizations

The notion of governance has imposed itself in everyday language without the semantic field being really stabilized. According to the economists Coase (1937) and Williamson (1975) the first modern area of application of governance is corporate governance to describe the set of devices implemented by a company to lead more effective coordination than the market. This governance ensures an effective value creation process that is consistent with all stakeholders for all organizations. But what is corporate governance and what is its role for organizations?

2.1 Definition of Corporate Governance

There is no general definition of corporate governance that has been imposed since 1937 in everyday language. Several definitions are offered of this evolutionary process, which takes on a different meaning according to the contexts and organizations that define them.

Indeed, many researchers confirm that corporate governance is traditionally defined as a system for directing and controlling leaders to protect the interests of shareholders. In addition, it serves to align the interests of executives with the interests of shareholders and other stakeholders of the company with the goal is to create value and increase performance.

As for the OECD (2004) definition of this concept, it reads as follows: “Corporate governance refers to the relationship between the management of a company, its board of directors, its shareholders and its shareholders. other stakeholders. It also determines the structure by which the objectives of a company are defined, as well as the means to achieve them and to monitor the results achieved. Good corporate governance must encourage the board of directors and management to pursue objectives that are in the interests of the company and its shareholders and facilitate effective monitoring of the results achieved.”

In addition, corporate governance encompasses all the mechanisms that have the effect of delimiting powers and influencing the decisions of leaders, in other words, “governing” their conduct and defining their discretionary space (Charreaux, 1996).

In short, corporate governance refers, on the one hand, to the way companies are run and controlled and, on the other hand, to the modus operandi of the board of directors. Its application by different organizations is necessary, this is what we present in the following.

2.2 Corporate Governance in Organizations

Organizations[1] are highly dependent on both internal and external constraints in the direction of their operations, and with the failure of many large companies such as Enron or worldcom, they have realized that their success depends on their management and that the use of corporate governance practices is necessary to manage their activities in a safe and healthy manner in compliance with applicable laws and regulations.

Although there are several differences between different forms of organizations, in terms of particularities, legal obligations and management methods, the basic concepts of corporate governance remain clearly the same.

[1] An organization can designate private companies, public organizations, non-profit organizations, associations, cooperatives and institutional bodies.

However, corporate governance is based on principles and practical rules relating to the management of companies, in particular to avoid excessive concentrations of power, to have a clear administrative structure, to emphasize the interests of society, Respect the rights of all shareholders, clearly award justified remuneration to directors and define the role, composition and functioning of the Board of Directors while ensuring that these principles underpin the specific rules followed by the organization.

It should be noted that while good corporate governance promotes the achievement of very positive results, the opposite is also true. Poor governance can affect the organization and its results, which means that each organization must define the rules it will follow to achieve good managerial governance (Drouin, 2014).

3. Theory of the Agency and Corporate Governance: Towards A Research of the Performance of Organizations

The success or failure of the organization is generally attributed to the choices of the means implemented by the managers in order to achieve the objectives set by the shareholders. This relationship, which is part of a contractual approach between the shareholders who are the owners of the capital and the managers who have knowledge of the life of the organization, is an agency relationship considered as a delegation of power relationship.

In the following, we present the contributions of organizational behavior theory that explain how organizational rules affect the ability of managers to increase productivity, while supporting corporate governance practices that see themselves as rules governing the relationship between shareholders and executives based on codes of conduct prescribing the role, composition and functioning of the board of directors in order to increase performance.

3.1 Contribution of the theory of the agency

In 1976, Michael C. Jensen and William H. Meckling developed the theory of the agency in order to deal with the several problems that generally appear in a relationship between two contracting parties, particularly the divergence of interest, the informational asymmetry and the research to take advantage of the flaws in the contract.

However, they define the agency relationship as: “A contract by which one (or more) person (the principal) engages another person (the agent) to perform on his behalf any task that involves a delegation of a certain decision-making power to the agent” (Michael C. Jensen & William H. Meckling, 1976).

In fact, the main problems mentioned above result in agency costs, the principal usually bears control costs whereas the agent often incurs certain costs in order to put the principal in confidence, these costs called the residual costs. Thus, the existence of an agency problem is therefore associated with the uncertainty, imperfect observability of the agent’s efforts and the costs of establishing and executing contracts (Charreaux, 1987).

The crux of the problem lies in the search for and optimal implementation of the resolution of these problems, in particular the definition of efficient contracts and the exposure of an incentive system to the benefit of the agent that preserves maximization of the utility function of the principal. According to Mr. C. Jensen and Mr. W. Meckling Shareholders can limit diverging interests through an appropriate incentive system for the agent and use supervisory means to limit people’s disruptive behavior.

Thus, it is necessary to cite, on the one hand, the normative theory of agency which is interested in the management mechanisms allowing to reduce the costs of the conflicts related to the contracts of control in order to follow a behavior which is in conformity with their interests and incentive to minimize informational asymmetry.

