DOES CORPORATE GOVERNANCE INFLUENCE FIRM INTEGRATED PERFORMANCE?

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Abstract

The correlation of corporate governance (CG) with accounting and financial performance (AFP) is highly studied (Ismaeel & Soliman, 2022). However, the correlation of CG with marketing performance (MP) and logistic and supply chain performance (LSCP) is rare. Further, the correlation of CG with firm integrated performance (i.e., AFP, MP, and LSCP) is hard to see. Therefore, the present study explores the association and impact of CG with firm integrated performance (FIP). The study followed the deductive approach and adopted correlation and regression analysis techniques using the secondary data from 132 randomly selected cluster samples from 303 listed companies from the Colombo Stock Exchange (CSE). The study found that CG has a positive but weak relationship and a significant positive impact on the FIP. Thus, this study sheds light on the practical implication that managers must not solely depend on financial performance (FP) but concentrate on FIP when they make strategies for organizational performance and development. The study is original since it has proved that the synergy effect of AFP, MP, and LSCP is much higher than standing alone with CG.

Keywords: Corporate Governance, Firm Integrated Performance, Accounting and Finance Performance, Marketing Performance, Logistics and Supply Chain Performance

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1. INTRODUCTION

The code of ethics that regulates and governs a corporation is related to corporate governance (CG). This phenomenon may also be characterized as a set of rules, laws, and factors that regulate how an organization's different operations are carried out (Ngatno et al., 2021). The organization's survival and growth are seen to be steered by its CG policies. It is not easy to regulate an organization without CG, just as the vehicle cannot be driven without steering. This is because management fraud, incompetence, and negligence on the part of a company without proper control result in massive bankruptcy and extensive loss of shareholder capital due to

corporate dissolutions are on the rise (Baker & Powell, 2009). Thus, where a company has excellent CG, it may help develop shareholder trust and verify that all stakeholders are fairly treated (Mahrani & Soewarno, 2018). Because of that, scholars argue CG acts as a controlling arm that uplifts the organization and the entire economy. It enables an organization to manage its governance effectively and continuously and enhance the overall organizational performance.

Many studies were published on the association between company performance and CG during the last two decades (Arora & Sharma, 2016; Budiyanto & Hudiwinarsih, 2015; Nagendrakumar et al., 2022) and the same trend prevails to date. All such studies argue that CG is an integral element of organizational success. The CG brings organizational success by promoting corporate fairness, openness, and accountability. This paper argues that CG can bring success by integrating accounting and financial performance (AFP), marketing performance (MP), and logistic and supply chain performance (LSCP). The reason why integration is considered important is that the firm integrated performance (FIP) is an essential aspect for both internal and external stakeholders and is also a drive for vertical and horizontal integration.

However, inconsistencies between the findings of the previous studies are observed in this area. Further, even though the phenomenon is discussed globally in terms of marketing, logistics and supply chain performance, empirical evidence of CG and its relationship with the integration is highly inconclusive. Therefore, the present study focuses on the impact of CG on the FIP viz., AFP, MP, and LSCP.

The rest of the paper is structured as follows. Section 2 reviews the literature. Section 3 provides the research methodology. Section 4 presents and discusses the results. And, finally, Section 5 concludes the paper.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The concept of CG is of paramount importance to the business today as a guide that includes the rules, procedures, and administrative procedures required to deal with its stakeholders. Hence, it emphasizes the significance of CG to the parties and the benefits they have received (Vo, 2015). The essence of excellent CG will economically sustain the business continuity, both profitability and growth. Where a good CG of guidelines exists for management to follow then the manager will make financial decisions in the best interests of all parties involved (Budiyanto & Hudiwinarsih, 2015).

