The Impact of Corporate Governance and Leadership on Organizational Success

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Abstract
There are several themes, especially a fixated reliance on the Board’s structure/composition to evaluate effectiveness of corporate governance, controversial for a small/medium sized firm as the former approach is primarily designed with large corporations in mind. It was basically a qualitative research underpinned by a case study of organization XXX was conducted in order to explore the impact of corporate governance and leadership on organizational success. Data was collected via semi-structured interviews, transcribed and analysed using the grounded theory (Straussian method), revealing XXX’s pursuit of organizational success as an on-going crusade, with impediments to be addressed. A contextual look into corporate governance model for a small firm was undertaken. Corporate governance’s strengths contributing to and limitations impeding organizational success were examined. Also, leadership strengths and limitations were also examined. The study revealed that, leadership effectiveness can be measured by the degree of relationships formed rather than styles/types, which vary by leaders’ personalities. Leader-member exchange (LMX) provides the platform for relationships to be formed and strengthened by culture of values.

Keywords: Corporate governance, leadership, organizational success, culture, leader member exchange

1. Introduction and Background to the Study
Enterprises are constantly searching for formulas of success. The notion of success differs for individuals and enterprises. With changing times, measures of success have also evolved beyond traditional financial measures to embrace sustainability and environmental factors to the triple bottom line (Elkington, 1997, cited in Hubbard, 2006, p.179). One of the key factors contributing to organizational success is corporate governance, whose applicability is contentious for smaller organizations. While effectiveness of corporate governance is traditionally seen from the Board’s composition/structure, with an important key role in oversight of the CEO, which creates political problems between the board and management, the processes consisting of interplay of human relations amongst all board members and extending beyond the boardroom to all stakeholders are more important (Nadler, 2004, cited in Leblanc, 2005, p.654) where the Leader-Member exchange platform allows for such matured elations to form, contributing to organizational success (West and Meyer, 1998, p.397, cited in Daily et al. 2002, p.396). A transformational leader is postulated to bring about greatest organizational success by bringing about organizational change through changing values and behaviours, mission, strategy and culture (Hayes, 2018) of people. Leadership, however, is underpinned by personal characteristics and personality of leaders. If dark personalities exist, the ability of leaders to make informed or balanced decisions will be impeded, as leaders make decisions that benefit the themselves more and not the organization (Van Velsor and Leslie, 1995, cited in Khoo and Burch, 2008, p. 95). It is interesting to explore how these two important constructs can shape the success of organization XXX. Hence, the research topic for this study is: “The contributions of corporate governance and leadership to organizational success in XXX”. The purpose of this study was to contribute to the limited extant literature based on the two constructs of corporate governance and leadership while informed by the following research objectives;

- To investigate the impact of corporate governance and leadership on organisational success
- To identify links/limitations of corporate governance and leadership

The study was conducted on company XXX as the unit of analysis located in Singapore. XXX is a construction firm, with a staff complement of fifteen; four being in managerial positions, nine technical and two administrative support staff.

2. Literature review
In convoluted and rapidly-changing times where organisational resilience is required for survival (Spiers, 2017), organizational success is fervently pursued and re-examined. Measures of organizational success have evolved from shareholder returns (1980s) to fulfilling responsibilities to wider stakeholder groups (1990s) (Freeman, 1984, cited in Hubbard, 2006, p.178). In 1997, an extension of Stakeholder theory, the Triple Bottom Line (TBL) (Elkington, 1997, cited in...
Hubbard, 2006, p.179), emerged for measuring organisational performance, adding social and environmental measures of performance to economic measures. Having competitive advantage then requires creating and dominating emerging opportunities (Hamel and Prahalad, 1994, cited in Maltz, Shenhar & Reilly, 2003, p. 188). Drawing on this, Maltz, Shenhar and Reilly’s (2003) Dynamic Multi-dimensional Performance (DMP) framework showed how each company’s unique circumstance (industry, technology and strategy) translates into five success dimensions namely, financial performance, market/customer, process, people development, measuring effectiveness across four time horizons, starting with financial measures in the very short-term to the future over three to ten years implying the need to embrace change for organizational sustainability where people (all stakeholders) are a valuable source of competitive advantage impacting on firm performance (Maltz et al, 2003, p.191).

Congruent to emergent ‘sustainability’ and ‘sustainable development’ concepts defined by Hubbard (2006) consisting of three inextricably-connected principles: environmental integrity, social equity and economic prosperity, Aras and Crowther (2008) posited that sustainable corporate success is essentially dependent on financial aspect, contrary to most findings, built upon four tightly-knitted, equally important, aspects of finance, organisational culture, societal influence and environmental impact, measured across a two-dimensional matrix on duration (short and long term) and extent (short-term and long-term) of the focus. This is illustrated in figure 1 below.

![Figure 1: Model of Sustainable Development](source: Aras and Crowther (2008, P. 438))

Burke and Litwin (1992) postulated as open systems, organization’s performance is driven by transformational change through leadership, mission and strategy, and culture bearing most impact on other interrelated elements depicted by two-directional arrows with intricately-linked feedback loop between external environment and internal inputs that lead to outputs (outcomes). This warrants review of extant literature revolving around three constructs of corporate governance, leadership and culture’s impact on organization’s long-term success.

