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## Optimization by Integration: A Corporate Governance and Human Resource Management Dimension

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#### **ABSTRACT**

Contemporary business entities that are keen to achieve measurable growth can no longer rely on inflexible corporate management frameworks for running their affairs. This viewpoint is adduced in the light of the emergence and re-emergence of unpredictable and likewise complex operating contexts. Notwithstanding the connected legal, financial, economic and social issues; business concerns must devise innovative ways to sustain holistic performance levels. Moreover, corporate and regulatory interests must collaborate to effectively mitigate corporate failures attributable to various business concerns. In furtherance of the debate on the nexus between corporate governance and human resource management, this paper presented a conceptual model that aggregates specific aspects of business processes that synergizes both concepts. Practical perspectives on the interrelatedness between corporate governance and human resource management provide a veritable basis to explore the theme of this paper. The paper opined that an appropriate balance must be achieved with regards to identifiable and fundamental aspects of the corporate structure and process. It was recommended that a diverse model of corporate integration enhances the functionalities of the corporate entity; facilitates optimization processes, thereby contributing to long term sustainability and growth. The central role of human actors in the governance of business entities is also duly emphasized, as this viewpoint underlies the essence of integrating the two concepts in general and specific terms.

Keywords: Corporate Governance, Human Resource Management, Corporate Strategy

**JEL Classifications:** M12, M21, M54

### 1. INTRODUCTION

Modern organizations operate in a relatively volatile business environment. Hence, the activities of various business organizations are affected by identifiable internal and external issues (Grant, 1999). It has also been asserted in this regard, that organizations exist, co-exist, compete and cooperate in a dynamic environment characterized by complexities (Panagiotou, 2003). Therefore, it is important for corporate entities to adapt and integrate to sustain themselves in a constantly evolving environment (Morgan, 1996; Fernando and Rogelio, 2005; Fabac, 2010). Organizations are inclined to adopt various strategies to gain a good degree of competitive advantage. This perspective is a component of the established principle that all corporate organizations are regulated by the laws of the market space and that such factors

are a fundamental barometer of corporate performance (Monks and Minow, 2001; Osibanjo et al., 2014).

Organizations operating in such uncertain business contexts must constantly make an objective assessment of their internal processes. By adopting such a posture, these corporate entities can ensure that internal and external governance practices, as well as the connected human resource management outcomes are fully in alignment with the fundamental of ensuring the success of the organization (McIlquaham-Schmidt, 2010). A contrary approach may potentially manifest in lack of synergy amongst corporate practices and organizational goals. Consequently, such may result in what is usually referred to as the corporate governance crisis, especially if necessary action is not taken to address the unfolding corporate issues (Garratt, 2003; Nguyen, 2011).

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Corporate governance and human resource management are two important concepts, processes and (or) practices that are central to the operations of modern businesses. The recognition of the integral nature of both concepts aids organizations in adopting best practices in their corporate dealings on the one hand, whilst also securing the long-term interests of identifiable stakeholders on the other (Konzelmann et al., 2006; Graeme and Gollan, 2012). Corporate governance as a concept is of limited value if the process is confined to compliance with rules and regulations in a pre-determined way. The governance of organizations will usually entail how the board's performance is contributing to improving shareholder value, whilst also making concerted efforts at forging good relations within the diverse stakeholder base (Garratt, 2003). The terminology may be described as the structured framework of accountability of senior management to shareholders. Corporate governance also entails the complete chain of formal and informal engagements or interactions with a matrix of stakeholders, coupled with their consequences for the wider society (Nerantzidis et al., 2012). The term corporate governance differs from the concept of government. The latter stresses the centrality of public actors in defined decision making processes, whilst the former emphasizes the involvement of public and private interests usually referred to as stakeholders. It also distinct about the decision-making function which is not necessarily subject to a hierarchical structure of governance (Kohler-Koch and Rittberger, 2006).

