IMPROVING PUBLIC SECTOR PERFORMANCE: THE POWER OF IMPLEMENTING CORPORATE GOVERNANCE

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Abstract
The concept of corporate governance of public entities is evolving. Corporate governance in public institutions, as a method of management and control, requires clear rules and principles of integrity, transparency and accountability, well-defined risk management and control mechanisms, elements that are essential for achieving public entities' goal, which means meeting public needs.

Corporate governance is a process through which management monitors and maintains a corporation's compliance with laws and regulations. Is it necessary to use corporate governance in public entities? Can it reduce expenditure or budget deficits, ensuring an efficient use of public funds? Can it eliminate corruption and improve the performance of public entities?

The purpose of this study is to carry out an academic analysis of the evolution of the corporate governance in public entities and to highlight its effectiveness, through principles that encourage better decision-making and resource efficiency. The applied methodology involves focusing on the in-depth study of the subject using the analytical method. Moreover, the study draws comparisons of different models on the aspects researched, using comparative analysis. In conclusion, good corporate governance is essential for any organization to ensure the sustainability of its resources and operations, with a direct effect on the entity's performance.

Keywords
Corporate governance, public sector, public entities, performance

JEL Classification
G34, H83, L32, M48

Introduction

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In today’s world, it is crucial for companies to promote stakeholders’ and shareholders’ well-being and protect their rights for attracting more investors and for other purposes such as to avoid conflicts among shareholders, business sustainability and business stability. At the times, when financial frauds, scandals and insolvency were unfolding and escalating, the concept of Corporate Governance (CG) appeared as a ray of hope and an ideal solution to these serious issues. In the 1970s, the western world first realized its need and demanded reformation. Gradually, followed by the US and UK, the emerging countries observed its fruitful benefits and eventually followed along, and started to embrace corporate governance. Later on, the concept gained a lot of attention by the experts and researchers.

Corporate Governance (CG) can be described as a set of rules, regulations, procedures and codes of ethics that control and direct by being more transparent, responsible and accountable. Moreover, it helps in generating trust and confidence for the company, which in turn improves the company’s reputation and overall performance.

There are four pillars of CG: Diligence, Transparency, Responsibility and Accountability. While diligence accounts and anticipates negative outcomes and helps in treating them, transparency ensures that the significant, credible and accurate information is easily available and accessible. Besides, responsibility is one of the most important pillars of CG and it helps in exercising control in the company. Accountability is also equally essential in holding accountable choices made by the workers within the companies. All pillars are important and help in promoting good governance practices in an organization.

The implementation of good governance principles benefits both the public and private sectors equally. In reality, it is worth noting that, while initially only private corporations embraced it, public bodies eventually began to overhaul their old management structures. Although there are significant variations in adopting CG in public sector entities due to its more complicated and diverse aims, there are also some essential parallels. The primary purpose of CG in both the public and private sector is to protect the stakeholders’ rights. Sometimes companies make decisions in order to enhance their reputation in the society. Such voluntary actions taken by organizations for deliberately meeting the expectations of the society are known as corporate social responsibility or CSR.

In public sector entities, there is a need to adopt the kind of governance which ensures direct participation with the citizens and provides quality services which are easily accessible by all the citizens. These functions can be served with the help of proper governance policies. However, unfortunately, the concept of CG is not very clear in the public sector due to the lack of studies on this subject.

The main scope of this paper is to study corporate governance in general as well in the context of public sector entities and its benefits. The first half of the article focuses on the emergence of the concept while the second half of the paper concentrates on its functionality in the public sector. Some of the research questions that this article tries to answer are listed below:

- How did the concept of corporate governance emerge?
1. Review of the scientific literature

1.1. An Overview of Corporate Governance

Any given organization, regardless of the sector (public or private) it belongs to, is directed and controlled by a set of rules, regulations, practices and processes, known as corporate governance. It helps the companies in gaining trust of their stakeholders. While private sector companies are completely profit-driven, public enterprises are socially responsible entities and are run by money paid through taxes (Vartak, 2018).