Furthermore, when a company implements an excellent CG, it generates goodwill and trust among investors (Abor & Adjasi, 2007). At the same time, the poor CG becomes the blame for most of the corporate failures and scandals. Ultimately, based on the above evidence, it is argued that CG contributes more to the economic growth of any country (Tshipa et al., 2018). According to Heenetigala and Armstrong (2012), high-quality CG reduces investor risk, attracts investment capital, improves performance, and stabilizes the organizations/economy. Since it enables businesses to determine the variables that strategize, propose and utilize those characteristics as indicators of the corporation's success or failure (Buallay et al., 2017) the conceptualization of this issue becomes much more important for present-day businesses. The conceptualization of this nature (i.e., CG and FIP) was materialized by Nagendrakumar et al. (2022) and they argued that not only the FP but also the MP and LSCP also have a significant relationship with and impact by the CG.

The performance of a company's internal and external actions or operations is evaluated by its financial performance (FP). It has been used to assess a company's performance and overall financial health and evaluate particular firms in the same sector or firms across the same industry in a broader sense. Essentially, a company's success is determined by its FP, which is examined using various methods and approaches (Mandal & Al-ahdal, 2018; Ismaeel & Soliman, 2022). Mainly, the FP easily can be measured through the financial statements. The conclusion is consistent with the theory and justification that FP is positively connected to financial statement disclosures, as shown by the FP explanation. As above discussed, there are various ways firm performance can be discussed and measured. Profitability and liquidity are some of the FP metrics utilized by businesses. According to Izzalquny et al. (2019), firms with significant profitability are more inclined to release more information because they are proud of their successes and want to create a favorable image of the performance they can attain.

Further, the company's liquidity condition may be assessed using a variety of financial metrics. The *current ratio*, and the *quick ratio*, also known as the *acid-test ratio*, are the main two ratios that evaluate the liquidity of the firms. A previous study discovered a positive relationship between the level of corporate disclosure and liquidity (Nandi & Ghosh, 2013). In the current world, businesses use CG as a better control mechanism of FP that plays a vital role in FP. According to past research, CG and FP are interrelated, and CG assessments significantly positively impact FP. Companies need to understand that improving CG and sustainability is as important as increasing revenue (Aggarwal, 2013). Higher company profitability does not appear to be linked to better CG. Because investors expect less self-dealing by insiders, it seems to reflect a lower cost of external capital. It is unclear how much better-governed companies' higher share prices reflect an increase in total firm value versus a reduction in insiders' private control advantages (Tuan, 2014).

Regarding MP, the function of marketing in explaining CG and firm performance has gotten more attention. Even though MP research is a well-established field, there is no clear and unambiguous definition of the term (Gao, 2010). However, according to Homburg et al. (2007), MP is defined as the productivity of a company's marketing efforts to achieve market-related goals such as revenue, market share, and growth. On the other hand, Mone et al. (2013) argues that marketing measurement performance indicators can be used to identify, measure, and communicate performance outcomes. Early efforts to quantify MP mainly were focused on financial measures like profitability, sales, and cash flow. But now, intangible assets, including brand,

technology, expertise, and customer loyalty, are being considered by researchers. Dioha et al. (2018) state that the profitability ratio is the most essential and dependable predictor of corporate growth since it provides a broad indication of a company's ability to increase its earnings. It evaluates how the organization's management generates profits from sales, total assets, and investments. Growth in sales, earnings per share and cost-to-revenue ratio positively influence organizational performance by return on sales (ROS).

In contrast, the return on cost has a positive impact on organizational performance measured by return on sales (Bayaraa, 2017). Furthermore, it is necessary to understand how CG governs the organization to evaluate MP. As a result, marketing strategy performance is developed as a function of research, measurement, and evaluation of marketing operations. The efficacy of the governance applied by the organization is strongly correlated to a change in MP (El Fawal & Mawlawi, 2018). According to this evidence, the organization governs the numerous MPs to overcome challenges and competition inherent in the market. The impact of a company's innumerable roles on its overall success is crucial.

