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EFFECT OF CORPORATE GOVERNANCE ON PUBLIC IMAGE OF ORGANIZATION.A CRITICAL LITERATURE REVIEW

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ABSTRACT

Purpose: This can broadly be defined as the systems and processes by which a government manages its affairs with the objective of maximizing the welfare of and resolving the conflicts of interest among the stakeholders. The general objective of the study was to establish effect of corporate governance on public image of organization. A critical literature review

Methodology: The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes and to extract knowledge gaps.

Findings: The study found out the board needs to comprise of well-educated people since they are actively involved in shaping state corporations strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the performance of the organization. Employees should be encouraged to be more active in management aspects of the Kenyan state corporations.

Recommendations: The board needs to comprise of well-educated people since they are actively involved in shaping state corporations strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the performance of the organization. Employees should be encouraged to be more active in management aspects of the Kenyan state corporations

Keywords: *Effect, Corporate Governance, Public Image*

INTRODUCTION

1.1 Background of the Study

Corporate Governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2004). The concept of Corporate Governance has also been defined as "dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment" (Shleifer and Vishny, 2015). It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism. Corporate Governance is viewed as ethics and a moral duty of firms. A variety of Corporate Governance frameworks have been developed and adopted in different parts of the world. According to Wong and Mwanzia (2010), countries that followed civil law (such as France, Germany, Italy and Netherlands) developed corporate frameworks that focused on stakeholders. On the other hand, countries that had a tradition of common law (e.g. Australia, United Kingdom, USA, Canada and New Zealand) developed frameworks that focused on shareholders returns or interests. Corporate Governance has become a topical issue because of its immense contribution to the economic growth and development of nations. The absence of good Corporate Governance is a major cause of failure of many well performing companies. The economic well-being of a nation is the reflection of the performance of its companies. Thus the low level of development of developing nations is attributed to the low level of good Corporate Governance practices. Hence 2 the emphasis placed on good Corporate Governance in the existing literature as the most important problem facing the development of countries, such as Kenya.

In Kenya, the Capital Markets Act Cap 485A (2012) stipulates the best practice guidelines for corporate governance in public companies based on recommendations and reports from the Organization for Economic Cooperation and Development (OECD), the Commonwealth Association for Corporate Governance and the Private Sector Corporate Governance Trust, Kenya. The measures recommended include; the separation of CEO and Chairman position , board of directors of not more than 14 and not less than 5 members in number, board composition that include at least one third independent and non-executive directors of diverse skills and expertise with gender and racial balance being taken into consideration, establishment of an audit committee of at least three independent and non-executive directors who shall report to the board, establishment of an internal audit function which should be independent of the activities they audit and should be impartial and proficient in their operations, board to meet at least quarterly though the frequency can be increased as per the needs of the company and the meeting dates in a calendar year agreed in advance (Friedlich,2017).

Every organization has a corporate image, whether it wants one or not. Corporate image is what the public is supposed to see when the corporation is mentioned, (Benson, 2016). According to (Van den Bosch, 2005), it is the mental picture that springs up at the mention of a firm's name. It is a composite psychological impression that continually changes with the firm's circumstances, media coverage, performance, pronouncements (Geraldine, 2013). Similar to a firm's reputation or goodwill, it is the public perception of the firm rather than a reflection of its actual state or position (Geraldine, 2013). Unlike corporate identity, it is fluid and can change overnight from positive to negative to neutral. Large firms use various corporate advertising techniques to enhance their image in order to improve their desirability as a supplier, employer, customer, borrower, etc. The image of Apple computer, for example, as a successful business has dimmed and brightened several times in the last 30 years. But its identity (conveyed by its name and multicolored bitten-off-apple logo) as an innovative and path breaking firm has survived almost intact during the same period, (Geraldine, 2013).. When properly positioned and managed, the corporate image will accurately reflect the organization's commitment to quality, excellence and its relationships with its key constituents (both internally and externally), (Wheeler, 2006). The corporate image communicates the organization's mission, the professionalism of its leadership, the caliber of its employees, and its roles within the marketing environment and the business landscape (Murray, 2003). This makes the corporate image a critical concern for every organization one deserving the same attention and commitment by senior management as any other vital issue.