According to Singh and Chauhan (2022), worldwide financial frauds and insolvencies like the collapse of Eron and WorldCom were a major issue during the 1970s. Gupta and Sharma (2014) state that because of the increase in the number of these financial insolvencies in the western world, the western countries were the first to realize its significance and implication. As a result of the serious disruptions in the financial world, the ethical dimension of businesses was getting questioned. Consequently, under such delicate circumstances, there was a growing need for a new economic development framework, which transforms the management approaches and also protects stakeholders’ and shareholders’ rights (Achim, Borlea and Mare, 2016). Hence, Singh and Chauhan (2022) explain that the emergence of corporate governance for these reasons, has become extremely crucial for the survival purposes of companies, business stability as well as business sustainability.

According to the World Bank (2016), corporate governance may be described as a system that helps organizations in getting directed and controlled, with the main scope of generating trust by becoming more transparent, accountable as well as efficient. Its growing demand in developing countries can be justified by the fact that financial institutions intend to improve their overall performance. The term ‘Corporate Governance’ gained attention in the 1970s in the US and ever since, has been a topic of discussion for scholars, practitioners and field experts (Singh and Chauhan, 2022).

There are several studies (Singh and Chauhan, 2022) that discuss the relation of corporate governance with firm performance along with several other indicators such as board size, board structure and even board of directors’ age. It is considered that both Corporate Governance and Management go hand in hand because while management focuses on running a company, governance concentrates on verifying if it is functioning properly. Therefore, one may conclude that all economic entities require both of these aspects in order to achieve the goals in an effective manner. However, it is essential to highlight the

- What is corporate governance?
- What are the four pillars of corporate governance?
- Which are the countries that are leading in corporate governance practices?
- What is corporate governance in the context of public entities?
- What are the advantages and challenges of implementing corporate governance in public institutions?
fact that public sector governance is different from private sector governance since the former includes a variety of management structures as well as objectives (Gupta and Sharma, 2014). Basically, corporate governance aims to maintain a balance between the investors and the stakeholders of a company. Moreover, it is a way of minimizing conflicts, gaining trust of shareholders and investment opportunities (Ngatno, Apriatni and Youlianto, 2021).

According to a research (SAHA Rating, 2022) focusing on the World Corporate Governance Index, a rating system that evaluates the companies around the world based on their implications of the principles of corporate governance, countries may be divided into two sub-categories: Group 1, which includes all the nations having an overall score of 80 and higher, while the Group 2, consists of the nations that acquired a score between 60 and 80. Group 1 represents the countries that respect principles of corporate governance and include nations such as Sweden, France, Austria, Germany and Norway, among the other 22 countries. On the other hand, Group 2 includes 37 countries that require further actions in terms of corporate governance.

Usually, it is considered that companies that have better reporting systems are also better in corporate governance. According to a survey published by Statista (2022), in the year 2022, the United Kingdom, South Africa, Japan, Thailand and Sweden are the top-most countries that consist of the largest concentration of domestic companies that get engaged in communicating corporate governance risks. Figure no. 1 shows a graphical representation of the data obtained from the survey. As it may be observed, the United Kingdom is the leading nation that reports governance risks, followed by South Africa. This implies that the companies within these nations have good business practices and well-managed internal processes (figure no. 1).

1.2. The four pillars of Corporate Governance

![Figure no. 1: Leading countries of companies reporting on governance risks in 2022](image)

*Source:* Statista Research Department, 2022
According to Gupta and Sharma (2014), there are four pillars of Corporate Governance that are applicable to all companies: Diligence, Transparency, Responsibility and Accountability. However, due to the discrepancies that exist in literature, there are scholars that also consider ‘leadership’, ‘stakeholder management’ and ‘assurance’ as the pillars of corporate governance (Gitau, 2015). However, the fundamental principles that are needed to promote good governance within a given organization, according to the Principles of Corporate Governance are as follows: responsibility, competence, integrity and transparency (Matei and Drumașu, 2014).

Diligence is used to discover, prevent, or reduce negative outcomes and to account for how the present and the future, anticipated negative impacts are treated. The OECD guidelines recommend due diligence in order to maintain a suitable business conduct.