2.1. Organizational Corporate Governance

Corporate governance are structures and processes to oversee an organization’s assets, traditionally economics-focused (remuneration and monitoring) and legal (creating and enforcing rules for societal benefits) structures (Hambrick, Werder & Zajac, 2008). The dominant understanding of corporate governance rests on the board (of Directors), stated in the Turnbull Report (1999) by the Financial Reporting Council of 2014 as cited in Spiers, (2017, p. 117);

“The board has ultimate responsibility for risk management and internal control, including for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate culture has been embedded throughout the organization”

Some common board characteristics are Directors’ composition, CEO/Chairman role duality, CEO tenures, amongst others. Hsu and Wu (2014) found that Executive Directors dominate Boards of both successful and failed firms; leadership duality and firm’s age have no significant impact on firm success; CEOs also served much shorter terms in failed firms whereas successful firms have higher profitability and greater asset size.

Rather than focusing on board characteristics, an open-systems organizational approach of corporate governance by Aguilera et al. (2008) shows every firm’s unique costs (direct, opportunity, proprietary, reputational), contingencies (life cycle, firm size and external/governmental constrains) (Hermalin & Weisbach, 1998, cited in Aguilera et al., 2008, p. 481) and internal capabilities (skills/knowledge) (Barney, 1991, cited in Aguilera et al, 2008, p. 481). These co-exist with national-level institutions and culture whereby corporate governance effectiveness is measured by the degree to which internal practices complement external environment, confirming no one-best-practice in corporate governance (Donaldson, 2001, cited in Aguilera et al., 2008, p. 481). Rather, corporate governance effectiveness is a result of...
interspersed and inter-dependent relationships between an organization and its external broad environments (Aguilera et al., 2008). Figure 2 below illustrates this structure.

![Figure 2: An Organizational Approach To Corporate Governance](image)

Similarly, Hambrick, Werder and Zajac (2008) encouraged a deeper-level, holistic understanding of corporate governance, citing Zajac and Westphal's (1998) framework displayed in a 2 x 3 matrix, inside-out and outside-in (the organization) consisting formal structures (i.e. economic and legal), informal structures (i.e. behavioural structure) and behavioural process considering all stakeholders, boardroom dynamics, managerial processes/values/motives, and national-level factors of legal practices and culture.

2.2. Limitations of Corporate Governance

There are seven limitations that are discussed below.

2.2.1. Power Differentials and Intra-Board Power

Boards are not single, homogeneous units but comprise of different directors with different powers which determine the courses of actions taken by board and their resultant success or failure (Finkelstein, 1992, cited in Hambrick, Werder & Zajac, 2008, p. 382). Hence decisions highly-favoured by powerful directors may not be best for stakeholders. Furthermore, the usual oversight role of the board creates power issues as CEO may feel a loss of freedom to act or decide according to their own judgment (Hambrick, Werder & Zajac, 2008).

2.2.2. Directors’ Motivation

Wiesenfeld et. al (2008), cited in Hambrick, Werder and Zajac, (2008, p. 384), highlighted that directors are paid low remuneration, engage in routine board activities, given little credit for organizational success yet are tasked with CEO replacement, lawsuits or media pressures in difficult times. They may thus serve to improve personal social standing, gain contact network hence board actions/decisions could derive from informal peer pressure or external pressures from media, investors and governance watch-groups rather than stipulated regulations (Wiesenfeld et al., cited in Hambrick, Werder & Zajac, 2008, p. 383).

2.2.3. No Commonly Agreed Way of Executing Corporate Governance

This is exemplified by polarized views adopted by the US (compulsory compliance of corporate governance) versus UK (non-compulsory). The UK Cadbury Code of best practices has been criticized as advisory, left to self-regulation to encourage boards/organizations to comply with the spirit of requirements. Such vagueness in clauses undermines enforcement, making non-compliance hard to monitor, leaving critics to wonder if 'Cadbury leaves behind a bitter aftertaste' (Green, cited in Finch, 2007, p. 593).

2.2.4. Interlocking Board Membership

Cadbury’s reliance on non-executive directors to play dual, mutually-opposing roles of advising and monitoring, causing board bifurcation/split between NED and executive directors, implying a two-tier board rather than unitary board is more appropriate (Green, 1992, cited in Finch, 2007, p. 593). Hence NEDs are like schizophrenics doing this balancing act (Boxer et al., 2012).

2.2.5. Corporate Governance According to Cadbury

It stresses on Board’s accountability to shareholders, yet do not provide rights to shareholders in seeking independent outside advice. Admati (2007) cautioned against relying on financialized corporate governance (i.e.

2.2.6. Corporate Governance Deviance

Governments enact laws to prevent corporate failure as losses in jobs or foreign investments adversely impact on economy (Mugarura, 2016), contradicting organizational policies, adds costs, yet government may not rectify the resultant serious economic backlashes (Admati, 2017). Aguilera and Judge (2018) concurred that apart from institutional factors, a firm’s entrepreneurial identity helps make sense of its position in face of prevailing external governance. Bridging this internal (entrepreneurial identity) and external (prevailing governance logic). Conflict is the construct of corporate governance discretion (Hambrick & Finkelstein, 1987, cited in Aguilera & Judge, 2018, p. 94). Cognitive dissonance between entrepreneurial identity and prevailing governance logic leads to governance deviance. However, firms consider implications on both national level (punishments i.e. regulatory enforcements) and company level (if it has the means to cope with the newly adopted option) before finally adopting the deviant option.