When constituting organization image, the most important goal is to form positive attitude towards the company among present and potential consumers. Organization image is comprised of creating a positive corporate personality, marketing communications and channels as well as constant feedback from the target audience Anismova (2019) emphasize the importance of creating and managing Corporate image. These authors agree that Corporate governance has positive impact on corporate image. Lim(2019), Afiuc. (2020), Anderson (2020) state that positive corporate image provides company wi ndividual features that lead to brand recognition, improve consumer and employee loyalty as well as corporate reputation

Daubaraitė, U. (2011) note that organization image is dynamic and it can change because of particular events, shifts in consumer's environment or his personality. Maruf (2013) state that organization image can be divided into image-in-use and image heritage. Image heritage is based on consumer past experience and created by consumer himself. Image in use is the result of company's image forming activities. Organization image must be reviewed constantly and updated according to public opinion, beliefs and values (Herstein, Mitki, Jaffe, 2018). Ozkan (2019) states that company which is able to change, is seen as innovative, open and becomes exceptional in its markets. Maruf (2013) state that the longer the interaction between company and consumer, the stronger consumer's organization image

Carroll (2015) defines 4 types of corporate governance responsibilities. The most important is economic components responsibility, every company must comply with legal norms. Company's commitment to conduct business ethically is expressed through just and fair activities towards its stakeholders. Philanthropic responsibility is seen through support to community projects and investments into its wellbeing. The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities and employee time to humanitarian programs or

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purposes, but they do not regard the firms as unethical if they do not provide the desired level. Carroll (2015) emphasizes the hierarchy of different corporate governance rensponsibilities levels.

It is agreed that effective corporate governance has positive impact on attractive organization image. Ailawadi et al. (2011), Lindgreen, Swaen (2010), emphasize that if consumers see a company as socially responsible their attitude towards company's products become positive as well as their intention for repeated purchasing increases

1.2 Statement of the Problem

Lack of adequate corporate governance in organization has been evidenced by the collapse of several state corporations that were set up in the early 1970's. Some of the documented evidence just to mention a few include lack of review of board performance, lack of corporate social responsibility the board never met frequently as required, the board never got performance based contracts, misappropriation of state corporation assets, declining financial performance, late or lack of performance of statutory audits by the auditor General office, lack of prosecution of fraud and misappropriating agents of the state corporations and unwillingness of the government to take action to curb the gross misappropriation of state assets. This slowly led to the deterioration of the financial performance, loss of market share, loss of public faith in the institution, loss of revenue to the exchequer and eventually the collapse of all corporate governance systems in place of such government institutions. Over time closure of branches, divisions and eventually the collapse of the entire institution. This study will therefore seek to establish effect of corporate governance on public image of organization

1.3 Objectives of the Study

The general objective of the study was to establish effect of corporate governance on public image of organization: a critical literature review

1.4 Justification and Significance of the Study

The study will help other organizations in appreciating corporate governance and its contribution to organization image, thus, implications of corporate responsibility to the public on the marketability of a firm's products. The study will offer an opportunity for review of organization corporate governance practices as it will try to unearth how it has been effective in improving organization image. The study will benefit both academicians and future researchers globally. Academicians and researchers are always searching for new information and references. They can benefit from this study as it will add to the wealth of already existing knowledge on corporate governance and link the same with promotion of corporate image. The study will, thus, broaden the knowledge on corporate governance and provide a basis for future research on corporate governance. This study will aim at contributing to the existing body of knowledge on the effectiveness of corporate governance in promoting positive organization image.

