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## **Corporate governance as a mechanism to promote employees' performance in the banking sector of the Sultanate of Oman**

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### **Abstract**

Employees are the company's main source of success; if they are well-prepared and motivated, they will drive the business to achieve its objectives; otherwise, it will fail. In this case, corporate governance is used to get people to work in the proper way and to help them grow over time. The researcher administered a questionnaire to 253 banking employees to explore the relationship between corporate governance and employee performance, as this study reveals the impact of corporate governance on employee performance in the Sultanate of Oman's banking industry. The study's major goal is to figure out how corporate governance affects employees' performance in the banking industry and to back up the findings with actionable recommendations. Furthermore, it was discovered from this research that corporate governance has a significant impact on employees' performance.

**Keywords:** Corporate governance, employees' performance, banking sector, structural model

### **Introduction**

According to corporate history, the employees are the driving force behind a company's success, and how this is strongly tied to controlling the performance of employees and inspiring them to work harder is well documented. It is the art of corporate governance to understand how to improve their capabilities while also understanding what inspires people to work hard. Good corporate governance aids in the development of trust between companies and their investors as well as the general public. As a result, corporate governance contributes to the promotion of financial viability by providing market players with an opportunity to make long-term investments. Communications with diverse stakeholders about various aspects of corporate governance are among the most critical aspects of corporate governance. The majority of businesses aim to maintain a high level of corporate governance. In the eyes of many shareholders, it is not enough for a corporation to simply be profitable; it must also exhibit good corporate citizenship by promoting environmental awareness, engaging in ethical behavior, and implementing strong corporate governance standards. An effective corporate governance system establishes a transparent set of rules and regulations in which the incentives of the company's shareholders, directors, and officials are aligned. Employees' performance, on the other hand, is only effective when it is done in a timely manner and with efficiency. Such efficiency-driven efficacy, however, must also be functional in its application. Efficient action or production is defined as the ability to act or produce successfully with wasting as little time, money, or effort as possible. When it comes to organizational goals, the emphasis is on resources and turnaround time, or the speed with which they are achieved. The effectiveness of an organization is determined by the success with which the assignment resources are implemented in order to fulfill the organizational goals in the most efficient manner.

The corporate governance of the organization has an impact on the performance of the employees in the organization. Banks such as NBO, Bank Muscat, and HSBC should have a sound corporate governance framework to ensure that employees understand what they are expected to accomplish and when they are expected to do it. Corporate governance is the most important factor in the banking industry's success since it contributes to the improvement of employees' performance. Unfortunately, some of the companies are unable to achieve success in their efforts to establish a corporate governance framework. A drop in devotion and a decrease in productivity are the result of this.

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Work progress slows as a result of this. The successful implementation of a corporate governance system has the ability to increase the overall productivity of a firm. The purpose of this study is to address a research gap by providing the banking and financial services industries with useful information on which corporate governance system elements to deploy in order to achieve desired organizational outcomes. With respect to the banking sector in Oman, this research investigates and analyses the impact of corporate governance on employees' performance.

## Review of literature and hypotheses development

### Corporate Governance

Corporate governance basically refers to the extent to which businesses are operated in an open and honest manner. In 2002, the Cadbury Committee of the United Kingdom described corporate governance as follows: "the structure by which corporations are managed and governed." The essence of the corporate world is found in the promotion of transparency and accountability, as well as in meeting the reasonable expectations of all parties concerned. Corporate governance is one tool that can be used to accomplish this goal while also protecting the interests of various stakeholder groups. It entails encouraging people to follow the law in text and spirit, as well as displaying ethical behavior Dar, F. A (2012) <sup>[15]</sup>. The structure of corporate governance fosters the efficient use of resources while also requiring accountability for the stewardship of those resources on an ongoing basis. The shareholders, the board of directors, and the management team are the three primary constituents of corporate governance. The field of corporate governance has received increased attention in recent years as a result of a number of high-profile corporate scandals and failures, such as those involving Enron, WorldCom, Satyam, and other companies that engaged in unethical business activities. It is frequently stated that corporate governance and value creation are inextricably linked. A corporation's ability to succeed will be limited unless it embraces and exhibits ethical conduct in its operations Bhat, M. A. (2013) <sup>[15]</sup>. Various studies have been carried out to study the relationship between corporate governance and financial success, but the results have been inconsistent and equivocal in their conclusions.

### Employees' Performance

Employer performance, according to Moore (2011), is a standard that is created for each employee in the workplace based on their job, the organization's goals, and its plan, in which they set standards to be achieved based on many factors such as time. According to Rashid *et al.* (2013), performance of employees requires a system that can be utilized to check the full obligations of the employees that have been completed in relation to the task that the employee has performed. There are a variety of elements that influence employees' performance, including organizational culture, work content, and manager attitude. Personal difficulties, monetary rewards, and also motivational packages are all possible outcomes in this scenario. Employees' performance, policies and procedures, according to Noe *et al.* (2011) <sup>[12]</sup>, are defendants of the corporate objective, in which employees' behaviors are also tied to the goals of the business, particularly in terms of productivity, sales, and expenses. The employer is also responsible for establishing key performance indicators and

the methods by which they will be measured. Aboazoum *et al.* (2015) <sup>[1]</sup> asserted that every organization that wishes to be successful must have employees whose productivity increases the value of the organization and, consequently, its profitability. They further stated that any organization that does not have employees is flawed. When it comes to organizations, employees are considered human capital, and their performance is the most important aspect and indicator in the achievement of their objectives. Organizations must regard employees' performance as a critical factor in their decision-making because the organization's productivity is directly proportional to its employees' performance.