On the other hand, the positive agency theory that according to charreaux (1999), also aims to explain organizational forms as a way of reducing agency costs and which demonstrates that the efficiency of the forms of organizations characteristic of capitalism as well that the systems of free contractual relations lead spontaneously to the selection of the most efficient organizational forms.

3.2 Good Practices of Corporate Governance

Generally, for organizations to manage their business and achieve their financial, operational and strategic goals, effective processes and practices are needed.

Thus, corporate governance practices help promote organizations to be more efficient and competitive, but there is not a single set of policies or practices for all organizations. Good practices depend on many factors, the nature of organizations, their size, the stage of their development, the availability of resources and the expectations of shareholders.

3.2.1 The board of directors and the performance of organizations

The board of directors must be composed of directors who possess relevant knowledge, skills and who are qualified, the provision of ethics and sound integrity is necessary to perform their assignments. According to Fama and Jensen, he is responsible for two missions: the control of managers and the ratification of decisions.

A board of directors developed and engaged is a board where directors ask questions, challenge management and do not merely endorse the recommendations of management. It includes several committees, including the Audit, Nomination, Compensation and Corporate Governance Committee, but each committee must be committed to its role.

Moreover, its composition plays a determining role, it is necessary that it be composed by external, independent directors who are not members of the management who could hinder their judgment, in order to exercise their mission to control the directors and / or the internal administrators. Of course, the internal administrators have a better knowledge of the organization, their participation in the ratification of the decisions is important.

Thus, it is important to regularly review the mandates of the Board of Directors to assess whether directors are performing their duties and undertake meaningful performance evaluations.

Hypothesis 1: A strong board of directors has a positive influence on the performance of organizations.

3.2.2 The Corporate Governance and Performance of Organizations

Organizations according to their activities, must regularly identify and evaluate the risks they face, including financial, operational, reputational, environmental, and other risks. Thus, risk means the possibility of the occurrence of a future event that could have a negative effect on financial performance, business or reputation.

As a result, the board is responsible for developing strategies for better risk management. It should regularly review the adequacy of management's systems and controls in identifying, assessing, mitigating and monitoring the risks and quality of its reports. It must seek to ensure the existence of processes that aim to minimize, identify, control and manage risks effectively.

Thus, it delegates responsibility to a risk monitoring committee so that it is informed in the normal course of business. The board assumes full responsibility for other risks, over which it must also provide direct oversight, such as risks related to the competitive environment, complexity, and strategic change.

Administrators are also required to understand current and potential short- and long-term risks and the impact on the organization's performance.

Effective risk management reduces the likelihood of suffering a loss and minimizes the extent of that loss should it materialize. Risk management includes the prevention of potential problems, the early detection of concrete problems when they occur, and the correction of policies and procedures that have led to this problem. A risk management structure is a system deliberately designed to protect the organization from unwanted surprises (negative risks) and allow it to take advantage of opportunities (positive risks).

Hypothesis 2: Risk management has a positive impact on the performance of organizations.

3.2.3 Executive Compensation and Organizational Performance

Remuneration has always played a key role in the various structures as motivation engine. Within the organization, executive compensation is considered as a factor of motivation, involvement, satisfaction, loyalty, and encouragement to the creation of shareholder value. According to Barkema and Gomez-Mejia, executive compensation can motivate executives to make the decisions that maximize the value of the company.

Shareholders therefore have an interest in defining the compensation policy that attracts and encourages the best executives, since according to the terms of their remuneration, they orient the organization’s strategy differently. There are several choices available to shareholders in terms of compensation structure, beyond the basic salary, which is the most used component, they can offer short-term incentives (bonus) or/and long-term incentives (stock options).

In addition, to ensure that executives deliver in the best interests of shareholders, they exercise oversight that can be done directly or indirectly. The executive compensation policy may be a form of indirect oversight aimed at resolving the conflict of interest between officers and shareholders, thereby promoting the maximization of shareholder wealth. The implementation of a compensation policy aims to reduce the potential conflicts of interest between managers and shareholders, and consequently to improve the performance of companies (Barkema & Gomez-Mejia, 1998).

The amounts and components of remuneration therefore have been considered as average means for the alignment of interests and the resolution of conflicts between managers and shareholders and constitute a tool for quality reporting.

It is imperative to regularly monitor executive performance by linking compensation to performance, so a Compensation Committee must be established to develop and oversee management compensation plans.

Hypothesis 3: The incentive remuneration policy has a positive impact on the performance of organizations.

4. Methodology and Results of the Study on Governance Practices in Organizations

4.1 Method and Selection of the Sample

The objective of the research is to study the practices of corporate governance and their role on the performance of Moroccan organizations. Our epistemological posture is positivism. Exploratory work is part of a hypothetico-deductive approach with a qualitative approach that seems to be the appropriate approach. The frame of reference guiding this analysis is the agency theory of Jensen and Meckling.

In particular, this research aims to understand how organizations use the mechanisms of corporate governance and what are its good practices that consider adequate to increase performance.