Supply chain management is a crucial approach for organizations to function properly. It has also grown into a worldwide practice that uses partnership planning, cooperation, and information sharing to link all stakeholders in a chain-like structure, including buyers, customers, and sellers. The ability to reduce costs, innovate, improve product adaptability, increase consumer satisfaction, and develop relationships contributes to supply chain management performance. The importance of supply chain management can be described as an organizational network that connects all of the sectors in an organization while also adding value to those sectors' strategic operations (Chatchawanchanchanakij et al., 2019). Various researchers have used metrics to determine an organization's supply chain and logistics performance. Thus, gross margin return on investment (GMROI) can be defined as a metric for determining inventory profitability. This metric calculates a company's profit margin for each inventory cost. It examines the profitability of the inventory sold (Hançerlioğulları et al., 2017). Some researchers point out that GMROI is a more helpful metric since it includes profitability and inventory investment (Mattila et al., 2002). Apart from that, some researchers have found that profitability is higher if an organization manages inventory efficiently. Therefore, the relationship between the profitability ratio and inventory turnover ratio is used in productive inventory management (Sekeroglu & Altan, 2014). This is a measure for determining an organization's inventory efficiency, which is also a metric for deciding logistics and supply chain efficiency.

The organization must have proper procedures to ensure that an organization is systematically governed. Therefore, CG can be demonstrated as a system that regulates an organization. As far as CG and supply chain management are concerned, this can be defined as a number of relations between the company's shareholders, management, suppliers, and auditors. CG in supply chain management exercises many functions, such as setting up a system to ensure that shareholder rights can be respected and assembly authorizations are properly enforced and potential uses are prevented (Khuzaae et al., 2019). This allows businesses to run their supply chains more efficiently. A specific mechanism is needed to control these suppliers' activities. According to Jen et al. (2020), the CG mechanism determines the technique utilized to manage interactions between partners in supply chain processes. This enables CG measures to limit the risks of partners' opportunism while also increasing the value of operations such as innovation. As a result, the supply chain and CG mechanisms have been jointly developed based on the integration of the parties' individual goals. However, as discussed in the literature, CG over these supply chains, which play a crucial role in an organization, creates a definite mechanism for managing them.

As a moderator variable, board size (BS) positively correlates to CG and company success (Muchemwa et al., 2016). Therefore, this research intends to use this positivity and also focus on the relationship between CG and BS. The number of directors on a company's board, including independent directors and executive directors, is hence the size of the board (Malik & Makhdoom, 2016). This board of directors is responsible for establishing the company's strategic objectives, providing guidance to achieve them, overseeing the company's governance, and presenting to the stakeholders their confidence (Azeez, 2015). According to Husnaint and Basuki (2020), the size of the boards reflects the complexity of a company's environment. Having a large board of directors can minimize agency conflicts as different directors can serve the interests of various stakeholders. Accordingly, corporate effectiveness could be achieved by a large board. Nevertheless, it is also argued that it may lead to corporate failure as well.

The FIP is an important aspect for both internal and external stakeholders. Ultimately, a company's success is determined by its performance, assessed using various methods and methodologies. Many analysts use multiple approaches to assess FP, but most investors concentrate on tools such as ROE and ROA to assess a company's financial success (Ali, 2018). According to Ali (2018), CG should be promoted by corporate entities to provide a good signal to potential investors. In contrast, regulators, including the government, should encourage and socialize the link between CG and economic performance in all industries (Wanyama & Olweny, 2013) since FIP is one of the key measurements of success for an organization. Although ROA was one of the most utilized financial indicators in the research, when standard performance metrics like ROI and ROE were used, scholars discovered no meaningful correlations between CG and performance (Prusty & Al-ahdal, 2018). Anyway, most of the previous researchers measured FIP through ROA and ROE, but there are mixed results on the relationship between CG and firm integration performance.

From the argument so far, and the concept paper by Nagendrakumar et al. (2022) the following

hypotheses, and conceptualization framework were reproduced for empirical testing.

H1: There is a positive relationship between corporate governance and accounting and finance performance in the firm.