2.2.7. Applicability of Corporate Governance in SMES

Although optional for non-listed SMEs in the UK, Saxena and Jagota, (2015) and Crossan et al, (2015), cited in Spiers,(2017, p. 115), strongly expressed that corporate governance is critical. Dunst & Henschel(2014) warned of the danger in using corporate governance approaches centred on ‘agency theory, disclosures and dispersed ownership’, developed mainly for large organizations, with limited relevance to SMEs (cited in Spiers, 2017, p. 115). Instead SMEs should adopt corporate governance in their management strategy to “achieve strategic, tactical and operational efficiency by embracing good corporate governance principles which include risk management and control mechanisms” (Mahzan & Yan, 2014, p. 156, cited in Spiers,2017, p. 117).Spiers (2017) posited that small companies take on different forms of governance practices, centrally-driven by beliefs and attitudes of the owner-manager, where good corporate governance is brought about by a culture of learning and openness to change at all levels, with management pro-actively and intentionally stepping back from pre-occupation of day-to-day management to strategize and formulate policies of risk-management (Spiers, 2017).

2.3. New Directions for Corporate Governance

Davis (2005) suggests moving from traditional, law/economics-based to a sociological corporate governance citing Karl Polanyi (1957) that the human economy is a web of social relationships ingrained in both economic and non-economic institutions (cited in Davis, 2005, p.157). In sum, organizations should re-focus on what really matters i.e. the people in this web of intricately-linked board, as well as board’s relationships with external stakeholders as the categorical focus on board composition/dynamics bears no significant outcome. Similarly, the collaborative board model(Adams & Ferreira, 2007; Wesphal, 1999) encourages collaborative working relationships among board members to facilitate information exchanges so that planned strategies can be best executed (Adams & Ferreira, 2007; Almazan &Suarez, 2003, cited in Hsu and Wu, 2014, p. 218), akin to Osman and Nahar’s (2015) postulation that organizational success comes about through effective interaction of all the governance agents shown in figure 3 below as Nadler (2004, p.102), cited in Leblanc (2005, p.654) puts it:

“The key to better corporate governance lies in the working relationships between boards and managers, in the social dynamics of board interaction, and in the competence, integrity and constructive involvement of individual directors.”

![Figure 3: Governance Agents and Its Interactions](Source: Osman and Nahar, (2015, P. 753))
2.4. Leadership

Leadership refers to the individual’s ability to influence others (via strengthening their convictions) to take positive actions contributing to organizational success (House et al., 2004, p.15, cited in Erdogan, Liden & Kraimer, 2006, p. 395). Leadership effectiveness is measured by leader’s relationship with his people (Strukan and Nikolic, 2017). Falk & Blaylock (2012) postulated that values of honour, humility and honesty contribute to leadership effectiveness and organizational success, in line with Clawson’s (1999) postulation that effective leadership is laid on moral grounds of ‘truth-telling, promise-keeping, fairness and respect for the individual.’ (Cited in Falk & Blaylock, 2012, p. 75). On the contrary, hubris, hypocrisy and hostility greatly undermines leadership.

Hubris blinds leader to his weaknesses through a self-inflated perception of himself, worsening if he is advice-averse, weakening decision-making Falk and Blaylock,(2012, p. 71), thus failing to see reality of planned action or rectify consequences thereafter (Hayward, 2007, cited in Falk and Blaylock, 2012, p. 71) leading to organizational decline. Hypocrisy occurs when leader’s actions/behaviours are mismatched with corporate values (Cha & Edmondson, 2006, cited in Falk & Blaylock, 2012, p. 71), as leaders are disillusioned that they need not be accountable. Hostility and anger cast negative judgments desiring to harm or see others harmed (Smith, 1992, 1994, cited in Falk and Blaylock), blinding leaders to see risk of their actions (Falk & Blaylock, 2012). Humble leaders, however, act for betterment of others and are open to learning/improving organizational performance (Morris et al., 2005, cited in Falk 7 Blaylock, 2012, p.75).

2.5. Transformative Leadership

Transformative leadership is ethics and values-based, having moral duty towards stakeholders’ long-term interests (Caldwell et al, 2011), achieved by turning peoples’ intentions into actions where results are sustained (Bennis & Nanus, 2007, cited in Caldwell et al., 2011, p. 176), thus earning followers’ trust/commitment (Senge, 2006, cited in Caldwell et al., p. 176). Organizational success is thus achieved through working relationships with others, build on ‘shared commitment, mutual trust and respect, and systems that reinforce espoused values’ (Schein, 2010; Pfeiffer 1998, 2007; Hosmer, 2007, cited in Caldwell et al., 2012, p. 182), through encompassing six highly-regarded leadership perspectives namely; transformational, charismatic, level 5, principle-centred, servant, and covenantal leadership.

2.6. Limitations of Leadership

There are three leadership limitations that are discussed below.

2.6.1. Leadership Industry

Kellerman (2012) postulates that although pre-occupied with training, mentoring and researching, leaders’ power will diminish as followers will gain more power in future (cited in Markham, 2012, p. 1137). Interestingly, Firza (2013) mentioned 70% of corporate performance depends on luck/chance but CEOs are attributed success (cited in Friedman & Hershey, 2017, p.161). Real stupidity may lie in the belief that leadership contributes largely to organizational success (Alvesson & Spicer, 2016).

