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Corporate Governance and Sustainable Development: Practical Implications

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Abstract:
A successful corporation requires efficient and successful management. Development of good practice in corporate governance is a requisite for corporations aiming to prosper on the market. In Kenya, many organizations have indicated poor performance in their financial reporting, most of them being due to poor corporate governance practices. Good performing organizations contribute to the economy via payment of taxes and job creation thus enhanced sustainable development in the country. The study established that corporate governance influences sustainable development. There are five categories for corporate governance. The name of the categories has been fixed based on transparency, rights of stakeholders, board composition; independence and governance; functioning of board etc. Sustainable development is generally guided by social economic development. Findings revealed that all the measures of cooperate governance accounted for 72.7% change or variance in social economic development (R^2=.723). The recommendations from the paper will aid in enhancing good corporate governance practices which will in turn enhance sustainable development in Kenya.

Keywords: *Corporate governance, sustainable development, taxes; corporate governance practices, economy*

1. Introduction

Collection of processes, rules, policies, laws, those are help to shape and set direction of a firm or organization is called corporate governance. It also helps in supervision and control. It also encourages smooth relationship in various stakeholders (10). All of the levels of the organization are associated with this. Public accountability can also be ensured through this. Ethical standards can be revaluated with this. Effective financial reporting from both internal as well as external perspective can be ensured by this (18). It incorporates all the processes and controls of a firm (17). For developing economics, it provides a guideline for the corporation's (26). Corporate governance leads to waste, misconduct and dishonesty. Irrespective of the type of business, corporate governance is important (18).

2. Literature Review

It helps to achieve financial efficiency (2). Improper implementation effects integrity, openness and accountability. Many joint ventures of Africa including Kenya have emphasized the importance of good corporate governance practices. Many researchers have focused researches to find association between corporate governance and corporate financial performance. The results have been mixed and inconclusive. (16) recommended that for sustainability to be embedded in the organizational culture, the governance structure needs to be tailored accordingly. They emphasized on the significance of the key elements of corporate governance which are board of directors (BOD) and Executive compensation to ensure sustainable growth of the organization. The current paper examines the relationship between corporate governance and sustainable development in Kenya.

2.1. Measuring Corporate Governance

Evaluation of strengths and weaknesses of the system is the way to measure corporate governance fundamentally. The whole economy can grow with this (8). It benefits one or more stakeholders (24). Numerous mechanisms are there to evaluate the efficiency of corporate governance. These mechanisms can be set both at internal and external levels. Externally set mechanisms helps to set objectives, legal framework, fortification of minority ownership rights (5). These mechanisms help in supervision and implementation of disciplines within the company (5). There is no single way to measure it. There are many ways through which it can be measured by all the organizations (6,14). A total of 15 principles have been highlighted by the OECD principles of corporate governance (11).

2.2. Determinants of Quality of Corporate Governance

Good corporate governance helps investors as well as stakeholders to wake of certain major corporate collapses. The 'substance' will ultimately control the credibility and integrity of the process (13). There are three main categories to access the quality of corporate governance set by the Standard and Poor's global equity research departments. These are organizational structure, Executive compensation and shareholder rights (9).
The proper monitoring of disclosure and transparency is being done by the Corporate Governance Quality (CGQ) index (15).

In practice, there are four principles of good corporate governance, which are: transparency; accountability; responsibility; and fairness (4).

In this paper, determinants of quality of corporate governance have been put into five categories namely: Transparency and disclosure compliances; rights and relationships of shareholders; board composition; independence and governance; functioning of board and board committees and stakeholder value enhancement and corporate social responsibility/other corporate initiatives.

2.2.1. Transparency and Disclosures

Transparency helps to disclose information that helps to improve operating and financial performance. Market efficiency improved with this. Moralization in business life improved by this (7). Frequent and credible disclosure helps to achieve better quality that provides disclosure n financial and operating performance (11).

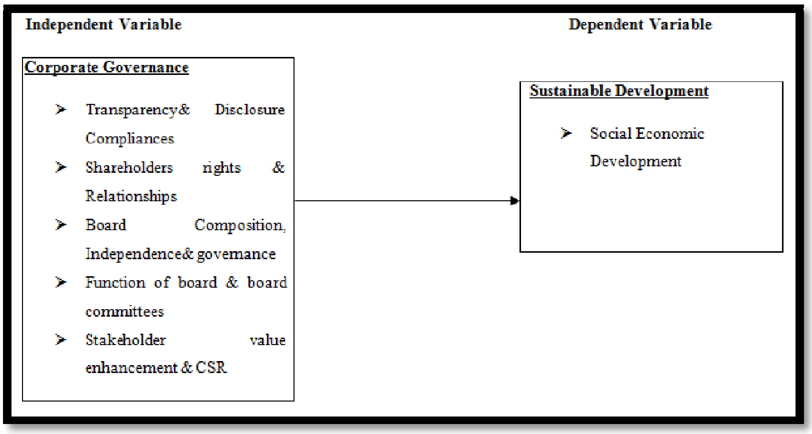

Figure 1: Conceptual Framework
Own conceptualization, 2019

2.2.2. Shareholders Rights and Relationships

Shareholders commend the board of directors to monitor and screen the management, they are given rights and opportunities to participate directly in monitoring their firms (25).

2.2.3. Board Composition, Independence& Governance

The board of directors help to manage crucial role in the business and management (26). Board provides the strategy, policies and guidelines to an entity for its orderly functioning and growth. An effective board is key to success and corporate discipline.

