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The Economic Benefits And Significance Of Good Corporate Governance In Non-Profit And Profit Institutions: Theimpact Of Governance And Paradigm Shift On Institutional Performance.

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ABSTRACT:*This study examines the economic benefits and significance of good governance in non-profit and profit institutions. The study focused on identifying the economic benefits, assessing the significance, investigating the Systems and policy, and establishing the challenges of good governance on performance in non-profit and profit institutions. The study offers viable solutions and recommendations which aim at strengthening leadership in profit and nonprofit institutions to be able to cope with the trends in good corporate governance. Good corporate governance is not just about leadership but requires professionalism and the ethics of all stakeholders as it is a process and journey to be walked by all. The study used descriptive survey design. In data collection method, primary and secondary data were collected which enabled examining the impact of corporate governance on performance in non-profit and profit institutions to enhance paradigm dimensions in decisions making. Purposive technique was utilized in selecting respondents comprising of 150 board members inchurches, colleges and schools who are involved in managing nonprofit and profit institutions. The data collection instruments used in this study was interview schedules and questionnaires. And finally systematicallyanalyzed and interpreted the interim reports. From the findings, most of all, the analysis shows that institutional resources, both financial and human, have significant differences in the adoption of these policies. These findings suggest that both nonprofit and profit institutions should collectively invest in building the infrastructure that helps smaller institutions develop good governance policies and, hence, to remain relevant and be competitive.*

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I. INTRODUCTION

Governance is the process of providing strategic leadership to a nonprofit organization. It entails the functions of setting direction, making policy and strategy decisions, overseeing and monitoring organizational performance, and ensuring overall accountability. The meaning of governance is relatively different for non-profit and governmental settings. Public sector (government) governance refers to the political process of policy and decision making for communities and political jurisdictions, whereas nonprofit governance refers to the process of providing leadership, direction, and accountability for a specific nongovernmental, not-for-profit organization (Elmarie, 2017).

Non-profit and profit organizations exist for different reasons,like forprofits to generate a return on investment for shareholders and for non-profits to pursue charitable and social activities unrelated to commerce. The obligations of the boards of both entities, however, are similar as both are responsible for oversight of the organization, including reviewing strategy, finances, and performance. They are subject to the same legal duties of care and loyalty, while they rely on different metrics to assess whether the organization is meeting its mission, the directors of both entities need to thoroughly understand how the organization’s strategy translates into successful outcomes and, based on this, derive a set of financial and nonfinancial performance measures to reliably track progress (Elmarie, 2017). Extensive research exists on the boardroom practices of for-profit and nonprofit entities. In general, it shows that while they share common attributes, opportunities exist to learn from one another.

It is against this role of good governance in the background that necessitated the study to examine the impact of good corporate governance and paradigm shift on institutional performance.

1.2Statement of the problem

Globally, application of corporate governance is beneficial to institutions, even though there is need to increase control and supervision on management andreduction on fraud committed by some executives, which maycause damage to institutions reputation.

Previous studies have indicated that there exists poor governance of many institutions. There exists accountability problem, the institutions regulatory are short of authority, corrupt and kickbacks are the order of the day. Based on these challenges it was important to examine the economic benefits and significance of good governance on institutional performance.This study focused on: The economic benefits of good governance and, the importance of good governance, systems and policies and the challenges in good governance on non-profit and profit institutional performance. The main objective of the research was to examine the economic benefits and significance of good governance on non-profit and profit institutional performance.

1.4 General objective

To examine the economic benefits and significance of good corporate governance on non-profit and profit institutional performance

1.4specific Objectives

1. Identify the economic benefitsand significance of goodcorporate governance on institutional performance.
2. Investigate the systems and policy of good corporate governance on institutional performance.
3. Establish the challenges of goodcorporate governance on institutional performance.

1.4 Research hypothesis

HO $_1$ There is no significant relationship between economic benefits and significance ofgood corporate governance and institutional performance.

HO $_2$ There is no significant relationship between Systems and policy of good corporate governance and institutional performance.

HO$_3$ There is no significant relationship between the challenges of good governance and institutional performance

1.5 Theoretical framework

The study adopted the most prevalent theories and paradigms which are relevant to the study which included: Agency theory by Jensen&Meckling, (1976), andInstitutional theory by DiMaggio & Powell, (1983).

