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A comparative corporate governance mechanism

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This paper presents an analysis of the connection between management and governance. Management is a business function that has been entrusted with providing leadership support to organisations' resources to realise strategic goals and objectives. In contemporary management, however, another function of leadership has been realised which is governance. Experts have identified that while the two have distinctive responsibilities, collaboration can be effective in realising value for the stakeholders. The paper has examined governance and management from an explicit perspective and then identified the boundaries, connections, and issues between them. The study has found out that although the management and governance have differed in responsibilities to the organisation, they both are responsible for leadership. Notably, however, it has also been identified that since it is the role of the governing body to monitor and guide the management, management issues such as impression management arise. The paper has adopted the content analysis research design which involves studying literature and identifying patterns to draw a conclusion. Literature research related to the two key words; management and governance.

Key words: Governance, management, leadership, strategic goals, organisation.

INTRODUCTION

In contemporary organisational management, governance and management are interchangeably used. The main reason for the interchangeability is the fact that both have leadership responsibilities. Both are supposed to steer the organisation towards realising its objectives (Aguilera et al., 2016). While leadership may vary in meaning depending on the type of firm being referred to, basically, the presence of leadership is manifested by the availability of an individual or a group of people who build the vision and provide the necessary support to pursue the idea.

Examining the difference between governance and management is vital as it enlightens the operations of management to understand when each is required in the organisation (Aguilera and Crespi-Cladera, 2016). What about creating a balance? Indeed, balancing the two can be of importance to firms of all sizes. In regard to trying to establish a connection or a balance between the two, this comparative study will attempt to answer four questions: what are the differences between governance and management? How are they linked? What are some of the issues that arise between them? What is the implication of this study to the stakeholders? These four questions also form the bases of discussion for the

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literature review.

RESEARCH METHODOLOGY

This study used content analysis research design to gather literatures that answer these questions. The main advantage of content analysis as a research method is that it does not simulate experiences and opinions and instead gets the central aspect of a phenomenon directly. Literature studies were selected using simple random sampling and based on relevance and year of publication. To determine relevance, the following words were used as search words: Management; Organisations and management; Governance; Organisational leadership.

All selected studies were not older than 5 years since publication, studies between 2013 and 2017.

SYSTEMATIC LITERATURE REVIEW

The field of management and governance has been examined in past studies from different perspectives. By definition, governance has been differentiated from management in that governance provides a framework that guides the accountability of the stakeholders and within which all the organisational decisions are made. Management is the function that ensures that there is a smooth running of the daily operations of the firm.

Gnan et al. (2015) noted that while governance and management are both focused on providing the guidance that firms require to achieve their goals, the two are different. Governance concerns the processes, structures, and functions utilised to control the activities to achieve the firm's objectives. It ensures that the organisation carries out its activities in an efficient and transparent environment. Thus, good governance is about adding value through facilitating significant improvements in performance and strategic management. The overall achievement is efficiency, equitable resource allocation, high outcome and more significant impacts, and developments. Management, on the other hand, operates within an established context defined by specific processes, policies, procedures, and strategies. It is concerned with leading the organisation into ensuring that all things are done right. Management is responsible for implementing the visions and the aspirations of an organisation (López-Arceiz et al., 2017). It concentrates on overseeing the establishment of practical ways of pursuing the organisation's goals. Resource allocation is a critical role of the management body considering that firms can only achieve their goals and realise profits through ensuring that all operations are carried out within constraints of time, financial, human, and technical resources.

Too and Weaver (2014) established that despite the differences between governance and management, there is a collective responsibility of leadership that the two functions are expected to provide to an organisation. Elshandidy and Neri (2015) noted that leadership is a crucial part of the management and is carried out through the support of the staff to see to it that they understand the goals and the strategic vision of the firm. Therefore, management plays an essential role in strategic planning. Equally, leadership is a vital tool employed in corporate governance. The study identified that governance is more than just establishing a framework for operations management as it focuses on ensuring that the organisation retains its reputation and ensure that everyone works with high ethical standards. According to Uche and Atkins (2015), governance is also responsible for facilitating productive environment by leading in the identification, understanding, and management of loyalty and conflicts of interest. Good governance earns the organisation the independence of making decisions that align with the interest of the stakeholders.