2.6.2. Leadership Failures

Leaders’ education, skills and time dedicated to their jobs are not indicators of leader ship quality. Rather, Falk and Blaylock (2012) mentioned that leaders fail due to personal behavioural shortcomings, which could be reasons for financial systems and national economies’ collapse. Hogan, (2004), cited in Falk and Blaylock, (2012, p. 70), highlighted that an individual’s personality indicates the way he/she leads as who the person is and how he will lead.

2.6.3. Dark Side of Leadership

‘Dark personalities’ or personality disorders like Narcissism, where leader’s over-inflated rating of himself or herself is contrary to others’ perception (Robins & Paulhus, 2001, cited in Khoo & Burch, 2008, p. 94), entrap leader in a state of denial, blinded by his/her own shortcomings (Watson and Clark, 1984, cited in Khoo and Burch, 2008, p. 94). While they may be able to draw attention to themselves, they have weak inter-personal and team-building skills as their focus is on themselves, in line with management derailment literature (Van Velsor & Leslie, 1995, cited in Khoo & Burch, 2008, p. 95).

2.7. LMX and Organizational Success

A central feature of leader-member exchange (LMX) is the unique relationships leaders form with followers according to the different levels of favourable treatment to them (Han, Sears and Zhang, 2018). LMX measures the quality of relationship and trust between leader-member (Seabright, Leventhal & Fichman, 1992, cited in Strukan & Nikolic, 2016, p. 3).Grounded in role theory, leader-member relationship develops over 3 stages of mutual testing. The leader assigns/evaluates the follower in role-taking phase (Graen & Scandura, 1987), followed by role-making (Graen & Cashman, 1975) through leader-member’ social exchange (Blau, 1964), followers give leaders clear signals approving given tasks which promote future tasking of the same (Homsans, 1961, cited in Sin, Nahrgang & Morgeson,p. 1049). Finally, role-routinization occurs with formation of acceptable/shared behaviours (Graen & Scandura, 1987, cited in Sin, Nahrgang & Morgeson, 2009, p. 1049). High quality leader-member relationships are characterized by high degree of mutual trust, respect and obligation (Graen & Ulh-Bien, 1995, cited in Sin, Nahrgang & Morgeson,2009, p. 1048). Such in-group enjoys more support and openness (Brower, Schoorman & Tan, 2000)
2.8. Organizational Culture

Organizational culture comprises deeply-rooted, taken-for-granted shared values and norms about people or organizations which defines acceptable behaviours and also includes observable symbols and languages (Schein, 1990, cited in Jones et al., 2005, p. 363). As values are key to understanding an organization’s culture (Ott, 1989, cited in Jones et al., 2005, p. 363), they represent organizational culture (Howard, 1998, cited in Jones et al., 2005, p.364). Quinn developed the competing values framework (CVF) to ascertain effectiveness of organizational culture by exploring organizational competing demands on two axes where organizations are classified according to whether they value flexibility or control, and whether they adopt an inward or external focus. While mutually exclusive, the four types of organizational culture can co-exist in an organization, although some values are likely to be more dominant than others. This relationship is depicted in figure 4 below.

One dimension of culture, respect for people, enhances quality of leader-follower relationship (in LMX context) by leaders treating followers with dignity/respect which ensures interactional justice (Erdogan, Liden & Kraimer, 2016).

Moon & Choi 2014) argue that organizational success is likelier if ethics are a fundamental part of organizational culture by increasing employee commitment and customer satisfaction. Interesting, one can cite business long-term success as putting employees first, built on strong trust and integrity although customer care, high quality products, environmental/social responsibility are important. Only 5 percent thought profit-focused values would ensure long-term success (Deloitte, 2016, cited in Friedman & Gerstein, 2017, p. 163). Hence, Scalise, 2007, p.51, cited in Friedman and Gerstein, 2017, p. 163 argued that compassion is the new way of understanding economic, political, and cultural relationships, key to promoting organization success (Dutton & Workman, 2015, cited in Friedman & Gerstein, 2017, p. 165). Hence, beyond positional powers, leaders are Chaperones of organizational values and should promote these to set acceptable behaviour benchmarks.

A caring and compassionate culture starts with a compassionate leader’s effort to improve employee retention, performance and bottom line which permeates the entire organization (Baker & O’Malley, 2008, cited in Friedman & Hershey, 2017, p. 168).

2.9. Conclusion

Neither corporate governance nor leadership can ensure long-term organizational success. Corporate governance deviation and unethical behaviour has led to loss of trust in leadership which necessitates keeping them in check. LMX provides the platform for forming authentic (matured) relationships inextricably linked to achievement of organizational goals and performance (Larker & Richardson, 2007).

Figure 4: The Competing Values Framework

Source: Jones Et Al., (2005, P. 365)
Hence, corporate governance effectiveness via board effectiveness is brought about through relationships (how board works both within and beyond the boardroom with LMX in action involving all stakeholders) and the behaviour (Yukl, 2012) of individual board members. The board must work with management (CEO) to form matured, quality relationships of high levels of respect, trust and mutual obligation through leader-member exchange to achieve long-term, sustained organisational success (West & Meyer, 1998, p.397, cited in Daily et al. 2002, p.396). We summarise this below in figure 5.