At the center of corporate governance are key issues of board composition which depicts the make-up of the corporate board in terms of directors, independent and affiliated non-executive directors, and gender and age diversity and board size. Also of importance is the structure of the board regarding numerical constitution of the board; utilization of committees and delegation of key function to board members for a tenure. The concept entail matters of regulatory compliance and specifically highlights the essence of achieving organizational goals whilst taking due cognizance of compliance with relevant laws and regulations. Regulatory compliance is driven by the underlying policy initiative and non-compliance is accompanied by civil or criminal sanctions depending on the circumstances. Hence, compliance is limited to aspects of the company's activities required by the law, regulations and the codes.

Furthermore, matters of corporate or operational efficiency also manifest in measurable respects. The emphasis being on the ratio between the input to run a business operation and the output derived from same. Inputs will usually include capital, people or effort, whilst outputs entail revenue and margin. The inclination toward gaining competitive advantages is because the level of competition has been elevated over the past decade and organizations have realized that without having specific competitive advantages they may not be able to remain in the market (Riasi, 2015).

# 2. CONCEPTUALIZING CORPORATE GOVERNANCE AND HUMAN RESOURCE MANAGEMENT

Undoubtedly, there is no unanimous depiction of the term "corporate governance." However, a widely shared perspective

is that, corporate governance emphasizes issues connected with the overall direction, control and accountability of an organization corporations and society's conception of the scope of corporate accountability (Cornforth, 2014). In a more specific sense, the concept entails appropriate board structures, processes and values to cope with the evolving shareholder and stakeholder expectations (Garratt, 2003). Arguably, the essence of corporate governance captures how organizations ought to be managed in diverse, but specific respects taking due cognizance of the certain internal and external issues in the operating environment. It also focuses on issues of ownership and control, particularly as it affects the internal framework and operations of the enterprise. In effect, good organizational governance is the ultimate consequence of integrating the demands of different classes of shareholders and stakeholders. These identifiable interests have over time been noted to have varying capabilities of shaping corporate action through social legislation and amongst other established channels.

Debates on corporate governance have largely been associated with the shareholder theory which has generated rich material and data for researchers (Alberto and Mirella, 2007). The Anglo-Saxon system of corporate governance is based on the shareholder ship model which emphasizes the need to preserve or maximize the shareholders' wealth because shareholders are the owners of the organization. On the other hand, the German system of corporate governance centers on the principle of stakeholder ship which entails the process of protecting the stakeholders' needs as they contribute to the success of the organization (Keasey et al., 1997). Emerging trends reveal that many countries have developed their own corporate governance codes (Nwanji and Howell, 2004). This pattern is particularly apparent in the private sector, where several companies have adapted and periodically published varying corporate governance code policies. It is noteworthy that certain aspects of the codes are consistent, as certain areas of divergence are also evident.

Human resource is at the center of corporate governance, as it is impossible to achieve the tenets of corporate governance without the integral contributions of human capital. Human resource management in a broad sense focuses on the identification, training, placement, deployment, utilization and optimization of the organization's most valued asset, that is, the employees (Armstrong, 2012). In effect, the goals of the organization and human resource management practices are mutually reinforcing. This validates a perspective that supports the integration of human resource management policies into an organization's overall corporate strategy (Heijltes and Witteloostuijn, 2003). Hence, the basis of human resource management is the practical and flexible structure of formal systems in the organization, to engender the effective deployment of human abilities to realize organizational objectives. It also entails a comprehensive approach or system to achieve the delivery of complementary employment policies and practices as well as a deliberate and structured process to develop integrated human resource policies and practices. The aim of this is to support the attainment of the organization's strategic goal (Armstrong, 2012). Organizations develop, deploy and adopt an aggregate of practices best suited to deliver specific objectives (Baron and Kreps, 1999; Laursen and Foss, 2013). However, like any sustainable model, organizational processes and practices would typically lend itself to review, appraisal and alteration, depending on the strategic direction of the management.

There are notable human resource management outcomes which come have come to the fore and can be regarded as integral to the optimal management of organizations. These include; employee commitment, which entails the level of compliance exhibited by employees over a period towards the advancement of the goals of their organization. It can also be regarded as the degree to which employees are committed to their work. The level of commitment can thus be inferred from their feelings, attitudes and behavioral patterns whilst performing work related tasks.