LITERATURE REVIEW

2.1 Theoretical review

Two theories were found to be relevant in establishing the influence of transformational leadership styles on performance. The theories that were found to best inform the research constructs are the agency theory (Demsetz (1972)) and stakeholders theory (1984)..

2.2.1 The Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). This theory holds that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interest of the shareholders. According to Jensen and Meckling (1976), the relationship between the owners and the management is defined as the principals engage the agents to perform services on their behalf. As applied to corporate governance, the theory suggests a fundamental problem for absent or distant owners/shareholders who employ professional executives to act on their behalf. The root assumption informing this theory is that the agent is likely to be self-interested and opportunistic. This raises the prospect that the executive, as agent, will serve their own interests rather than those of the owner principal. To counter such problems the principal will have to incur 'agency costs'; costs that arise from the necessity of creating incentives that align the interests of the executive with those of the shareholder and costs incurred by the necessity of monitoring executive conduct to prevent the abuse of owner interests. It is important to note that agency theory is deductive in its methodology. Its assumptions have been the subject of extensive empirical research but this has typically relied on the testing of various propositions in relation to large data sets. The agency theorists have dealt more with exploring the effectiveness of the various mechanisms designed to make executive self-interest serve shareholder interests.

To date such studies have proved entirely equivocal in terms of the relationship between good governance and firm performance. Agency theory assumptions have nevertheless been highly influential is shaping the reform of corporate governance systems. Here it is essential to distinguish between external, market-based governance mechanisms and board based mechanisms. In relation to market governance then clearly the openness and integrity of financial disclosures is vital to the operation of the stock market in determining a company's share-price and its underlying market valuation. Market governance relies for its effectiveness on the remote visibility such financial information creates, and, as importantly, on the effects on the executive mind of the knowledge of such visibility. Agency theorists point to the important disciplinary effects of two further market mechanisms. The first is the market for corporate control, the potential for takeovers to discipline executives by providing a mechanism whereby ineffective executive teams can be displaced by more effective executive teams. The second - 'the managerial labour market' operates at an individual level; poor executive performance will threaten an individual's future employment potential whilst good performance will have positive reputational and hence career-enhancing effects. To these external 'market' mechanisms must be added to the disciplinary effects on company and executive performance of external monitoring, both direct and indirect. Formally, it is the Annual General Meeting that provides an opportunity for directors to report face-to-face to their shareholders. In practice, however, the formal accountability of the AGM has been augmented and diverted by a variety of other mechanisms. At the time of results announcements, companies will typically conduct presentations for sell-side analysts who then serve as key intermediaries between companies and their investors. These general briefings are then supplemented by a large number of (typically annual) private face-to-face meetings between executives and their key investors.

In addition to these external market and monitoring mechanisms, agency theory has also informed the internal reform of boards of directors. One of its most significant direct contributions came in the form of the widespread adoption of executive share-option schemes. Such schemes follow directly from the agency assumption that the exercise of executive self-interest must be aligned with the interests of shareholders. The 'independence' of the non-executives directors who must now constitute 50 per cent of the board, their lead role on audit, nominations and remuneration committees where conflicts of interest between executive and shareholder are potentially most acute, along with progressively more stringent provisions around the separation of the roles of chairman and chief executive, are all consonant with agency theory's assumption that the interests of the owner/ shareholder are potentially at risk from executive self-interest, in the absence of close monitoring by independent non-executives.

2.2.2 Stakeholder Theory

Stakeholder theory, developed originally by Freeman (1984) as a managerial instrument, has since evolved into a theory of the firm with high explanatory potential. Stakeholder theory focuses explicitly on equilibrium of stakeholder interests as the main determinant of corporate policy. The most promising contribution to risk management is the extension of implicit contracts theory from employment to other contracts, including sales and financing (Cornell and Shapiro, 1987). In certain industries, particularly high-tech and services, consumer trust in the company being able to continue offering its services in the future can substantially contribute to company value. However, the value of these implicit claims is highly sensitive to expected costs of financial distress and bankruptcy. Since corporate risk management practices lead to a decrease in these expected costs, company value rises (Klimczak, 2005). Therefore stakeholder theory provides a new insight into possible rationale for risk management. However, it has not yet been tested directly. Investigations of financial distress hypothesis provide only indirect evidence (Judge, 2006).