The survey that we are trying to do is exploratory, we want to collect as many ideas as possible about the study in order to deepen the research, collect the information and build the data necessary to build elements of answer for our problematic.

The study population is composed by the actors, the administrators and the leaders of the various Moroccan organizations. The choice of criteria on which our study is based has been oriented towards the organization's activity sector, the seniority and the expertise of the profiles in order to collect data presenting various perspectives on the practices of the governance of the organization, company and its role in performance. The data collection was carried out by a questionnaire administered to 15 Moroccan organizations which constitute the size of the study sample.

The questionnaire of our survey is composed of four axes namely the identification of the company, the characteristics of the person in charge, the practices of the corporate governance, and the performance of the organization (see Appendix 1: questionnaire). Thus the mode of administration of the questionnaire in this study is the face-to-face survey.

4.2 Analysis and Interpretation of Results

The objective is to analyze the relationship between corporate governance and the performance of organizations and of course to test the hypotheses of our study. As a result, a one-dimensional analysis is needed to process and measure the variables. For this reason, we conducted an analysis of our respondents from the point of view of the function held and the type of organization in order to have an appreciation of the quality of the information used in this research.

Our respondents all belong to the strategic core of their organizations. Thus the perceptions they have about the governance of their organizations can be considered the most appropriate to understand the performance of their organizations, they anticipate the ability of the governance of their organization to meet the management requirements and that this is done implicitly or explicitly.

And in order to accurately rank the selected organizations by type, we proceed by dividing in Table 1:

Table 1 Selected Organizations

Type of organization	Numbers	Percentage %
- Private companies	8	53
- Public organizations	2	14
- Associations and cooperatives	5	33
Total	15	100

Moreover, in order to carry out the complete analysis of this study, we are based on the data received by all the organizations interviewed in order to choose the measurement variables. Thus, for the performance of the sample studied, we used an accounting variable to measure the practices of corporate governance. Our goal is to study the effects of explanatory variables on performance.

The measure of performance that is taken into account in this study is the financial performance measured by the Return On Assets. The ROA is a financial ratio measuring its competitiveness and management efficiency, this variable represents the return on capital invested and expresses the capacity of these assets to create a certain level of operational profits. According to Ben Sheikh S., Zarai M. A. (2008), this measure has been used by a very large number of authors such as Daines (2004), Adams and Santos (2005), Eisenberg et al. (1998).

The measure that we will retain, in our study, for the calculation of the ROA is:

$$\text{RAO} = \frac{\text{Operating profits}}{\text{Total assets}}$$

The set of variables is defined in Table 2.

Table 2 Summary of Variables

variable	definition
ROA	Profitability of Assets: Operating Profit/Total Assets
GOV	Global Governance Index that focuses on the characteristics of the Board of Directors
PDAI	Percentage of ownership of internal directors
PDAE	Percentage of holding of outside directors
AGE	Age of leaders
NSP	Leadership Satisfaction Level
REMU	Executive compensation level
NECA	Level of turnover evolution

Therefore, in order to interpret the results, the following table summarizes the regression results found after introduction of the control variables.

Table 3 Summary of Results

Variables	ROA
GOV	0.801
PDAI	0.563
PDAE	0.238
AGE	0.498
NSP	0.400
REMU	0.432
NECA	0.301

In light of the exploitation of the questionnaire data, we find that the overall governance index which is concerned with the characteristics of the board of directors (GOV) as well as the variables (PDAI) and (PDAE) are positively correlated with the ROA, a board of directors that is composed of internal and external directors of the organization can exert pressure on leaders to maximize the value of the organization. This observation confirms the hypothesis 1.

In our study, we introduced two variables namely the age (AGE) of leaders and the level of evolution of the turnover of the organization (NECA). Eaton and Rosen (1983) state that the age of director reflects his degree of risk aversion. Our sample shows 20% of managers over the age of 50. The results for both variables (AGE) and (NECA) are positively correlated with the ROA. Therefore, we can validate the 2nd hypothesis.

The variable (REMU) is important for the performance of the organization, therefore hypothesis 3 is validated for this type of performance. Such a result is justified since 79% of our sample who have a high salary and who receive bonuses are satisfied (DK) .the variable (REMU) considered as an ultimate means for the alignment of interests and the resolution of conflicts between executives and shareholders.

5. Conclusion

In conclusion, corporate governance focuses on the way companies are directed and controlled, and ensures the ability of management bodies to pursue objectives in line with the interests of shareholders and other stakeholders, while implementing effective control systems to prevent, manage potential conflicts of interest, potential risks and prevent abuses of power that may place particular interests on the social interest.

In addition, there is a direct correlation between good corporate governance practices and value creation, competitiveness and organizational performance. They deliver a high-performance board of directors, strong internal control, growing leadership commitment, shareholder-manager convergence, and better risk management.

Finally, we can conclude by saying that Moroccan organizations are in a transitional phase, towards the promotion of good practices of corporate governance.

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