Employee engagement can be broadly referred to as the extent to which employees can deploy themselves physically, cognitively and emotionally in their job tasks. It also specifically captures the extent to which employees can interact and communicate with other employees towards the delivery of organizational goal. It refers to the broad and specific patterns of interaction and responses to unfolding issues connected to the business environment. Hence, the more robust the level of engagement is across the organizational strata, the greater the probability of achieving a practical appreciation of integral challenges.

Also noteworthy is the issue of disciplinary and grievance procedures. This usually entails the guidelines for addressing the myriad of challenges which have now become unavoidable features of a structured working relationship. It is a necessary practice to effectively accommodate the views of key stakeholders of the organization. These processes are needed to ensure that corporate stakeholders are treated in consistent manner in similar circumstances, within the established structures. Instructive in this regard, are the consequential disciplinary measures that are attributable to an established disciplinary structure within an organization. The measures are usually driven by corporate policy and regulations which have been designed and shaped per industry practices, customs and existing templates or precedents in this regard.

The centrality of corporate governance can be assessed by adopting an approach that progressively emphasizes the practice of greater openness and accountability. That is, the extent to which identifiable processes are integrated or harmonized, will contribute in measurable respects to the achievement of the corporate goals. The corporate nature and structure of the entity in issue must be taken into consideration when discussing matters touching on corporate governance practices and human resource management outcomes (Garratt, 2003). This conceptualization makes it possible to identify and analyze contributions of governance to the operations of an organization from two broad perspectives. In the first sense, it has usually been measured, in terms of shareholder value as demonstrated in the balance sheet from year to year. However, the diverse stakeholder base of corporate organizations makes it possible to explore the effects of measurable governance indicators attributable to the broader corporate interests and the effects of same within the organization's corporate structure (Monks and Minow, 2001; Garratt, 2003).

### 3. CORPORATE GOVERNANCE AND HUMAN CAPITAL

The general accepted accounting principle operates on the premise that material or corporal resources is the company's most valued asset as evidenced by the company financial reports. This perspective seems limited, as the cumulative investment in human capital tends to be relatively higher over a significant period. It is critical to note that, accepted accounting rules also assign no value to human resources. The practice largely persists notwithstanding that this factor production constitutes about three-quarters of the total resources deployed in more mature business climes. Hence, it is plausible to devise innovative ways to capture human capital on the balance sheet, to achieve a more holistic corporate valuation over the long term (Crawford, 2007). This outlook is not completely out of context, as the prevailing accounting system was designed in an era when a company's fundamental assets were majorly physical in nature (machines, buildings and land or real property).

However, there is a notable shift in the contemporary corporate climate, as there is now more emphasis on knowledge capital which includes assets such as, patents and brands (intellectual property rights) as well as research and development. It is more profitable in the long run for organizations to gain a broader appreciation of the key aspects of the corporate governance process. This process entails looking beyond the figures, and focusing more on the views and opinions of the human actors about the methods or practices that underpin the wealth creation goals of the corporate entity (Monks and Minow, 2001).

### 4. EMPLOYEES' ROLE IN SHAPING CORPORATE POLICIES AND DIRECTION

The well established and conventional view is that strategic decisions and policies of organizations are determined by the board of directors. This outlook somewhat limits a broader appreciation of the process of shaping and ensuring the realization of corporate policies. Whilst not negating the status of the substantive board within the corporate structure, it is important to conceive the board's functions or roles from a broader organizational stakeholder perspective. Legal scholars, economists and management theorists have opined that vesting more authority and ownership interest to employees contributes to long-term sustainability. In similar respects, it has been expressed that employment tends to forge a sense of ownership (Singer, 1988). This further brings to the light agency cost issues or the shared burden borne by the company, especially in the light of the underlying choices facing the employee i.e. maximizing the company's gains or advancing his own interests

On the part of the organization, the idea of trust alone is necessary, but not sufficient. This should be construed with other components (involvement, ownership, information and authority) of a system which make this approach possible and by implication, contributes to minimizing agency costs (Monks and Minow, 2001). This outlook further validates the need to explore the views

of the participants that ensure the achievement of the strategic decisions formulated by the organization's board of directors. Moreover, the rate of return, relative to the delivery of the set goals, will determine the continued relevance of the organization's governance processes and practices.