Transparency or corporate transparency is described by Bushman and Smith (2003) as the general accessibility to pertinent, trustworthy information regarding publicly listed companies’ periodic performance, financial situation, investment prospects, governance, value, and risk. In other words, it refers to the degree to which there’s publicly accessible clear, correct data, both official and unofficial, encompassing accepted capital market practices, such as the judicial and legal systems (Millar et al., 2005).

Responsibility may be defined as the tool or instrument that is used for exercising control and ensuring proper conduct within the economic entities (Alqooti, 2020). It is important to mention that the responsibilities of corporate managers are not only limited to make sure that the business is profitable, generating true financial statements and all the operations within the company are legal. The reality is that companies have to meet the expectations of the society in which they are functioning. Such voluntary actions of businesses, which intend to respond to such expectations are called ‘Corporate social responsibility’ or CSR (Witherell, 2002).

Accountability may be defined as the process through which public entities and their employees are held accountable for their choices and conduct. It is intrinsically associated with the legal system because it entails imposing sanctions and punishments on individuals who divert funds for reasons other than those intended, and accountability cannot be implemented without openness and the legal framework. In fact, accountability may be of different types, depending on the area of its application (Alqooti, 2020).

2. Research methodology

The present article is a literature review, which focuses on the concept of corporate governance in context of the public sector and how it evolved over time. In order to write the article, the existing literature was studied and reviewed. The sources of information used in this research are journal articles and other websites like the United Nations. In total, twenty-six sources are used for this study. The year of publication of the selected sources are between the interval of 2002-2022. In order to find the relevant data and information, keywords like ‘corporate governance’, ‘corporate governance in public sector’, ‘benefits of corporate governance in public sector’ and ‘corporate governance
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in Romanian public sector’ were searched on Google and Google Scholar. The research papers were shortlisted based on the relevancy of the topic with the purpose of aligning them with the objective of the paper, which is to answer the predetermined research questions mentioned in the ‘introduction’ section.

3. Results and discussion
3.1. Corporate governance in public sector

As a matter of fact, when in the 1970s the term corporate governance was introduced, the financial fallouts due to poor governance were not only common among private sector companies, but also among public sector entities (Reddy, 2010). Consequently, even though initially, good governance practices were welcomed in the private sector, later on their presence was being felt in the public sector as well (Matei and Drumașu, 2014). Besides, previous literature (Alqooti, 2020) also states that an upsurge in the number of corporate scandals also made the governments to reanalyze their current positions and to come up with better governance reforms. In fact, the previous studies on corporate governance in the public sector is thought to be less evolved than in the private sector. In reality, there is a scarcity of empirical qualitative research on this topic, which is a major worry. Furthermore, according to the literature, scientists and researchers initially focused on public healthcare and financial institutions, but the truth is that good governance concepts apply to any type of public organization, such as insurance. This trend of implementing corporate governance practices in the public sector first emerged in the UK, which was also followed by the USA. In fact, the Obama administration realized the earliest the value of citizens’ participation in the corporate governance process. It is important to highlight that ineffective control of management in public sector organizations was one of the biggest motives behind the reformation of the traditional management structure. Consequently, the board of directors’ model was seen as a potential solution to ensure effectiveness. This model has several advantages and it takes care of the shareholders’ interests by ensuring good governance principles like integrity, responsibility, accountability, honesty and openness (Jordan, 2014).

Although there are numerous similarities between implementing good governance practices in the public and private sector, there are also some fundamental differences. For instance, even though in both sectors, the main purpose of corporate governance is to control and prevent the abuse of powers, in the private sector, its main scope is limited to protecting the stakeholders’ rights whereas in the public sector, abuse of political power represents its main objective (Matei & Drumașu, 2014). In fact, more precisely, according to Dumitrescu (2014), depending on the discrepancies that may exist between the shareholder and stakeholder value, the governance may be classified into the Anglo Saxon and the European. While Anglo Saxon primarily focuses on enhancing the value of shareholders by growing the company's profits and share values, the European model protects the stakeholders’ rights (Alqooti, 2020).