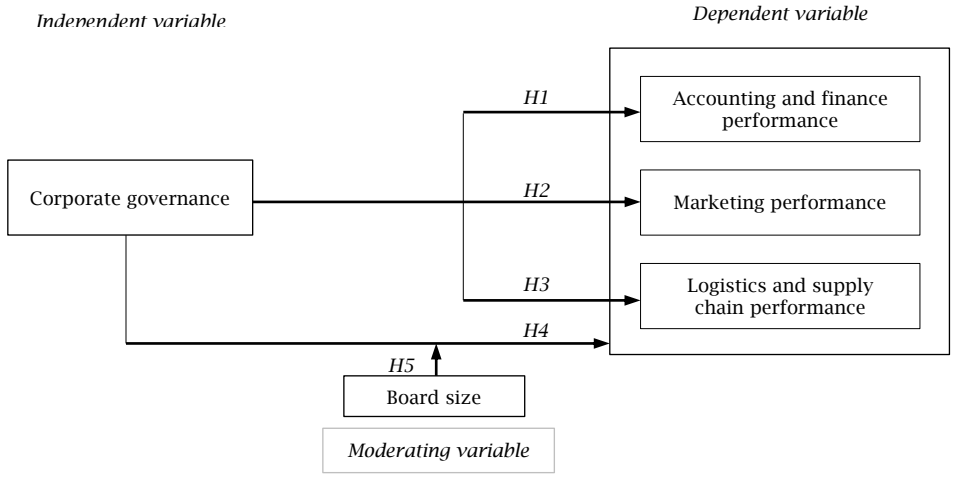
H2: There is a positive relationship between corporate governance and marketing performance in the firm.

H3: There is a positive relationship between corporate governance and logistics and supply chain performance in the firm.

H4: There is a positive relationship between corporate governance and firm integrated performance.

H5: Board size moderates the relationship between corporate governance and firm integration performance.

Figure 1. Conceptual framework



Source: Nagendrakumar et al. (2022).

3. RESEARCH METHODOLOGY

The study was designed as per the conceptual framework developed based upon CG concepts and FIP parameters and followed a quantitative research approach adopting correlation and regression analysis techniques having a random cluster sample of 132 companies from the total of 303 listed companies of the Colombo Stock Exchange (CSE). This study utilized the annual reports published for the financial years from 2015 to 2019. The years 2020 and 2021 were purposely dropped from the study since the pandemic and economic crisis prevailed in Sri Lanka. The data was analyzed using the Pearson correlation technique and partial least squares structural equation modelling (PLS-SEM). The operationalization of the variables is given in Table 1.

Table 1. Description of variables

Variables	*Dimensions*	*Indicators*	*Measurements*
CG	CG mechanism	Audit committee meetings (*ACM*)	Number of audit committee meetings in a year
	CG structure	Major shareholders (*MS*)	Top 20 shareholders in a company
	Firm characteristics	Firm age (*FA*)	Number of operational years
AFP	Profitability	Net profit ratio (*NPR*)	$NPR = Net\ income/Net\ sales$
		Earnings per Share (*EPS*)	$EPS = Net\ income/Weighted\ average\ shares\ outstanding$
	Liquidity	Current asset ratio (*CAR*)	$CAR = Current\ assets/Total\ assets$
		Quick asset ratio (*QAR*)	$QAR = Quick\ assets/Total\ assets$
MP	Company efficiency	Operating assets turnover ratio (*OATR*)	$QATR = Revenue/Average\ operating\ assets$
	Operational efficiency	Return on sales (*ROS*)	$ROS = Operating\ income/Revenue$
LSCP	Inventory profitability	Gross margin return on investment (*GMROI*)	$GMROI = Cross\ profit/Average\ inventory\ cost$
	Inventory efficiency	Inventory turnover ratio (*ITR*)	$ITR = Cost\ sales/Average\ inventory$
BS	Board size	Proportion of non-executive directors, executive directors (EXD), and directors on a firm's board	Number of board directors
FIP	Firm integrated performance	Return on equity (*ROE*)	$ROE = Net\ profit/Shareholder's\ equity$
		Return on assets (*ROA*)	$ROA = Net\ profit/Total\ assets$