2.4 Empirical Review

Joel,(2010) conducted a study to investigate the relationship between corporate governance and financial performance, a test for correlation was done between corporate governance variables and performance measures indicated by Tobin's Q. The study findings revealed that there is evidence that better standards of corporate governance are positively related to better financial performance. The study also found out that the quality of corporate governance for the print media houses has been improving over the years.

Kiplangat (2018) conducted a study factors influencing corporate governance by taking a case of selected SACCOs within Nairobi. The study utilized descriptive survey employing both qualitative and quantitative methods of data collection. The target population constituted all three public SACCOs within Nairobi. A sample of 60 respondents was selected from three selected SACCOs in Nairobi. These were drawn from Mwalimu, Harambee and Ukulima. Stratified random sampling technique was used to select 20 respondents from each SACCOs. Of each of the selected SACCOs, eight respondents from management, six employees and six members were selected at random. A self-administered open and closed ended questionnaire was utilized in soliciting primary data from the field. Data collected from the field was analyzed using both descriptive and inferential data analysis, and information presented in frequency distribution tables and figures. The study found out that institutions require good governance in order to succeed and attain sustainable prosperity.

Njuguna, (2013) did a study to explore the relationship between corporate governance and the strategic performance of the deposit taking Savings and Credit Cooperatives in Kenya. The study used descriptive research design. The population of interest of the study was the SACCOS that are operating in Nairobi. There are 230 SACCOs that involve in deposit taking operations in Kenya. The study targeted the 532 staff working at the deposit taking SACCOs with their headquarters in Nairobi and more particularly on the top, middle and lower level management staff. A sample of 30% were selected from the 532 target respondents. This generated a sample of 159 respondents which the study sought information from. Data collection will involved a self-administered questionnaire. The researcher dropped the questionnaires physically at the respondents place of work. The researcher selected a pilot group of 5 individuals from the target sample of the staff working in deposit taking SACCOs to test the reliability of the research instrument. Data collected was purely quantitative and was analyzed by descriptive analysis techniques. The findings were presented using tables and charts, percentages, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measure of central tendency.The findings from the study indicated that there exist a positive relationship between corporate governance and the strategic performance of the deposit taking Savings and Credit Cooperatives in Kenya.

James (2018) conducted a study aimed to determine if the board's ownership, committees, dependency, and size of the board affect the financial performance of insurance firms in Kenya. the study adopted a positivistic research philosophy and used a descriptive research design for diameter. Correlations and hierarchical multiple regression analyzes were used to determine the impact of corporate governance on the financial performance of insurance firms. The study used Baron and Kenny's approach to examining the intervening and moderating effects of risk management and firm-specific characteristics across the impact of corporate governance on the financial performance of insurance firms. The population consisted of all insurance firms registered in Kenya on 31 December 2015. Descriptive statistics and diagnostic tests were tracked on the data. Inference statistics, namely correlation analysis and hierarchical multiple regression analysis, were used to test the hypotheses. In order to achieve the research goals, a quantitative research method (secondary data) was introduced. Secondary data was sourced from the annual reports of all insurance firms registered in Kenya. The study adopted a descriptive research design and all insurance firms registered in Kenya. The study used the panel data, which is normally distributed. The study found that a weak relationship exist between the Corporate Governance practices under study and the firms' financial performan

2.5 Research gaps

Geographical gap is a knowledge gap that considers, the untapped potential or missing/limited research literature, in the geographical area that has not yet been explored or is under-explored. For instance Kariuki (2013) conducted a study to analyze the leadership styles of principals and their influence on leaners' performance of secondary schools in Kinangop district.