Dalwai et al. (2015) however noted that governance has a vital role in driving the organisation towards its productivity in that it is concerned with the daily operations of the organisation to align current decisions to the projected future of the firm with the aim to ensure that the beneficiaries achieve the most from it. Governance is responsible for not only establishing the policies and the strategies but also overseeing that the organisation is working towards its mission and that all operations are sustainable. To achieve this, those in governance must set standard limits such as the risk that the firm is willing to take. Through an understanding and identification of such restrictions as indicated earlier, governance protects the firm from constraints that may lead to failure.

Ntim et al., (2015) established that while the role played by both governance and management in providing a firm with the direction to the future, the two have distinct roles as provided in Table 1.

From the systematic literature review, it is clear that cooperate governance and management are not only closely related but also, they complement each other in enabling the firm to realise its goals. However, the two are different in terms of how they function and how they are used by the firm's executive. In general, and from what has been identified earlier, management is focused on performance and ensuring that things are done right in the organisation. Governance, on the other hand, is focused on laying down a guideline within which things are done. Such guidelines are contained in policies, procedures, and strategies among others. From this distinction in the meaning and the roles of governance and management, the researcher asserts that there is a boundary between the two identifiable groups by a comparative study. The following section presents a content analysis of the studies reviewed and using a comparative approach, the study has presented the differences using three themes which are;

(1) Boundary between governance and management
(2) Conflicting issues of management and governance

Table 1. Differences in the role of corporate governance and management.

Role of corporate governance	Roles of corporate management
Strategic operations; approves the central actions concerning the long-term goals of an organisation like capital expenditure.	Communication; management is responsible for making the organisation run in the context of ever-changing circumstances. To ensure that appropriate response is adopted promptly when factors change, communication is the essential tool. Also, the management leads in setting policies, strategies, and mission which must be communicated to the employees.
Financial security; reviews and approves the long-term financial goals, set the budgets and determines the financial structure leading to financial stability.	Coordination; the organisation pools the efforts of the different departments and personnel to achieve its goals. To make the efforts productive, the management is responsible for coordinating these efforts and directing them towards achieving the company goals and objectives. Coordination also involves ensuring that all the required resources are at the employees' disposal at a time when they are required.
Monitoring; evaluates and identifies risks, manages risks, and produces annual reports showing social and public impacts the firm has made.	Planning; the management knows what is required to be done at a specific time to achieve the goals. Work and resource planning enable the alignment of resources with milestones and timelines.
Planning; it is the firm's vision bearer, and it builds the purpose and mission and approves more extended strategies and significant policies.	Staffing; being the mission builder, the management is aware of the specific human resources and technical skills required to achieve specific goals. It achieves this through identifying the goals of the firm and hiring the required skills. It is also responsible for supervising and supporting the staff.
Audit; appoints and approves external auditors as well as reviews compliance with laws that affect the firm's operation.	Controlling; considering that the management is responsible for ensuring that the firm profitably stays operational every day, controlling is a vital tool to see to it that operations run within limited expenditure and time.
-	Organising; the various activities that make an organisation run smoothly such as meetings and team activities are conducted at a specific time and can only be achieved through the proper organisation.

(3) Governance and impression management

DISCUSSION

The boundary between governance and management

As noted by Gnan et al. (2015), the executives in management expect that the governing body set policies that can facilitate work to be done in underlying factors while the governing body, expects that the management will provide the right information to be used in defining and making the regulations. Therefore, establishing a boundary to show how each is different from the other is difficult. However, it is possible to identify that amidst differences, there is a link which if used appropriately could provide a substantial ground for organisational excellence.

It is possible to show the link and the boundary using specific examples as follows:

(1) Every organisation requires a long-term objective which is mainly recognised as the strategic plan. In this, it is the responsibility of governance to set and monitor a strategic plan. The management is responsible for driving and implementing the strategic plan once it has been approved. While the two tasks manifest a division in what each is expected to do, the two meet at some point, which is, they are both responsible for ensuring that the organisation meets its strategic objectives.
(2) Take another example of the daily activities such as purchasing, be it supplies or assets. While governance is responsible for approving a purchase over underlying constraints such as budget limits, the management is responsible for ensuring that the purchase is made within the set limits and if possible achieve a discount through negotiations. They both, however, are responsible for appropriating the different purchases to ensure that they

do not spend above the budget.