1.5.1Agency theory (Jensen &Meckling, 1976)

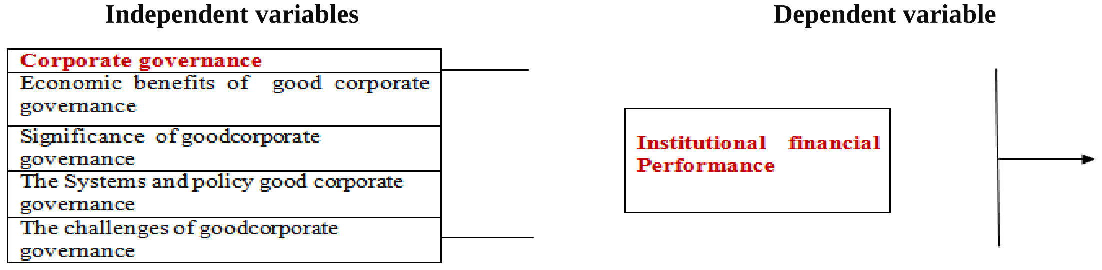
This theory is applicable to the study in examining the impact of corporate governance on institutional performance, in that it is concerned with the relationship between the principal and the agent, specifically where the principal delegates work to the agent (Jensen &Meckling 1976). The theory assumes that the principal and agent will have different and competing interests (Cornforth 2003). These different interests lead to a misalignment of action are referred to as agency problems or agency costs and they include issues such as self-interest, shirking, risk aversion and measurability of agent tasks (Dulewicz& Herbert, 2004). Agency theory has been the dominant theory, driving legal, economic and financial theorists, informing legislators, regulators and standard-setters of corporate governance arrangements (Cornforth 2003; Houghs, McGregor-Lowndes and Ryan, 2004).

1.5.2 Institutionaltheory (DiMaggio & Powell 1983).

Institutional theory considers the environmental norms and rules that an organization must conform to in order to achieve legitimacy, thus ensuring actors within those institutions behave in ways that conform to and reinforce norms (DiMaggio & Powell, 1983).

1.6 Conceptual framework

This conceptual framework explains how institutional performance variable depends on independent variables such as: The impact of systems and policy, the strategies and the challenges in corporate governance (Mugenda and Mugenda, 2003). It also brings out the relationship between systems and policy in corporate governance, the strategies in corporate governance, and challenges in corporate governance impacts institutional performance.



Source: Adopted from Agency theory byJensen &Meckling, (1976) and Institutionaltheory byDiMaggio &Powel,(1983).

II. LITERATURE REVIEW

2.1Economic benefits and significance of good governance

2.1.1 Economic benefits of good governance

The economic benefits out of good governance and accountability in institutions include: It helps to prevent scandals, fraud and corporate civil and criminal liability of the organization; It improves image and reputation of the organization and makes it more attractive to customers, investors and suppliers; It improves growth by whereby investments and economic growth depends among other things on the quality of business environment- the overall set of policies that affects the starting and running of business; It leads to policy implementation which depends upon the quality of public institutions including the bureaucracy hence better accountability strictures both internal and external hence better institutional performance for example a local public accounts committee for every place would provide accountability for place-based funding and bring disjointed governance together into a more simple arrangement: It enables public companies to have independent board of directors which enhances higher returns on equity, higher profit margins, higher dividends yields, and larger stock repurchases; It ensures efficient and fair resource allocation, and responds to people's needs through transparent judicial and regulatory environments, as well as democratic processes that are truly participatory; It leads to allocation of public resources for the good of the people which will not be successful if the institutions conducting the budged formulation, execution and monitoring are not functioning properly; It enables business with superior information technology governance practices generate profits than firms with poor governance; It plays a key role for private companies that intend to seek capital from financial institutions and institutional investors since this image is an important factor on the ultimate decision to provide capital to the organization; and finally it reduces the threat of safety, legal, performance and warranty concerns that can severely impact institutions and its stakeholders or interested parties. Conclusively, good governance ensures present progress and that the economic future is directly dependent on its ability to supply services (Elmarie, 2017).