In the public sector, especially in the local government institutions, the term governance is defined by Asare and Kong (2020) as “The traditions and institutions by which
authority in a country are exercised.” Corporate Governance is a tool that assists public entities to promote the idea of development and accomplish the objectives by implementing the governance principles like responsibility, transparency, integrity, responsiveness and accountability (Alqooti, 2020). The function of corporate governance in the public sector is critical for providing excellent services to residents and supporting long-term development (Asare and Kong, 2020). Because the public sector's governance implementation lags behind that of the private sector, the establishment of defined governance practices for the public sector ensures the successful implementation of its regulations through explicit actions and instructions (Alqooti, 2020).

In the last decade, the demand for promoting the kind of public services which are easily accessible by the citizens has been increasing. Organizations belonging to the public sector are actively promoting the type of governance that will lessen the gap that exists between the citizens and the authorities. This trend has led to constitutional reforms, which have resulted in the creation of local governments. However, one must not forget that the local authorities also have the added responsibility of promoting good quality public services by increasing transparency and accountability. Furthermore, according to common beliefs, their primary function represents accessing, allocating and distributing the resources/public services. Nevertheless, it must not be foreseen that besides all these functions and responsibilities, local government is also responsible for good governance practices within the institutions in order to accomplish the common goals. In other words, good governance or corporate governance is also the key to ensure quality services to citizens (Asare and Kong, 2020).

Unfortunately, scholars like Asare and Kong (2020), have not paid enough attention to this subject because of the fact that the idea, role and significance of corporate governance in the public sector, especially in local governments is not yet recognized. Besides, there is a lot of clarity about the concept of corporate governance among scholars and researchers, however there seems to be a lack of understanding about the term ‘quality of governance’. Moreover, regardless of the fact that there are several definitions given to the term ‘governance’ and as a result, it is perceived differently among all the public institutions, there are specific common aspects in all the definitions that can be identified in order to differentiate between the idea of good governance and poor governance. Some of these aspects include responsibility, transparency, efficiency, accountability, diligence and integrity. These are some of the common elements that may be considered while evaluating a public institution or any given organization for its quality of governance. The opposite of these principles falls under the category of bad governance.

According to the UN, good governance reforms promote human rights when they strengthen the state's capacity to fulfill its responsibilities to just provide public goods that are vital for the safeguarding of a range of human rights, including the right to education, health and food. Accountability and transparency measures, culturally responsive policy instruments to guarantee that services are available and attractive to all, and avenues for public engagement in decision-making may be included in reform attempts.
3.2. Corporate governance in Romania

Romania is an emerging economy that has undergone several transformations in the last few decades. Continuous evolution of the concept of corporate governance, along with changing social values, has resulted in introducing the Romanian public sector to a number of challenges such as openness to the basic principles of corporate governance such as internal and external transparency as well as accountability. The shift from the old administrative system to a more flexible, democratic one has contributed in bringing major transformations in the Romanian public sector (Matei and Drumașu, 2014).

After the advantages of corporate governance became evident in the developed nations, the emerging ones like Romania also started to follow and began implementing good governance practices. To ensure this in Romania, for example, OECD and the United States Agency for International Development (USAID) developed a specific program in 2001 with the main goal of evaluating, recommending, improving, and assisting in the area of corporate governance.

Furthermore, the program also attempted to evolve current understanding of this subject in accordance with the OECD guidelines on corporate governance (CG). However, this was proven to be a failed attempt and in 2008, Bucharest Stock Exchange (BSE) adopted new CG codes from 2009, which were not compulsory to implement but companies that were listed on BSE were recommended to adopt them and could voluntarily comply with the new codes (Achim, Borlea & Mare, 2016). Therefore, the concept of corporate governance is still at its developing phase in Romania.

3.3. Advantages and challenges of implementing corporate governance in the public institutions

In context of the private sector companies, a number of studies (Achim, Borlea and Mare, 2016) have explained how good governance practices are positively correlated with financial performance of a company. Adoption of effective governance principles may add to the company's financial success. Furthermore, the previous research also shows that investors should examine corporate governance quality as a solid indicator of the best rate of investment return, and they should become extra careful when investing in organizations with little strict corporate governance procedures (Achim, Borlea & Mare, 2016). However, the importance of implementing corporate governance principles within the public institutions is often overlooked.