Conflicting issues of management and governance

According to Uche and Atkins (2015), when stakeholders select an individual or a group to sit in a given office to oversee their interests being pursued based on their decisions, there is an element of stewardship expected. This takes us to the stewardship theory of governance and management. From the literal meaning, stewardship means the assumption of a position to take care, fulfil, and protect the interest and needs of another person. Personnel in management and governance are expected to be stewards of the interests of the stakeholders. These views area also supported by Misangyi and Acharya (2014) who insists that stakeholders, who may be the investors, the customers, the public, the regulators, or the employees, commit to a relationship with the organisation in which they communicate their interests and empower the bodies to pursue the said interests on their behalf.

According to Williams (2015), the primary objective of stewardship governance is stakeholder's satisfaction. It obliges those in management and governance to abandon their gains such as huge salaries and to be trustworthy. But what happens when this trustworthiness cannot be achieved from stewardship? This question relates to the reasons why other governance theories are used. For example, there is the agency theory that mainly focuses on the check and balances form of management and governance. Take the fundamental reason why companies have governance led by a chairman of the board and management led by the CEO. This observation is supported by Ntim et al., (2015) who insists that, the two groups act as the watchdogs over each other with mainly the governance being responsible for monitoring the management which has direct control over the resources of an organisation, to ensure that strategic goals are achieved in time and with minimal challenges.

The agency theory elaborates on the relationship that exists between an agent and the principal. This theory assumes that the agent when representing the principal must do so in the best interest of the principal (Aguilera et al., 2016). In the case of a company, the management is the agent of the stakeholders, and it is expected to represent their interests. However, considering that each of the parties has their interest, conflict arises when the interest of the principal is not served. Mainly, governance is put in place to oversee that the management is acting in the interest of the investors and this potentially initiates a conflict between the two. To overcome such friction, it is crucial for the management to establish a governance strategy to seal loopholes that may be caused by the personalities in the board of governance.

The tension between the governing body and the management arises because of different factors that may range from the personalities to the management structure of an organisation. Governance is responsible for monitoring and evaluating the decisions and actions of the management. But what if this evaluation is performed but the management structure being used is not sufficient for implementing the feedback provided (Aguilera et al., 2016)? This means that the management can create a platform over which they can do what they want which may not necessarily be in the interest of the stakeholders. Secondly, it means that there will always be a conflict with the governing body because they are doing different things.

Maintaining smooth personal relationships is another cause of problems between management and governance. People want smooth personal relationships as part of their job satisfaction. Nobody wants to be fighting with colleagues, and as such, they will collude not because they agree on doing what is right for the organisation but to avoid fighting with everyone (Essen et al., 2013). The weakness with this is that if people in the governing body decide to lobby with the management, this can create a room for the management to pursue personal and selfish goals. Another major conflict is caused by the tension that arises when the governing body tries to take matters at hand especially when they realise that the management structure is not sufficient for implementing feedback the board provides. It may occur if the board decides to give instructions to the employees or meet with the investors without informing or involving the management.

It also cannot be assumed that the CEO who heads the management takes the role of a "gatekeeper" and is thus responsible for setting the agendas of the board during meetings. The CEO briefs the issues discussed by the governing body. This positions the management in a pivotal position which they can use to withhold information to control and to steer the governance in favour of the management’s projects.

Governance and impression management

Impression management tends to describe the social conduct of individuals in organisational life. It is a behavioural strategy that enables the management, whether a group or an individual, to present themselves as the most capable and desirable for a given position (Williams, 2015). This concept aligns with the theory of managerial hubris.

When managers are out there seeking chances to lead and manage companies, just like any other type of a job, they are faced with the pressure to prove that they are the most capable. Organisations are created by investors who seek to trade their investments for possible profits (Griffin et al., 2015). There is the element of risk that surrounds every investment idea and considering that investors cannot eliminate all risks, they are looking for management that has what it takes to minimize the risks to the lowest possible level and hope that with the low risk, they can still sustain the investment even with minimal profits.