There are sentiments in support of the notion that suppliers of labor are entitled to some measure of economic dividends linked to the corporate entity (Greenwood, 2008). Thus, there is a need to aggregate and optimize human and material resources in organizations with diverse processes geared towards delivery of increased performance. This perspective represents the primary goal of typical modern organizations as evidenced by the application of different models and strategies to achieve this desirable outcome. In effect, it stands to reason that the contributors of labor, who create value and account for organizational performance, should assume more prominence relative to issues of corporate direction.

### 5. OPTIMIZING THE ROLE OF EMPLOYEES IN THE GOVERNANCE STRUCTURE

In the Anglo-American perspective, models relating to corporate ownership and control have evolved in ways that further validate the historical, conventional and foundational methods of organizational governance particularly in terms of, establishing the separation between matters of ownership and control (Berle and Means, 1932). This outlook has impacted on the ability of organizations to operationalize human resource management thereby resolving typical challenges in the sphere of production management (profit maximizing and cost minimizing objective). Thus, by assigning or positioning a dominant stakeholder group and allocating interests on the basis or organizational priority, corporate governance effectively influences the underlying structure, nature of stakeholder relationships as well as of enduring commitments that stakeholders exchange amongst themselves (Konzelmann et al., 2005). This approach potentially impacts on the willingness of individuals to engage fully in activities associated with a high rate of return. The central question in this regard, is how to create a governance structure that ensures and recognizes the sustainable contributions of the employees, from the perspective of fairness and productivity (Blair and Stout, 1999; Robert and Van Den Steen, 2000).

Therefore, an integral function of the corporate structure is that; it enables different interests to efficiently aggregate capital and labor for their corporate benefit. Thus, it is important that the process and allocation of those associated benefits become a fundamental issue. It has been argued that, ownership is vested or lies in those who have invested labor which has resulted in the creation of a product, and that the capitalist employer can be referred to as the custodian of surplus value (Alexander, 1990). Hence, all value is the result of the effort that has been effectively and efficiently allocated within an organization's governance structure (Monks and Minow, 2001). The custodian of capital rewards the employee less than the value he produces and retains the surplus as profit.

### 6. CORPORATE LEVERAGING AND DECISION MAKING

It is widely accepted that a duly constituted board is engaged primarily with the functions of formulating and ensuring the implementation of strategic objectives, in addition to managing the risks within an organization's corporate framework (McNulty et al., 2012). This outlook has further entrenched the issue of board composition, in discussions dealing with corporate governance and board performance. However, certain issues come to the fore, especially as it is not the board members that are responsible for routine operations of the company. It is necessary to consider certain fundamental questions to achieve a fuller appreciation of the corporate process. These include; identifying the decisions to be made; the appropriate person to implement the decisions and ensuring that such person is duly authorized to execute the decisions.

In the long-run, employees are best positioned to shape numerous components of the governance process owing largely to their access to a broader information spectrum. This class of stakeholders also have a minimal conflict of interest posture, relative to the ownership and control of the corporate entity. It is also instructive to note that, no class of persons apart from employees has a longer-term commitment to the company's long-term vitality or sustainability. In terms of aggregating and allocating externalities, employees account for the lowest agency costs or conflict of interest indices. This outlook is also relevant to the macro-perspective and is consistent with the basis for establishing the corporate structure (Monks and Minow, 2001).

The Figure 1 represents a conceptual model of the corporate governance practices and human resource management outcomes as discussed. Hence, the model is generally applicable to identifiable actors within a structured organization seeking to optimize its corporate processes and human resources within a business context.

### 7. OVERVIEW OF APPLICABLE THEORIES

There is a relative lack of consensus on governance systems based on law and regulations in several developing contexts. Thus, in climes where such systems exist, issues of compliance and due enforcement are militating against the intended outcomes of the different governance structures and models as may be adopted. To varying degrees, public and private sector business concerns are impaired with mismanagement and regulatory inconsistencies. This viewpoint is evidenced by the identifiable corporate failures cutting across various sectors on the domestic and international spheres (Nguyen, 2011). Hence, selected theories are discussed below. The overview provides general but critical insights into the application of selected corporate management theories.