2.1. 2 Significance of good governance

Good governance is significant and that is why time is right for good governance in institutions or organizations which include:

2.2.2.1 It enhances accountability

This emphasizes that all actors, particularly those in government, business, voluntary agencies, civil-societies, among others are to be made answerable to the society. The quality of leadership at these levels and institutions has a bearing on the quality of life that citizens enjoy. Poor leadership at family level, for instance, can nurture children in patterns of behavior which in the long run impact the whole country (Tricker, 2014).

In addition, decision making is a very delicate process which needs the guidance of God, the omniscient. It is for this reason that St. Paul admonished the church, that supplications, prayers, intercessions, and thanksgiving be made for all men, for kings, and all who are in high positions, that we may lead a quiet and peaceable life, Godly and respectful in every way (1 Timothy 2:1,2).

2.2.2.2 It enhances transparency

This emphasizes that the process of decision making, the ultimate decisions reached and the observance of such decisions must be carried out in conformity with rules and regulations. It stipulates that sufficient information is freely disseminated in such a way and medium that can easily be understood and directly to the people that will be affected and who will ensure compliance. The processes of decision-making, the ultimate decisions reached and government actions taken are expected to be made open and subject to check by other organs of government and other non-governmental organizations (Tricker, 2014).

In addition, leadership of the Churches should be able to change tact as per the dynamism in our cultures and societies, and decisively embrace the spirit of openness in its structures so that there is transparency in how they handle the resources, appointments, promotions, electoral processes and recruitment. This will eventually glorify God who is full of justice.

2.2.2.3 It enhances participation

This entails the involvement of every adult in the politics of his or her society. It could be either direct participation by individual citizens or indirect participation by their accredited representatives. Participation, as a core characteristic of good governance, stipulates every adult must have a say in the process of making decisions either by him or her directly or by his or her accredited representatives.

Time is changing and it requires the church to adapt to these changes in a manner that is not going to dilute the word of God. This calls for embracing of corporate governance principals as a way of enhancing the performance of our churches and other related organizations. Every time organizations are created, we must be ready to take responsibility. Furthermore, church related organizations should focus in embracing good practices in their governance systems including how recruitments, promotions, elections and allocation of equitable resources with a view of sustainable development and investment are concerned. It is the name of God that is at stake in Christian organizations. As Psalm (11:3) says, "When the foundations are destroyed, what will the righteous do"

2.2.2..4 It enhances rule of law:

This is important in good governance, which guarantees equity, fairness and justice in the society. The rule of law also emphasizes that it is the law that rules not man. Therefore, the laws of the land in good governance are fair, impartial and no respecter of any body. It emphasizes on fairness to all as well as impartial enforcement of laws and rights (Tricker, 2014).

As a matter of good practice, in good governance the line is drawn clearly in order for each one of the arm of leadership to exercise their responsibilities with decorum for effective management of the resources.

2.2.2.5 It enhances responsiveness

It has led to institutional processes serving all concerned citizens in the society within an appropriate period of time. As a matter of fact, change is the only permanent feature of any society and it is inevitable (Tricker, 2014). Therefore, good governance through the principle of responsiveness accommodates this inevitable change.

There is need to strengthen control structures within the church set up. This will create conducive environment for developing confidence among the faithful. Installing proper mechanism for corporate governance will not only establish effective performance but also efficiency. This in turn will glorify God in heaven because as we pray in our lord's prayer, "…may your kingdom on earth as it is in heaven…"

2.2.2.6 It enhances broad consensus

Good governance practice has led to consensus orientation, coalition building and mediation among the different interests and social forces in society in order to have a general agreement as far as a country's overall interest can be defined and achieved. It emphasizes general agreement on socio-economic and political issues, such as human development as well as its attainment (Tricker, 2014).

In addition, leadership of the Churches should be able to change tact as per the dynamism in our cultures and societies, and decisively embrace the spirit of openness in its structures so that there is transparency in how they handle the resources, appointments, promotions, electoral processes and recruitment. This will eventually glorify God who is full of justice.

2.2.2.7 It enhances equity and inclusiveness

Good governance guarantees the following: dignity of the human person, equal rights and freedom from any discrimination. It is all embracing and encompassing for all members of the society. It also emphasizes the well-being of the society which is generally nurtured by the sense of belonging to the society by all citizens as well as a feeling of belongingness as stakeholders in the society. This therefore stipulates or ensures that every citizen is given equal access to better his or her lot and also to enhance his or her well-being in the society (Tricker, 2014).