Figure 5: An Interpretation of the Role of Leadership and Corporate Governance
Source: Own Source (2019)

It must be cautioned that LMX is not without its shortcomings which can be overcome by a culture of values (including ethics and compassion) as mediator, bridging the gap to ensure organization success is achieved/sustained. Values are especially important as millennials tend to trust authentic leaders in touch with their values, supporting the need to build quality relationships in organizations (Mayo, 2017, cited in Crainer & Dearlove, 2017, p132). Whilst transformational leadership yields high organizational performance through changing values and behaviours, mission, strategy and culture (Hayes, 2018), transformative leadership brings about organizational success through relationships that truly touch the hearts and souls of others (Kouzes & Posner, 2003, cited in Caldwell et al., 2012, p. 182). The review from extant literature is non-conclusive as to the extent of corporate governance and leadership’s contribution to organization’s success, confirming the disquiet that warrants the overarching question, how do organisational corporate governance principles through effective leadership oversee the long-term success of the organization?

3. Research Methodology

The study used an exploratory research design and a qualitative research methodology. Some scholars have argued that, there is no prescriptive-one-best-way to design research but Hammersley and Atkinson, 1995, cited in Maxwell (2008, p.214), cautioned that, it should be spontaneously infused into every stage hence informed by the interactive research model (IRM) as propounded by Maxwell (2005) where research goals, conceptual framework, methods, validity and research question work harmoniously together and comprehensively (Walcott, 1990, cited in Maxwell, 2008, p. 246) to achieve desired research objectives. In this research, a case study was adopted organization XXX to investigate the trends of corporate governance and leadership on organisational success and reveal findings applicable to a small-sized firm in the architecture industry.

A non-probability sampling method through purposive sampling was used to 11 participants out of a population of 15. The selection was based on researchers’ perception that the selected respondents would be best participants to achieve the research objectives as ‘they were deemed to have the required information and willing to share with the researchers’ (Kumar, 2014, p. 244). Data was collected through semi-structured face-to-face interviews. This method was chosen so that collaborative and participative form of enquiry via the semi-structured interview could let interviewees play an involved role in determining research outcome (Bryman & Bell, 2003) and to do a research ‘with people’ rather than ‘on people’ (Heron and Reason, 2000, cited in Bryman and Bell, (2003, p. 310).

For data analysis the grounded theory was employed as it allows processes of data collection, analysis and newly-found formal theory to remain closely-related (Strauss & Corbin, 1998, p. 12, cited in Bryman & Bell, 2003, p.428), often referenced to each other, ensuring that not just ‘people’ but also events/experience’ become research subjects. The post-split Straussian method of grounded theory which starts with the research question was employed.Grounded theory is
criticised as losing its narrative flow due to fragmenting certain blocks of data by coding (Coffrey & Atkinson, 1996, cited in Bryman & Bell, 2003, p. 434). However, the researchers agree with Locke (2001) that grounded theory is appropriate as new theories can be generated from open-ended mode of obtaining data via semi-structured interviews, breathing new life into existing well-established theories. This can be achieved through theoretical analysis of findings, practical in applying findings to organizations or even through interviews, may motivate respondents to act to improve themselves and/or their workplaces. Once transcripts are ready, memo notes are written, and phrases or group of words are coded, further simplified into Gerund Codes (representative of concepts) which are compared constantly until similar concept codes are grouped as a category. All categories formed would be fitted with other found Gerund codes (concepts) until saturation occurs. Ethical considerations where applied throughout the study.

4. Findings and Analysis

This section presents the main findings of the study, with possible new-found information arising from semi-structured interviews, opening new insights into existing knowledge of corporate governance and leadership.

4.1. Participant Demography

A total of 10 staff, comprising 3 management and 7 non-management were interviewed for this study. XXX has 15 staff comprising 4 management staff, where 1 management staff declined to be interviewed. 3 non-management staff were not asked to participate as they were relatively new (less than 1 year with the organization XXX).

Four out of interviewees were management personnel (1 Head, 3 directors reporting to head); remaining seven non-management staff comprised six from technical team and one from administrative team. Hence, there was sufficient representation from the organisation, from management and non-management, as well as technical and non-technical divisions.

4.2. Experience

The minimum number of years worked was about 3 years, longest about 20 years (including years worked under head outside XXX). Management staff had worked an average of 9 years in XXX.

4.3. Corporate Governance Principles

It must be noted that the majority of non-management staff had not heard of corporate governance. When the researchers explained the definition of corporate governance to each of them, approximately half of non-management staff agreed that corporate governance (with its structure, board of directors, and processes) act as a check for the actions of leaders, thus ensuring that welfare of all stakeholders is taken care of in a fair manner, eradicating biasness arising from leader’s decision, if left unchecked. Others felt that corporate governance is the blueprint of organizations’ rules and operational procedures which is agreed by all management staff.

Additionally, management mentioned that corporate governance (its board) should all be supporting the leader from behind, working in tandem with the leader, implying the significant role of a leader in driving organizational success. The board is advantageous in bringing about success as talents/skills of each director are tapped on (resource dependency) to expertly hand levarious facets of organizational problems. Management however felt that corporate governance and leadership belonged to the same group of persons, mainly the 3 directors and head of the firm.