#### 7.1. Stakeholder Theory

The stakeholder approach emphasizes that a corporate body was created to serve multiple interests or stakeholders who have a legitimate stake in the organization's performance or output.

Functional, Corporate **Employment** Disciplinary & HRM Governance Contracts Grievance Outcomes **Practices** Structure Corporate Disciplinary Efficiency Measures **Employee** Board Commitment Composition **Employee** Regulatory Engagement Compliance

Figure 1: Conceptual model of corporate governance practices and human resource management outcomes

Source: Oyewunmi (2016)

Mercer (1999) describes stakeholders as, every participant or agent for whom the firm's development, well-being, sustainability is of central issue and of principal consideration. Freeman (1984) on the other hand, adopts a broader perspective of stakeholders as any classification of persons or individuals that can shape or be re-shaped by the achievement of a company's objectives. The various perspectives in support of this theory are rooted in the Kantian Theories on moral duties and rights of the individual (Sayre-McCord, 2000). The notion of categorical imperative, which is an aspect of Kant's theory of morals are applicable to some of the diverse stakeholders and cutting across the various sectors. The normative claim, that is, the idea that stakeholders have intrinsic moral rights in relation to the management of corporations (private and public) is primarily derived from Kant's non-consequentialist or deontological ethical theory. However, in practical terms, this claim to stakeholder rights is based on negotiations, agreements, engagements, compliance on multiple levels amongst the identifiable parties. In other words, value, wealth, and just rewards are captured within measurable parameters and taking into cognizance the dynamics of a given context.

### 7.2. Principal-agency Theory

In terms of theory formulation and development, extensive research effort can be linked to this perspective on corporate management (Hart, 1995). This well-established perspective has made undeniable contributions towards the advancement of organizational research in general as well as in construing corporate governance issues (Jensen, 1993; Dalton et al., 2003). The primary essence of this theory lies in the regulation managerial conduct to reconcile inconsistencies with the shareholders' wealth maximization principle. Thus, separating ownership from the dimension of control is sacrosanct, whilst ensuring that managers are not distracted from performing their profit-maximization role. In furtherance of this primary corporate objective, shareholders can deploy various management tools; including innovative board monitoring and mutual monitoring by managers (Fama and Jensen, 1983; Rediker and Seth, 1995) and inclusive of exercise of due diligence by large external shareholders (Demsetz and Lehn, 1985; Holderness and Sheehan, 1988).

Furthermore, other internal governance options entail diverse equity-based managerial incentives that effectively reconcile interest of the primary actors represented in an agency relationship (Murphy, 1985; Jensen and Murphy, 1990). There are also external factors, such as the risk of corporate re-organizations and rearrangements, commonly referred to as mergers and takeovers (Grossman and Hart, 1988; Shleifer and Vishny, 1997) competition relating to the product (Hart, 1983; Jensen, 1993) and the due regulation of labor markets may mitigate managerial abuse. Rediker and Seth (1995) further opined that a synergy of internal and external governance processes may lower principal-agent costs and effectively integrate interests of principals and agents. In the light of the broader stakeholder matrix now attributable to the corporate entity, employees can also be construed as an integral to shaping corporate direction.

### 7.3. Human Capital Theory

The theory emphasizes the indicators of education and training as a source of capital; that is continuous learning, knowledge and capacity building. Psacharoplos and Woodhall (1997) acknowledged high investment in human development as a key explanation for the rapid development in Asian countries. This perspective has been further validated by the measurable growth achieved in these socio-economic contexts without the benefits attributable to some oil dependent economies. Also, the theory essentially challenges the view that training and development are costs that organizations should strive to minimize. Instead, it advances the perspective, that such indicators should be construed as returnable investments.

It is not unusual that the theories captured above focus on different aspects related to the governance as well as the human resource management aspects of an organization. In effect, the theories are by no means exhaustive in capturing the diversity or peculiarities of evolving business models, structures and processes. Therefore, it should be constantly noted that the objects and operating environment of an organization differ to varying extents. This reality may manifest in the variations in emphasis placed on specific dimensions of the governance process. Hence, the contextual question remains a recurring decimal that lends

itself to further appraisal, irrespective of the theory or perspective under consideration.

both approaches is better suited to accommodate the complexities and evolution usually associated with corporate organizations.