Governance is equally crucial in public organizations because it includes the procedures, structures and mechanisms that influence decision-making, accountability, and performance. Openness, transparency, efficacy, and effectiveness in the delivery of public services to citizens are all dependent on good governance in public institutions. Similarly, in the public sector entities like schools and hospitals, governance ensures a proper code of conduct. More precisely, through strategic planning sets national goals that are more complex than in private companies. Furthermore, code of ethics promotes a healthy employee behavior which aligns with the company’s code of ethics. Lastly, it also assists
the decision-makers in the process of evaluating the overall performance of the company by ensuring that its policies are implemented and that the organization follows all the rules, regulations, code of ethics and laws.

Previous literature (Dong, Wang & Zhou, 2023) confirms that the public has a significant role to play in many long-term goals which cannot be accomplished individually, for instance, environmental governance. There are a number of studies that discuss the impact of public participation on environmental governance. In fact, the recent trend to encourage public participation for achieving sustainable goals is gaining recognition. Even though the public involvement in governance has been increasing, researchers have no common ground, when it comes to, its impact on the quality of governance. Furthermore, there are contradictory results and conclusions that do not clearly indicate whether the relationship between public participation and environmental governance is positive or negative (Dong, Wang and Zhou, 2023). According to the US Environmental Protection Agency (EPA), public participation has several benefits. For instance, the authorities get a bigger perspective of the situation, which helps them in taking better and more informed decisions. Besides, the decisions that are based on larger amount of information are generally categorized as more credible.

Another aspect that must be discussed here is the influence of technological advancements worldwide. Just like any other sector, the public sector and its governance has also been affected by the implications of AI (Artificial Intelligence). For instance, the use of AI in government is opening a wide range of opportunities. An effective public service delivery, which is one of the primary objectives of any public institution, can also be enhanced with the help of AI. Moreover, studies confirm that it can also permit the government to perform experiments with different policies (Zuiderwijk, Chen and Salem, 2021). However, regardless of all these benefits, there are also some of the challenges that AI brings along with it during its implementation in the public sector. The first and foremost risk is that while AI has the potential to increase citizens’ trust and confidence in government, there also exists the probability of reduction of public’s trust in government and their final decisions. The reason behind this decrease may be the potential violation of people’s privacy, which is an extremely sensitive subject. Therefore, the implication of AI in the public sector is comparatively complex, which is also the reason why its adoption in the private sector has been much quicker and smoother because of the absence of public concerns (Zuiderwijk, Chen and Salem, 2021). This particularly demonstrates that although, there are many strategies to improve public governance such as adopting corporate governance codes, encouraging public participation and implementation of AI in the decision-making process, none of them is completely effective. Hence, there is a need for further research investigation to gain a deeper understanding of the subject.

Conclusions

The concept of corporate governance emerged at the time of financial fall-outs and evolved as a significant factor for improving a company’s overall performance. Firstly
implemented by the western countries and later on by emerging countries like Romania. Initially countries like the UK and America felt its significance, however when they saw its benefits, the developing countries also started to reform their traditional management structure and adapt good corporate principles such as transparency, integrity, accountability, responsiveness, openness, responsibility and diligence.

In reality, even though the existing literature shows several benefits and advantages of adopting good corporate practices and codes in the private sector companies, the emerging countries still have a long way to reach. On the other hand, the literature of corporate governance in public sector entities is not that evolved due to the lack of empirical studies that show its relation to better performance.

Good corporate governance not only ensures that all the rules, regulations, codes of ethics, principles and procedures are followed but also allows them to clearly define the responsibilities of employees and retain control. Basically, it gives direction to the company to function and control. Therefore, good governance principles are not just an obligation but a need for the companies to be more organized and protect stakeholders’ and shareholders’ rights by avoiding conflicts among them.

In the public sector, the main objective of the organizations and institutions is to provide citizens with high quality services and make sure that these services are easily accessible by them. Corporate governance can play a great role in helping public institutions to achieve their goals in a more efficient manner. By using new strategies such as implementing AI in various processes and encouraging public participation, public institutions can accomplish its goal of delivering high quality public services to citizens.

To conclude, there are several advantages of adopting corporate governance in a public institution. However, due to various reasons such as public concerns, its implementation is relatively slower in the public sector in comparison with the private sector.

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