Non-management staff observed that leaders are occupied with day-to-day running of the business, solving technical issues, coordinating and checking work flow.

Little is seen on planning for risk-management as there were no printed circulars shared with staff of detailed plans of analysed risks/solutions (which may involve all staff’s efforts to rectify) nor meetings to discuss possible risk-management strategies. Hence non-management staff believed there is little pro-activeness on the part of directors in initiating corporate governance policies. Management staff highlighted that due to absence of formal board, they look to existing head of XXX and one director for confirmation of decisions, indicating that corporate governance and leadership are fused-in-practice. Management attention is mostly on day-to-day operations and handling problems as they arise, rather than being anticipatory, analyse future potential risks and set plans for remedy. Hence a closed-up culture exists where problems especially XXX’s financial position are never shared or disclosed to non-management staff. Change is not a topic that is broached and discussed openly. Management staff check each other’s decisions and rely on the present head of XXX to advise or confirm decisions made, being highly-respected for his wealth of experience in construction industry, whose attitudes/beliefs sets him apart from others, as management and non-management staff trust him to make best decisions for XXX.

4.4. Framework of Corporate Governance (Zajac & Westphal 1998)

The findings above, can be analysed using Zajac and Westphal’s (1998) framework displayed as a 2 x 3 matrix. It can be concluded that XXX adopts primarily an inward-looking formal corporate governance, focused on the economics in day-to-day survivability of XXX, where policies and decisions are to ensure continued existence. Bias of decisions made (behavioural process) are checked internally by the head of XXX, to which the 3 directors accept as their leader and look to him for final advice before carrying out any decisions hence reflecting the power positions in XXX. There is no evidence of Corporate Governance practices impacting outward XXX, for societal benefits.
4.5. Leadership Effectiveness

Leadership is generally seen as responsible for actively searching for new projects to ensure sustainability and viability of XXX although from the interviews, there is no one best style of leadership that promotes organizational success as one respondent T3 puts it:

“The point is different leaders have their different styles. You cannot dictate how one individual can govern or give instructions... just two things for me, just make it clear what is being expected from the employee and then number two, just make them feel like they are appreciated.”

Ironically, leaders can be sources of conflict, impeding organizational success. Leaders should carry or conduct themselves appropriately, respecting staff in actions and words, especially in honouring their promises to staff. Leader’s indecision and lack of clarity was also mentioned, leading to abortive works, incurring unnecessary additional time/costs.

4.7.1. H Factor Model of Leadership Effectiveness (Falk & Blaylock, 2012)

The effectiveness of XXX’s leadership was analysed using Falk and Blaylock’s (2012) ‘H Factor Model’ scoring system. As this was a qualitative study conducted through semi-structured inter views, respondents were not given an opportunity to rate or score the leaders. The researchers, however, through gathered information, categorised the results. The power structure was as follows: 1) All 3 directors report to head of XXX. 2) Director 1 is deemed as the overall head director. Hence in analysing this study, leadership by head of firm is compared with directors 1, 2 and 3 combined. Director 1 is overall-in-charge of local office. Directors 2 and 3 are mainly based overseas, reporting to head of the firm and assisting director 1 in overseeing the technical team.

4.7.2. Transformative Leadership Model (Caldwell Et Al, 2012)

The existing head of XXX epitomises the perfect-score of 18 (Falk and Blaylock’s H Factor model), scoring high on honour, humility and honesty and low on hubris, hypocrisy and hostility, as a few non-management staff worked with him for more than 20 years in and outside XXX, and got his merits as a person and leader. He is a symbol that transcends a transformational leader, in what Caldwell et al (2012) termed a ‘transformative leader’, truly a ‘virtuous example of the standards he espoused’ (Cameron, 2003, cited in Caldwell et al.,2012, p. 182) and whose life-time belief and practice of leadership is good relationships with those he leads, making him not only trusted but revered (Cover, 2004, cited in Caldwell et al., 2012, p.182).

4.7.3. H Factor Model-Future Leaders (Falk & Blaylock, 2012)

It is then interesting to analyse why staff perceive the next-in-line of leaders to be inappropriate using Falk and Blaylock’s (2012) H Factor model. Respondent T4, shared his experience when one of the directors failed to honour his promise which caused T4 to lose trust in that director. T4 was not the only staff who encountered this defaulted arrangement where staff worked extra days to meet dateline but were not given the promised extra compensation. T4 maintained that their working relationship is now reduced to a cordial, transactional and work-based one. In T4’s own words:

“... because we believe in the boss, the leader that it is true then suddenly you have to bargain after the submission (of works). I think it’s not good and then relationship becomes not good. If they need us and then after that they give instructions... Just two things for me, just make it clear what is being expected from the employee and then number two, just make them feel like they are appreciated.”

The above incongruence between leader’s words and actions is attributed to hypocrisy which Cha and Edmondson (2006), cited in Falk and Blaylock, (2012, p. 71), posited as producing organizational disenchantment, poor decision-making and organizational performance because it creates a culture where decision-makers believe they need not be accountable. However, trust is fragile and can be broken with a single unethical or hypocritical act. Hence that director would score on high (1-pt) for hypocrisy and consequently affects rating for honour (with perceived hypocrisy, honour is also reduced) and limited (1-pt) for honesty. The above invoke feelings of injustice and anger(hostility) in staff. As the director indirectly caused a situation provoking situations of hostility (though subtle as an undercurrent may rock the boat one day), the director would score an average (2-pt) on hostility.