4. RESULTS AND DISCUSSION

4.1. Correlation results

Table 2 demonstrates the correlation between CG and AFP. All the dimensions of AFP, that is profitability and liquidity measures given in Table 1 have a weak but positive correlation with dimensions of CG and the relationships are significant at 5%. The *NPR* is positively and weakly correlated with *ACM* (0.226), *MS* (0.235), and *FA* (0.203). The *EPS* too has a weak and positive correlation with *ACM* (0.233), *MS* (0.199), and *FA* (0.224). *CAR* also positively and weakly correlated as well with *ACM* (0.230), *MS* (0.196), and *FA* (0.227). *QAR* is positively and weakly correlated with *ACM*

(0.017), *MS* (0.041), and *FA* (0.035). The mean value of the correlation of *NPR* with *CG* is also weak but positive (0.221). The mean value of the correlation of *EPS* with *CG* is weak and positive (0.219). The mean value of the correlation of *CAR* with *CG* is weak yet positive (0.218). The mean value of the correlation of *QAR* with *CG* is weak and positive (0.218). The overall correlation of AFP with CG is weak and positive (0.219). Therefore, *H1* is accepted.

The findings are consistent with the theory and justifications that financial performance is positively connected to financial statement disclosures since essentially, a company's success is determined by its financial performance (Mandal & Al-ahdal, 2018). Liquidity is a need for a business since it demonstrates its capacity to satisfy its short-term obligations. The quick ratio and current ratio are often used indicators of a company's liquidity status. Some authors believe that liquidity is very important since enterprises with minimal or no profitability may serve the economy, but organizations with no liquidity cannot serve the economy successfully. As a result, profitability and liquidity management are critical problems for both development and survival (Yameen et al., 2019).

Table 2. Correlations between CG and AFP

		ACM	*MS*	*FA*
NPR	Pearson correlation	0.226*	0.235*	0.203*
	Sig. (2-tailed)	0.024	0.019	0.043
EPS	Pearson correlation	0.233*	0.199*	0.224*
	Sig. (2-tailed)	0.020	0.047	0.025
CAR	Pearson correlation	0.230*	0.196	0.227*
	Sig. (2-tailed)	0.021	0.050	0.023
QAR	Pearson correlation	0.238*	0.205*	0.211*
	Sig. (2-tailed)	0.017	0.041	0.035

*Note: * Significant at 5%.*
Source: Authors' compilation.

Table 3 shows the relationship between CG and MP. Based on the past researcher Nudurupati et al. (2011), MP management encompasses not only the monitoring and evaluation of marketing results, but also marketing planning, execution, and, most importantly, the application of marketing outcomes to improve performance. Based on that the *OAR* and *ROS* were evaluated. Accordingly, all the dimensions of MP have a weak but positive correlation with the dimensions of *CG* and the relationships are significant at 5%. The mean value of the correlation of *OAR* with *CG* is weak but positive (0.220). The mean value of the correlation of *ROS* with *CG* is weak yet positive. The overall mean value of the correlation of MP with CG is also weak but positive (0.220). Therefore, *H2* is accepted.

Table 3. Correlations between CG and MP

		ACM	*MS*	*FA*
OAR	Pearson correlation	0.218*	0.246*	0.197*
	Sig. (2-tailed)	0.029	0.014	0.050
ROS	Pearson correlation	0.241*	0.185	0.233*
	Sig. (2-tailed)	0.016	0.065	0.020

*Note: * Significant at 5%.*
Source: Authors' compilation.

Throughout the history of the marketing discipline, the function of marketing in explaining firm performance has gotten more attention. According to marketing researchers (Gao, 2010), the marketing incapacity of marketing to establish its impact on corporate performance can weaken its position within organizations. As O'Sullivan et al. (2009) point out, there are positive relationships between the ability to measure marketing performance, and firm performance. Moreover, over the last two decades, scholars have considerably enhanced conceptual knowledge of the role of marketing in enabling organizations to build and maintain competitive advantage (Morgan, 2012). According to Kosan (2014), due to increasing competitive pressure and changing customer profiles, customers have become the company's most important asset. Therefore, firms try to increase customer satisfaction and maximize their financial performance and profitability.