2.2.2. 8 It enhances effectiveness and efficiency

Good governance means doing right things and doing things right within the society by the government, using the resources available. It emphasizes how governance must come up with action plans which address the necessities of the society as the resources available are put into the best use (Tricker, 2014). Whereas, efficiency as an element of good governance theory embraces the long-lasting use of God-given resources of the society and most especially environmental protection, the principle of effectiveness emphasizes the good use of the natural resources of the society by the government.

2.2.2. 9 It enhances strategic vision

This emphasizes the need for a good governance to envisage future challenges based on the present and future implications. This is because the principle of strategic vision is all about securing the future and planning for the multi-various uncertainties and unforeseen contingencies attendant to it. Good governance should be strategic and futuristic in its planning, direction and orientation (Tricker, 2014).

In addition the Church should lobby government so that legislation is strengthened to make corruption unprofitable; to increase people's participation in governance and distribution of resources and the information bill so that information is available at all levels to facilitate monitoring.

2.2 Systems and policy

The board of well-governed nonprofit and profit-making institutions does all of the following:

Formulate key corporate policies and strategic goals focusing both on near-term and longer-term challenges and opportunities, authorize major transactions or other actions, oversee matters critical to the health of the institution, evaluate and help manage risk, steward the resources of the organization for the longer run, mentor senior management, provide resources, advice and introductions to help facilitate operations (Lesley, 2012).

2.3Challenges

The frequent challenge of boards is inviting new members because of their marquee name within a certain field of endeavor without due consideration to the person's ability and availability to fulfill legal duties, providing the critical oversight function. However, depending on its mission, history, and geographic reach, a nonprofit may also have specific stakeholders or different groups of stakeholders, some or all of whom may be represented by categories of board members under the organization's by-laws. The interests of the organization's ultimate clients, who may be indigent or otherwise disadvantaged, are another important consideration (Lesley, 2012).

Lesley affirms that the institution's management and workforce may be paid less than their for-profit peers for similar work if at all further complicating the board's oversight duties. In addition, nonprofit trustees may feel role-strain or worse because of real or perceived obligations to interact with, attract or even be charitable donors. These additional factors make nonprofit board decision-making arguably a much more complex process than the straightforward mandate of maximizing return.

The study by Lesley further asserts that in theory, the mechanism in a for-profit corporation for correcting errant board members is straightforward, but in the absence of investors, nonprofit boards must be self-correcting and therefore in this regard, nonprofit trusteeship is a unique and privileged role (Lesley, 2012).

The institutions might face unique challenges in the implementation of corporate governance principles. The likelihood of non-profit institutions adopting corporate governance models depends largely on the extent to which resources such as time, opportunity, money and skills are available. The use of volunteers in management, the lack of leadership and the lack of skills, amongst others, are some of the impediments in the implementation of corporate governance principles (Elmarie, 2017).

III. METHODS OF DATA COLLECTIONS AND ANALYSIS

The research used primary and secondary data which enabled the researcher to examine the impact of corporate governance and paradigm shift on institutional performance. The primary data were attained through in-depth interviews and field research carried out in the area of study. Secondary data and quantitative data were sourced from survey of literature in books and journal articles, thesis, institutions publication and reports. According to Mugenda and Mugenda, (2003), research methodology is the approach as well as the set of supporting guidelines and methods to be used in carrying out research. Purposive technique was utilized in selecting respondents comprising of 150 board members who are involved in institutions board management. The data collection instruments used in this study was interview schedules and questionnaires. The raw data was coded and the researcher used descriptive method to produce interim reports. The data was analyzed and interpreted. Quantitative data were processed, verified and tabulated using Statistical Package for the Social Sciences.