The study found out that there is a weak relationship between the transformational leadership and school performance in secondary schools. The study presented a geographical gap as it was done in Kinagop while our current study will focus on influence of transformational leadership styles on performance.

Methodological gap is the gap that is presented as a result in limitations in the methods and techniques used in the research (explains the situation as it is, avoids bias, positivism, etc.). Ngure (2018) conducted a study to establish the leadership styles at Co-operative Bank of Kenya and to establish the influence of leadership style on strategy implementation at the Co-operative Bank of Kenya. This study adopted a case study research design where the unit of study was Co-operative Bank of Kenya. The key findings of the study were that Co-operative Bank of Kenya predominantly uses participative (democratic) leadership style and transformational leadership style.The study presented a methodological gap as it involved correlation design while our study will adopt a desktop literature review method (desk study). Which involves an in-depth review of studies related to influence of transformational leadership styles on performance.

METHODOLOGY

The study adopted a desktop literature review method (desk study). This involved an in-depth review of studies related to influence of transformational leadership styles on performance. Three sorting stages were implemented on the subject under study in order to determine the viability of the subject for research. This is the first stage that comprised the initial identification of all articles that were based on influence of transformational leadership styles on performance from various data bases. The search was done generally by searching the articles in the article title, abstract, keywords. A second search involved fully available publications on the subject on influence of transformational leadership styles on performance. The third step involved the selection of fully accessible publications. Reduction of the literature to only fully accessible publications yielded specificity and allowed the researcher to focus on the articles that related to influence of transformational leadership styles on performance which was split into top key words. After an in-depth search into the top key words (influence, transformational leadership, performance), the researcher arrived at 4 articles that were suitable for analysis. The 4 articles were findings from Ngure (2018) conducted a study to establish the leadership styles at Co-operative Bank of Kenya and to establish the influence of leadership style on strategy implementation at the Co-operative Bank of Kenya.The study found out that that Co-operative Bank of Kenya predominantly uses participative (democratic) leadership style and transformational leadership style.

Njagi (2012) who conducted a study on to investigate the influence of headteachers' leadership styles on students' discipline in public secondary schools in Imenti South District.The study found out that showed that there was a positive moderate relationship between the transformational leadership style and discipline .Kariuki (2013) who conducted a study to analyze the leadership styles of principals and their influence on leaners' performance of secondary schools in Kinangop district.

The study found out that most principals do not involve others in making decisions on matters affecting them. Their leadership style has an autocratic bias and they cannot strike a balance between democratic and autocratic leadership. Most principals' felt that the use of transformational

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style of leadership though their schools posted poor results in KCSE.The drawing and interpretation of research findings and sense which is not a quantitative impact evaluation, was important in this context, which implies that qualitative and thematic analysis was most suitable in this study

SUMMARY, CONCLUSION AND POLICY IMPLICATION FOR FURTHER STUDY

4.1 Summary

A lot of attention has been given to corporate governance due to the belief that corporate governance has an effect on the image of the organization, put differently firms with good governance should perform better than those that are badly governed. This argument holds that the governance structure of an organization affects its ability to respond to its external environment which affects its performance and therefore good corporate governance is essential for any organization.

4.2 Conclusion

c. The concerned ministries should also be very keen in their supervisory role through the relevant committees to ensure that all regulations are enforced as required e.g. books of accounts are well kept and audited as they should be.

4.2 Recommendations

The board needs to comprise of well-educated people since they are actively involved in shaping state corporations strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the performance of the organization. Employees should be encouraged to be more active in management aspects of the Kenyan state corporations. Finally, the study recommends that financial monitoring should be done thoroughly by the board. A constitution which clearly indicates how to select and replace the CEO and directors need to be adopted. State corporations should consider adopting regular Corporate Governance Audits and Evaluations. Good Corporate Governance has a positive economic impact on the institution in question as it saves the organization from various losses e.g. those occasioned by frauds, corruption and similar irregularities

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