Table 4 shows the relationship between CG and LSCP. All the dimensions of LSCP have a weak but positive correlation with the dimensions of CG and the relationships are significant at 5%. The mean value of the correlation of *GMROI* with *CG* is weak but positive. The mean value of the correlation of *ITR* with *CG* is weak and positive (0.196). The overall value of the correlation of *LSCP* with *CG* is weak yet positive (0.211). Therefore, *H3* is accepted.

Table 4. Correlations between CG and LSCP

		ACM	*MS*	*FA*
GMROI	Pearson correlation	0.233*	0.200*	0.241*
	Sig. (2-tailed)	0.020	0.046	0.016
ITR	Pearson correlation	0.202*	0.245*	0.142
	Sig. (2-tailed)	0.044	0.014	0.158

*Note: * Significant at 5%.*
Source: Authors' compilation.

In today's environment, supply chain management is one of the most essential functions for corporate success. Further, the literature argues that logistics is critical for meeting and exceeding customer expectations in terms of market and financial success (Sezhiyan et al., 2011). Organizations get benefits from logistics, which gives a variety of options for making a beneficial influence (Aziz et al., 2020). Thus, companies have the potential to enhance the overall performance of the organization by maintaining the work of in-house logistics, as well as the ability of logistics to improve market and financial performance. However, a specific mechanism is needed to control these suppliers' activities, and according to Jen et al. (2020), the CG mechanism determines the technique utilized to manage interactions between partners in supply chain processes. This enables corporate governance measures to limit the risks of partners' opportunism while also increasing the value of operations such as innovation. As a result, the supply chain and CG mechanisms have been jointly developed based on the integration of the parties' individual goals.

The overall value of the correlation of FIP with CG is weak but positive (0.216). Accordingly, it is argued that all the dimensions of FIP contribute to CG. Besides, there are many ways an organization can achieve success. Nevertheless, it requires the right and appropriate guidance to sustain that success and continue to grow. Otherwise, their success is not sustainable, it will collapse expeditiously. One of the ways of sustaining success is proper management of CG. The management of CG depends on FIP. The study reveals the correlation

is weak, but it is positive. So, it is proved that the sustenance of organizational success depends on the proper mix and management of FIP. These findings go in line with Baker and Powell (2009) who argue that CG is described as a combination of procedures, practices, rules, regulations, and structures that impact how a business is managed, governed or controlled. Yet this study differs from them since it concentrates on a combination of AFP, MP, and LSCP. However, it coincides with the argument that CG is a central element of business success (Dibra, 2016). As a result, the study supports the stewardship theory since the interest of the managers is to sustain the success of the business.

As a result, it is argued that CG has an association with FIP. Hence, the study finds that all the performance domains (AFP, MP, and LSCP) in organizations are important and given proper concern when it comes to a decision based on CG.

4.2. Regression analysis: CG and FIP

The results of the regression analysis performed and a summary of the model data are shown in Table 5. The larger the R-squared value, the better the model fit ($R^2 > 50$ percent). According to the regression analysis of the study R-squared is equal to 0.996, which illustrates that 99.6% variation in ROE could be predicted by AFP, MP, and LSP. Thus, the *H4* is accepted.

When analyzing the relationship between CG and FIP using partial least squares structural equation modeling (PLS-SEM), the results demonstrate that the two variables are well correlated (significant at 0.001), which is a significant turning point in this study though the AFP, MP, and LSCP alone have a weak correlation with CG. It goes in line with the argument by Nadeesha (2019) who claims that there is a consistent significant relationship between organizational performance and CG structure. The difference of the present study is that it segregated the indicators of CG and FIP and found that though the correlation between the individual domains of FIP is weak but positive the overall correlation between the CG and FIP is strong and positive. This is important for business organizations since the study has proved that the synergy effect of AFP, MP, and LSCP is much stronger once it is seen as FIP. This finding enhances the need for business performance competence as it is one of the key factors whereby the company's management can meet the duties of the parties involved in achieving the firm's vision, mission, and goals (Budiyanto & Hudiwinarsih, 2015). Accordingly, companies can understand that improving the connectivity of CG and FIP will certainly improve business sustainability where the companies can be better off even during disturbances since it strengthens the business resiliency.