As it is well known, the business environment is a contemporary one and new factors are arising every day that distort the projections. While such remedies as using contingency management styles may be useful to counter the uncertainties, sometimes the influence is too complicated that there is nothing that the management can do to save the company from making losses (McCahery et al., 2016). As such, the management must conduct itself in a way that the stakeholders will believe that it has what it takes to get the company from losses or even to increase the profits. This brings in the theory of managerial hubris.

Managers using managerial hubris hypothesises that they are more capable of performing better in managing the assets of a firm they are targeting, than the current management. When this is used to hire management, it means that the managers have a motivation to do what it takes to prove that what they promised is attainable (Griffin et al., 2015). In companies where the governance is strong and informed, it may be difficult for the management to just fake numbers to reflect profits as they practice impression management.

It is important to note that sometimes, impression management does not always result from defensive motives but also from assertive motives. The differences between the two are that while defensive is negative, assertive is positive. Assertive motivation does not come from the fear of failing to meet the expectation by the management but rather from the self-need of the manager to create an impression of achievement about themselves (López-Arceiz et al., 2017). It may arise from such factors as the class of organisation they are working for or the achievements of managers in equal positions in other organisations. If, in reality, the management has not made the desired achievements, they will provide selective information to the corporate governance to create the impression that there are particular achievements to be publicised while in reality, no such achievements have been made. The objective is that those reading the reports will get the impression of achievement.

The implications of this study

Having established the boundary between corporate governance and management, and the conflicting issues between the two such as impression management and managerial hubris, the question that arises is what the implication of these findings with regard to the different business stakeholders.

With a clear understanding of these findings in this study, the governing body should be able to identify when the management is not focusing on representing the interest of the stakeholders whether management is focusing on their achievements instead of that of the company and the stakeholders. Also, the governing body can detect managerial hubris and impression if they identify dismissiveness with the management or with the CEO.

In the modern corporation, the stakeholders are increasingly understanding the boundary between governance and management and also increasingly becoming intolerant of bad governance. Good governance is reflected in full representation of the interests of the stakeholders, and this includes having effective management. Notably, it is the role of the governance to create an environment where efficient management can grow (Too and Weaver, 2014). As such, failure in governance could as well mean that the organisation will resort to poor management and resultantly fail. Stakeholders are now more informed concerning the projects and programs that their organisations are working. As such, with increased interest and control by the public and the stakeholders, there are numerous cases of management failure that have been prevented and liabilities of company failure reverted.

An example is the Olympus case in 2013 where the company and its UK subsidiary were charged for failing to comply with audit regulations. It was claimed that the company had made a misleading statement with the auditors. The statement was found to be deceptive and false and broke the requirements of the Companies Act 2002 section 501. In 2014, Nobel Drilling which has its headquarters in London and owned by the parent company Nobel Corporation was charged $12.2 million for committing an environmental felony and maritime crimes in the US. These are just among a few companies where poor management has resulted in criminal charges and as a result, led to the loss of millions of dollars (Singer, 2015).

When the stakeholders encounter these types of challenges, the question is whether they should blame the management or the governance. There is no doubt that establishing an effective governance framework that effectively monitors the work of the management is difficult and challenging for most companies (Elshandidy and Neri, 2015). This raises the question of whether the two should be left to work independently or should they be converged so that they work from a common ground. It also raises an issue concerning the conflict that arises when governance monitors the working of the management.

Conclusion

There exists a secure connection between management and governance in that not only are they responsible for leading the organisation into realising their objectives but also conflict arising when the two interact can result in an unexpected failure of the organisation. Excellent and robust corporate governance is useful in ensuring that the management is fully committed and focused to realising the goals of the stakeholders, but this can also be the cause of impression management that is equally dangerous as poor management.

In attempting to resolve the conflicts and differences, in most organisations, the management often devises ways to impress the governing body. By responding with information and actions that suit the interest of the governance, the management can retain its control. The governing body, when it sees that what it advocates is being performed, and it is being supplied with information as expected, it is kept from interfering or digging into what the management is doing and this way, management can pursue what it wants. However, this comes at a cost for the stakeholders and the organisations as a whole considering that what is provided in the reports is deceptive and misleading in comparison with the actual happenings in the organisation.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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