### 8. INTROSPECTION ON EMERGING ISSUES

Theories are relevant for consideration in order establish a basis for improving corporate governance practices and the connected human resource management issues. It has been widely deliberated that the weak application of corporate governance in various respects, has contributed to numerous corporate failures (Jensen, 2001; Monks and Minow, 2004). This assessment is applicable to the incidents associated with the notable and the not well established business entities, operating either in the local and international spheres. The above commentary is also relevant to developed, growing, emerging and developing economies respectively, especially in jurisdictions where incidence of corruption and poor regulatory compliance is very evident or significant. Without a doubt, such negative elements or indicators will impair the performance, structures and processes of corporate entities operating within such environments.

Also, significant in this regard, is the escalating loss of public trust in the governance of corporate entities (private and public); particularly about the relevant authorities that are vested with the responsibility of implementing the regulatory processes. From a general view point, two broad purposes motivate the corporate governance thought pattern and evolution. In the first instance, there is an underlying need to secure stricter accountability of board members and individual directors to the owners or shareholders. Secondly, it is to mitigate the increasing fraudulent tendencies in several companies. An effective appreciation and resolution of such matters in the affected countries will further highlight the essence of rule of law, mitigate unethical business practices and thus facilitate a more liberal and flexible process towards the desired goal of a more global civil society.

The previous studies have therefore expended considerable effort on expounding the agency arrangement as well as the various types of ownership models attributable to the modern corporate entity (Edwards and Hubbard, 2005), financial disclosure (Botosan, 2005), devices or models of compensating board members (Jensen and Murphy, 1990; O'Connor et al., 2006), audit committees and board structures (MacAvoy and Millstein, 2004; Monks and Minow, 2004). These rules based and compliance centric models constitute the available channels to further bring to the light fundamental issues of disclosure, access to information, enhanced communication flow, legitimization, participation and corporate monitoring (Holmstrom and Kaplan, 2005).

A regulatory option is prescriptive in approach and would typically entail proffering solutions to situations after the crisis has occurred. This approach, places due emphasis on various issues that ought to have been taken into cognizance while setting up an effective governance model. Such an approach is important for purposes of determining the option best suited to varying operating contexts. This contrasts with behavioral and decision-making approaches that focus on questions touching on effectiveness of governance mechanisms; actions of boards and managers. A combination of

### 9. CONCLUSIONS

The introspection into corporate governance as well as human resource management issues is a fundamental aspect of modern management and the long-term relevance is evident. This view point is largely connected to the various corporate meltdowns, fraudulent and unethical practices coupled with the consequential criminal investigations being experienced in the corporate arena. It is against this backdrop, that there have been suggestions for new theories, models, and sector specific policy re-engineering, as avenues to optimize wealth creation and the human capabilities within a given context (Daily et al., 2003; Oyewunmi and Olujobi, 2016). In both developed and developing climes, notable evidences of defective corporate governance processes have been documented, pertaining to activities spanning across diverse sectors. Moreover, the collateral damage to the human resource component can by no means be relegated, being the life blood of the corporate entity.

Organizations operating within the broad financial sector have been widely investigated in comparison to other sectors. Thus, there are limited empirical studies that capture the complete scale of reasons contributing to the crises associated with corporations. The existing research generally tends to emphasize the issues of regulation and control connected with accounting and legal mechanisms. Therefore, the research is limited on contextual issues and wider global perspectives. The admixture of approaches is a testimony to the multifaceted dimension of the corporate governance debate and reinforces the argument in this paper for a more integrative perspective of the issue.

This paper recommends the adoption of transitional models of corporate governance that incorporate broader issues, cutting across legal, regulatory, social-science and management perspectives. The renewed outlook will further explain the dynamics surrounding the governance of corporate entities. It will contribute to development of practical models that will help to mitigate corporate failures, whilst considering the connected human resource management outcomes. That is, the greater the synergy within identifiable aspects of a structured corporate entity, the more evident the opportunities to achieve measurable growth. In effect, such a practice provides a reasonable platform for corporate evolution particularly in the dynamic business climate.

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