Table 5. Model summary

Model	*R*	*R²*	*Adjusted R²*	*Standard error of the estimate*
1	0.998	0.996	0.985	0.0043150

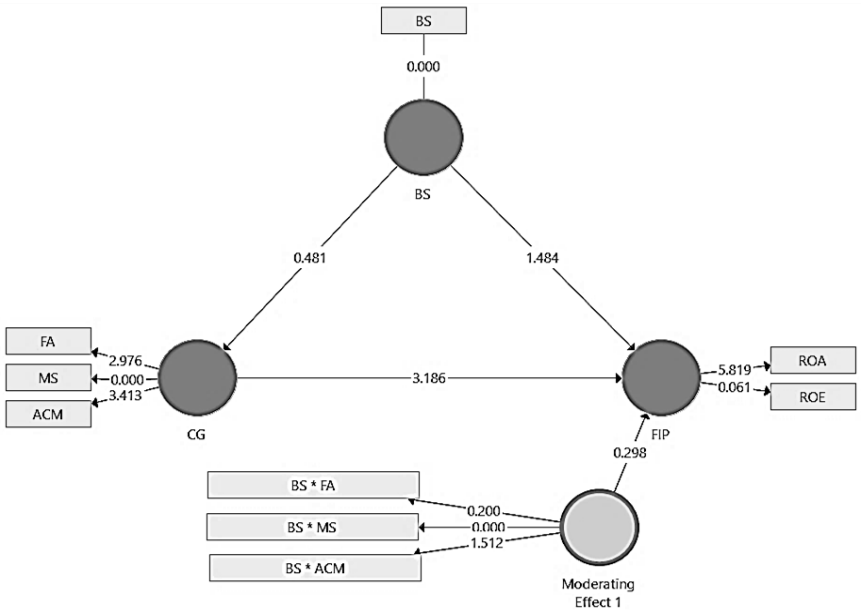
4.3. Moderator effect: BS

The moderation effect of BS between CG and FIP was analyzed using PLS-SEM and the results are shown in Figure 2. In this case, the relationship between the moderator and the other variables is evaluated separately. The study does not provide strong evidence of moderating impact of BS between CG and FIP (Table 6).

Table 6. PLS-SEM result

Path	*t-statistics*	*p-values*
BS -> CG	0.453	0.65
BS -> FIP	1.438	0.151
CG -> FIP	3.488	0.001
Moderating effect 1 -> FIP	0.294	0.769

Figure 2. Moderation effect of BS



Source: SmartPLS.

The findings show that BS has no impact on FIP, with a p-value of 0.769 indicating no significance. Hence, the *H5* is rejected since it provides no moderation between BS and CG, and FIP.

5. CONCLUSION

The study concludes that all the domains of FIP are weakly and positively correlated with CG. The study further concludes that CG significantly and strongly impacts the FIP. As a result, the present study adds the overall dimension of FIP to the literature rather than concentrating on the segments of performance like AFP, MP, and LSCP and accordingly argues that the FIP has a synergy effect on CG.

In addition, it is important to note that the companies must get away from the myth that CG impacts only the AFP and therefore, they must change their mind to MP and LSCP as well. Thus, businesses are encouraged to go into combined mode and not a stand-alone mode in strategizing future operations. Furthermore, the study concludes that BS does not moderate the relationship between CG and FIP. The study duration includes the COVID-19 pandemic and the study concentrated only on the AFP, MP, and LSCP which might have limited the findings without reaching the optimum results. Future researchers can consider them and include information technology (IT) and human capital management (HCM) as integral domains in their studies.

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