T4 also shared that management practiced favouritism to longer-serving staff which encouraged politicking which increases turnover and weakens organizational citizenship behaviour (Harris et al., 2012). In his words:

“But now even if I’m transferred, I don’t feel sad because I am leaving here and even though they tell me behind my back, it’s nice that they said that I am good but I don’t believe because actions speak louder than words even if they talk in the meeting without me, they said good but you can feel that they prioritized old ones. They prioritized the old staff.”

Favouritism mars distributive justice, as expectation of fairness of outcomes and rewards (or punishment) for employee’s contributions/misconduct is lost (Colquitt, 2001, cited in Rosen et al., 2011, p. 821), promoting elite group (of old timers), characteristic of organizational politics which risks these elitists acting out-of-line with corporate values to benefit themselves (Ferris et al., 2002, cited in Rosen et al., 2011, p. 821). This makes XXX’s working conditions less favourable (with increased procedural and distributive injustice and politics) linked to lower levels of job performance (Rosen et al, 2011) thus, as management fail to develop a positive social atmosphere by minimizing politics and ensuring fairness, they would score average on hypocrisy and hostility.
4.8. Organizational Culture for Organizational Success

The effectiveness of XXX’s culture was analysed using Quinn and Rohrbaugh’s (1983) competing values framework (CVF) model of effectiveness criteria. Jones et al (2005) posited that organizations with strong cultures in human relations and open systems are more likely to embrace organizational change, prerequisite of organizational success.

Majority (4 out of 7) non-management staff felt that, the current culture is positive and conducive for organizational success, mentioning family-like, friendly culture with an openness in communication, trust being present without being micro-managed. XXX being not so strict allows flexibility although some see it as lack of discipline, where people take advantage by soldiering and lazing, not closely-monitored, leading to unfair perceptions. Some members felt there was sufficient guidance from leaders in their work. As T5 mentioned:

“In XXX, the culture is more of, it is very friendly...I like the way that everyone in the office is treated as a friend. Nobody is lesser than the other. Nobody is stepping on any other's shoes. So, I think we are on the right path.”

The minority (3 out of 7 non-management staff) felt the current culture was not conducive as the bond amongst staff and leaders could have been stronger, with an individualistic culture as well as lack of discipline, marred by leaders’ favouritism of longer-serving staff and lack of transparency from management in sharing information about XXX’s financial position and/or company issues. Similarly, 2 out of 3 Management staff felt that, current caring, people-centric culture of valuing people is conducive to organizational success. Only 1out of 3 perceived current culture to be ‘military style’ with a linear, one-directional chain of communication, not ideal for organizational success as bureaucracy stifles communication. In M3’s own words:

“The kind of culture here, for the leadership, is not the right one...it is very linear here...means you must go from you to the senior manager, to the director and from there to the group director and from there to CEO. Across so many tiers. A lot of things when it comes from the top to bottom, is lost in translation. I don’t think it is the right way to work”.

There seems to be an implication that M3 was controlled and curtailed in his actions within XXX, as M3 found it easier to speak directly with Chairman/CEO (of Headquarter) than within XXX as he puts it:

“Very, very, honestly, if you look at the leadership at the top most, like CEO and Chairman, is much better like it is easier for me to communicate with the CEO and Chairman.”

Using the competing values framework (CVF), it can be concluded that whilst there is a reasonable focus on human resources component, however the means to an end is not achieved by training and development (as few staff raised concern about lack of trainings) and participative decision-making. Cohesion and morale is also not very strong as reflected by slightly more than half of respondents. One respondent mentioned that management is focused on day-to-day operations ('corporate governance of things'), neglecting leadership aspect, causing communication gap between leaders and staff. Hence, whilst management is focused on internal process (with stability and control in mind), the means to the end is not by precise communication. Overall, XXX is said to be adopting an internal orientation which makes it susceptible to inertia when faced with the need for an organizational change (Jones et al., 2005). By strengthening corporate governance efforts and leaders’ avoiding hypocrisy, eradicate favouritism politics, greater organisational success can be achieved.

4.9. Organizational Success at XXX

Organizational success in XXX was analysed using Maltz, Shenhar and Reilly’s (2003) DMP Model. XXX’s shortage of projects and lack of a sales team actively looking for projects adds uncertainty to financial performance. Hence, its market presence and customer base could have been wider if such a sales team exists. The construction industry is unique in that sales personnel are usually trained/qualified in their field and being leaders themselves, are in best position of technical knowhow to sell their trade. Thus, the lack of such sales team signals a weakness of neglect in leadership and lacking pro-activeness in an important area, relying on Headquarter for projects, fetching less-than-desired profit-margins. Although there appears to be a caring culture where people are valued, mutual respect and loyalty are promoted, however, trainings have been constrained due to lack of budget (linked to project shortage and financial situation), which are required to be closely aligned to technological advancements or face job redundancy.