2.2.4. Functioning of Board and Board Committees

A board helps to form a committee by taking few directors. They are powered with many responsibilities. They support auditing and internal controls, top management controls (11).

2.2.5. Shareholder Value Enhancement and CSR/other Corporate Governance Initiatives

Terms with stakeholders helps to determine quality of corporate governance (28). It aims to improve human welfare by impacting quality of life in the society directly.

2.3. Corporate Governance and Sustainable Development

Environment, economic and social dimensions help to create sustainable development. The Brundt land report highlights the sustainable development (1). A better company means a better society. The connection between corporate governance and sustainable development improves the quality of human life (3). Stewardship of a business incorporates human, intellectual, natural and social capital (20).Sustainability promotes ethical accountability and comprehensive corporate governance practices. It also helpful for creating a healthy and safe working environment. Needless to say, performance of employees improved through this. Exploration of self-opportunities improved through this. Also included in the notion is promoting cultural diversity and equity in the work place and minimizing adverse environmental impacts and providing opportunities for social and economic development within the communities they operate. Thus, sustainability is a strategy of the process of sustainable development (21)

The economic aspect of sustainable development emphasizes the production of goods and services visa a-vis maintenance of external debt as well as avoiding extreme sector imbalances which damage agriculture or industrial production(19).This aspect of sustainable development has to do with sustaining a stable resource base, avoiding over exploitation of renewable resources and depleting non-renewable resources only to the extent that investment is made in adequate substitutes. Furthermore, the social element of sustainable development requires achievement of distribution equity, adequate provision of social services such as health, gender equity, social accountability and participation (19).
Environmental priorities in developing countries are therefore regulated by the fact that more than 1200 million people lived below poverty level, 2200 million did not have access to sanitation and 1550 million did not have access to safe

water, all of which are reflected in high infant mortality (27). Social sustainability is also derived from access to safe water and sanitation. Access to safe water especially in rural areas is yet another major problem in developing countries. Lack of safe water is responsible for high infant mortality rates in developing countries and lack of adequate sanitation facilities is responsible for a number of diseases (27). In this respect, (12) posit that sustainable development should address social equity and improve the prospects of quality of life for the worst-off communities, run down economies and urban environments. The interdependence model recognized that the social and economic systems have never been and can never be independent of the natural system (23).

3. Analytical model

The multivariate model was as follows;

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5\mu \quad (1)$$

Where;

Y = Sustainable development, X1, X2, X3, X4 & X5= measures of corporate governance

In the model, $\beta 0$ = the constant term while the coefficient βii = 1….3 was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ is the error term which captures the unexplained variations in the model. Purposive sampling was adopted whereby 50 senior members of staff at the County Government of Homabay were contacted for data.

4. Findings

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.038	.103		-.371	.711
	Shareholder rights and relationships	.232	.048	.228	4.788	.000
	Board composition independence and governance	.214	.048	.216	4.481	.000
	Function of board and board committees	.204	.040	.233	5.126	.000
	Stakeholder value enhancement CSR	.126	.044	.123	2.839	.005

Table 1: Model Coefficients[a]

a. Dependent Variable: Social Economic Development

The findings indicates that Functions of board and board committees had the strongest unique contribution (β=.233, p<.05), followed by shareholder rights and relationships (β=.228, p<.05), board composition, independence and governance (β=.216, p<.05), transparency and disclosure compliances (β=.181, p<.05) and finally stakeholder value enhancement (β=.123, p<.05). This implies that all the selected measures of corporate governance uniquely contributed to the socio-economic development.

The findings on the summary model results are presented as shown in Table 2.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.853[a]	.727	.723	.617	.727	198.750	5	373	.000

Table 2: Model Summary

a. Predictors: (Constant), Stakeholder_Value_Enhancement_CSR, Transparency_and_Disclosure_Compliances, Functionof_Board_and_Board_Committees, Shareholder_Rights_and_Relationships, Boardcomposition_Independence_and_Governance

From the findings, the model (all the measures of corporate governance) accounted for 72.7% change or variance in social economic development (R^2=.723). The findings were statistically significant, F (5,44) =198.750, p<.05, implying that it was not by chance but as a result of carefully choosing and fitting the most appropriate measures of corporate governance.

Thus

Where Xis are defined as measures of corporate governance.

5. Conclusion

The paper reveals that in tandem with existing literature, corporate governance plays a significant role in furthering sustainable development. Non-compliance with acceptable corporate governance practices has a negative implication to the economy due to closure of various investments. This will in turn have a significant negative contribution to sustainable developments. Thus, for sustainable development to be achieved, policy makers need to focus on enhancing compliance of acceptable corporate governance practices. This will automatically have a development pathway that is both progressive and sustainable. In the long run a strong link between corporate governance and sustainable development will ensure that progress achieved is translated to increase in individual wealth thus alleviating poverty.

6. Recommendations

- There is need to ensuring compliance of good and acceptable corporate governance practices by public and private sector companies. A significant positive effect has been observed on sustainable development.
- Sustainable development is greatly affected by the social dimension for the Kenyan economy, there needs to be a shift from consumption economy to a savings economy through encouragement of personal savings, retirement savings through tax reliefs from savings and by increasing deposit savings rate.
- Contractionary fiscal policy is proposed to reduce public deficits and lower private indebtedness so as to reduce natural unemployment rate.

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