IV. STUDY FINDINGS AND IMPLICATIONS

The findings form from the study analysis led to relevant suggestions on corporate governance and paradigm shift on institutional performance. Out of the total 150 respondents 20which is 13% of the respondents did not find any challenges in their institutions in corporate governance while 130which is 87% agrees that there are challenges in corporate governance in their institutions which ranges from fraud, unethical behaviors to non-compliance in policy. The study investigated the compliance in strategy in corporate governance and the data revealed that (15%) out of the 150 board members had no updated strategy in intuitional corporate governance at all, while (85%) had strategy in intuitional corporate governance. This is in supports of Tricker, (2014), who stated that institutional investors should consider carefully explanations given if companies in which they invest depart from the UK corporate governance code and make reasoned judgments in each case. The implication of no strategy in corporate governance reveals that, there are challenges in institutional corporate governance and therefore need to address the problem now than wait till there are bigger issues.

V. RECOMMENDATIONS

5.1 Recommendations on challenges

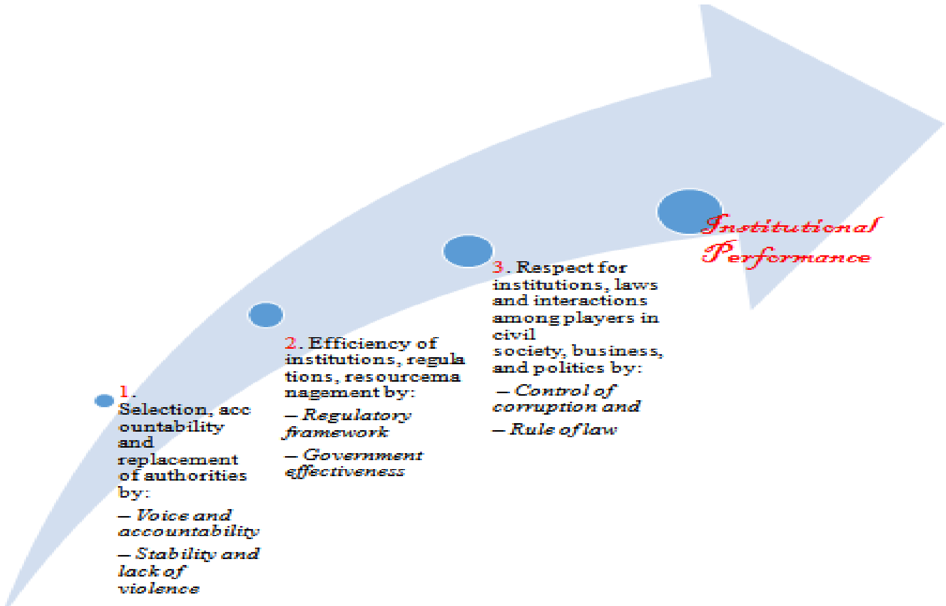
The challenges in institutional corporate governance have been explored and therefore the possible suggestions that can help to address these challenges include:

a) Consideration of the person's ability and availability to fulfill legal duties, providing the critical oversight function,
b) The institution's management and workforce be paid same as their profit peers for similar work to avoid complications in the board's oversight duties,
c) Appoint leaders with leadership skills, amongst others
d) Benchmark from expert institutions tracking specific fields, political risk, investor attitudes
e) Aggregation helps improve reliability (wider sample of opinions)

f) To encourage institutions to focus resources on problem areas, draws public attention
g) To encourage institutions to learn from each other

5. 2 Model to measure corporate governance

To measure governance, it will be helpful to further break the components in three categories: selection, accountability and replacement of authorities;efficiency of institutions, regulations, resource management; and respect for institutions, laws and interactions among players in civil society, business, and politics. This model to measure corporate governance adopted some of the relevant concepts in the study by Masahiko, (2001) who researched in comparative institutional analysis.



Source: Model Developed by Researcher Debbie MalobaMbayo, (2018).

VI. CONCLUSION

From the study it might not be in all instances possible for institutions to follow corporate governance principles to the latter due to compliance being problematic. However it'sin the best interest of the institutions to address and implement these principles as far as possible. The cost of not improving their corporate governance structures may be greater than, that of their actual costs of implementing corporate governance principles. The researcher can also attest that the introduction of corporate governance in the institutions had improved the operations of the institutions. The researcher can also affirm that there were few incidents of corruption by executive officials, and therefore corporate governance can be achieved if there is proper training, proper strategy, adequacy of information as well as all members to have positive attitude towards the implementation of the corporate governance practices.

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