Further, there was dissent about current management’s dark personality, i.e. hubris (oblivion to current lack of sales/projects in XXX, lacking pro-activeness in project sourcing), hypocrisy (lack of honour and favouritism) and/ hostility (blaming culture) which may seep deeply and erode the open, friendly and trusting culture which took years for current head of XXX to build. Current management is focused more on day-to-day operations. It has not been observed that they have planned nor shared such future plans with staff who felt they were withheld from such important information suggesting a lack of corporate governance. Hence the future of XXX is uncertain. The most powerful stakeholder group is the staff who have been loyal to current head of XXX. Faced with ever challenging economic uncertainties, an impending recession and changing dynamics of the industry is unique in that sales personnel are usually trained/qualified in their field and being leaders themselves, are in best position of technical knowhow to sell their trade. Thus, the lack of such sales team signals a weakness of neglect in leadership and lacking pro-activeness in an important area, relying on Headquarter for projects, fetching less-than-desired profit-margins. Although there appears to be a caring culture where people are valued, mutual respect and loyalty are promoted, however, trainings have been constrained due to lack of budget (linked to project shortage and financial situation), which are required to be closely aligned to technological advancements or face job redundancy.

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4.10. Organizational Performance and Change

Burke and Litwin (1992) postulate that firm performance is driven by transformational change through leadership, mission and strategy (i.e. corporate governance) and culture. In sum, XXX’s central spine was said to be weak, starting from current leadership’s (i.e. active directors) dark personality and inability to cope with external environment by failing to procure jobs to ensure existence of XXX, this manifests in day-to-day decisions (unfairness, lack of clarity),
affecting the climate (lack of trust/openness/organizational silence), decreasing workplace motivation and potentially impeding individual and organizational performance. These form the basis whereby staff form judgment of their suitability as the next-in-line future leaders of XXX, signalling a serious problem of leadership succession in XXX. There is also little evidence of corporate governance in XXX. Hence, the culture leaves room for leader-led improvement.

4.11. Sustainable Development

XXX is greatly impeded by short-term financial concerns due to lack of projects. Perhaps, in XXX’s search for long-term and sustainable success, the short-term financial aspect should be given immediate attention (Aras & Crowther, 2008) to bring stability and viability which buys time for XXX to sort its other problems over a period of time.

5. Summary of Findings

The study has concluded that XXX is not in a position of organizational success currently, due to an important aspect of finance as espoused by Aras and Crowther’s (2008) model of sustainable development, which is lacking, hence questioning XXX’s survivability even in the short-term. Henceforth, without signs of viability of XXX, long-term organizational success becomes inconsequential. Findings revealed a significant problem of leadership succession as seen by non-management’s lack of confidence in current directors’ suitability as future leaders (succeeding head of XXX) to bring XXX out of the current predicament and into an ever-uncertain future. Staff are generally happy to work in XXX, citing an open and flexible culture where people are trusted with tasks and not micro-managed, but findings also revealed negative staff sentiment about existence of favouritism, lack of transparency and word of honour in trust in the current management (directors) and hence in XXX.

A new form of future leadership was also envisaged by the current head of XXX – not being led by one individual and leader but by a group of individuals and leaders, possibly due to the sole leader’s lack of confidence. This shared leadership model’s effectiveness needs to be researched further. Findings also revealed a different form of corporate governance in XXX, being a small company (Spiers, 2017), unlike larger corporations with a board. Spiers (2017) posited that good corporate governance should prevent the failure of small firms whereby management pro-actively step back from day-to-day management to strategize and formulate policies for risk and crisis management and practice a culture of learning to prepare for organizational change, a requirement for success.

However, it was not observed, nor shared with staff, of management’s strategizing for long-term sustainability, future directions or risk/crisis-management in XXX who seemed to be focused on the day-to-day running of the business. Overall, it can be concluded there is little corporate governance in XXX.

6. Conclusion

The research was based only on one organization, limiting its generalizability to other sectors/industries. Further, the case organization was a small-sized firm where corporate governance may not be fully examined using traditional models designed for large corporations. However, by combining corporate governance and leadership’s effect on organizational success, it is hoped that this study will add to the limited extant literature which focuses on these two constructs separately. Models were also reviewed to assess leadership and corporate governance’s effectiveness and ascertain if organizational success is present in XXX. Interestingly, through literature review, it was found that smaller organizations have different forms of corporate governance which warrants a model of corporate governance for small firms to be used for to analysing small organisations like XXX. The study revealed that XXX’s corporate governance approach was significantly different from the traditional models found in larger corporations operating without a formal board. Analysing XXX’s corporate governance using a different model forsmall firms revealed little evidence of good corporate governance, without observation of pro-active procedures, risk assessment and planning for crisis management (Aras & Crowther, 2008). Favouritism by leaders portrayed a lack of respect for others, failure to keep promises, a blame culture and being very critical of mistakes, all painting the leadership’s dark sides. This eroded trust in the leadership at XXX. The most significant finding from interviews was the concern of XXX’s sustainability.

7. Recommendations

Since study followed the post-split Straussian method of grounded theory starting with research question, (Straus and Corbin, 1990, p. 34,cited in. Stray et al., 2016, p. 104),it would be interesting to observe how findings to this study may differ if Glaserian method of grounded theory is adopted, where an investigation begins without a pre-defined research question so as not to inhibit preconceptions to cloudresearch findings, (Glaser, 2001, cited in Stray,2016, p. 104).

8. References


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