### Corporate governance and employees' performance

Good corporate governance contributes to the building of trust between firms and their shareholders, as well as between corporations and their customers and the general public. Corporate governance contributes to the financial viability of a company by providing investors with a long-term return on their investment. The dissemination of information about the company's operations and policies to a wide range of stakeholders is a vital component of corporate governance. Examples of corporate leadership structures and corporate governance papers, such as executive team charters, stock ownership requirements, and articles of incorporation, can be found on Apple Inc.'s Investor Relations homepage, as well as on the company's website. A corporation's charter outlines the distribution of rights and obligations among the corporation's stakeholders, which include the board of directors and managers as well as shareholders, customers, and employees. It also outlines the rules and procedures for making decisions about corporate affairs. This is the governing structure of a corporation. Corporate governance that lowers the "control rights" that shareholders and creditors assign to management enhances the likelihood that managers will invest in initiatives that have a positive net present value, according to the Harvard Business School. According to Al-Faki (2006), the board's and management's dealings with shareholders and other stakeholders should be characterized by transparency with shareholders and equity with other stakeholders.

Several studies have looked into the relationship between corporate governance and the performance of a company's stock price. There was a strong association in the majority of investigations. The absence of clear proof on this linkage, as well as the conflicting outcomes of studies conducted so far, is despite the intuition that excellent governance leads to good performance by a company (Pande, 2011) <sup>[23]</sup>. Among the fundamental variables of the Corporate Governance Quotient, Brown and Caylor (2004) <sup>[10]</sup> discovered that board composition is the most significant driving force (CGQ). CGQ scores were also found to be positively correlated with financial performance indicators such as shareholder returns, profitability, dividend distributions, and dividend yields, after they were adjusted for industry factors. A study conducted by Van de Velde *et al.* (2005), looked into the relationship between corporate governance ratings and financial success and discovered a positive but not statistically significant relationship. As previously stated, this result is consistent with the findings of Gompers *et al.* (2003) <sup>[18]</sup>, who discovered that organizations with a stronger governance structure and shareholder rights have higher firm value, profitability, and sales growth.

Governance metrics international (GMI) and Byun (2006) P. Aggarwal is the author of this article (2013). A study of the relationship between corporate governance ratings and financial performance found that companies rated in the top 10 percent of GMI's global database achieved higher Return on Equity (ROE), Return on Assets (ROA), and Return on Capital (ROC) than companies rated in the bottom 10 percent Better-governed enterprises, according to Selvaggi and Upton (2008) <sup>[26]</sup>, produce higher risk-adjusted returns. Enhancing corporate governance, they asserted, does not lead to improved performance and that the converse is also true. Ultimately, Eisenhofer (2010) came to the conclusion that "strong corporate governance creates long-term profitability and does, in fact, compensate." Core *et al.* (2006) <sup>[14]</sup> and Statman and Glushkov (2009) <sup>[27]</sup>, on the other hand, discovered no statistically significant relationship between corporate governance and financial performance in their respective studies. According to Azim (2012) <sup>[3]</sup>, who employed Structural Equation Modeling (SEM), some governance methods have positive covariance, whilst others have negative covariance. After considering all of the evidence, he concluded that there is no consistent and meaningful association between governance mechanisms and financial performance (as measured by ROE, ROA, Market to Book Value Ratio, Price - Earnings Ratio and Dividend Yield). As a result, we observe that some of the existing studies suggest a positive and statistically significant relationship; others suggest a positive but insignificant relationship; and still others suggest no statistically significant relationship between corporate governance and financial performance of the corporation. Consequently, the available research yields mixed and inconclusive results and greater empirical investigation is required in this context before convincing conclusions can be reached.

**H1:** There is a significant impact of corporate governance on employees' performance of banks.

### Statement of the problem

It is impossible to overstate the significance of corporate governance in the management of businesses and institutions. As a result of the recognition of the important roles that these companies play in the development of the country's economy, it is necessary to guarantee that they are managed responsibly. In recent years, there has been an increase in the demand for examining corporate governance in various workplaces, which has resulted in an increase in the demand for corporate governance research. As a result, it has become a topic of great importance, resulting in significant changes in various businesses and enterprises. Managers or corporate supervisors, owners, and directors have begun to recognize the benefits that can be realized. This laid the groundwork for the organization's achievement of an internally controlled course, both formally and informally (Parker, 2006) <sup>[24]</sup>. Michael and Goo (2015) <sup>[21]</sup> asserted that a lack of corporate governance contributes to the failure of many organizations owing to poor financial performance, a lack of employee job satisfaction, and an employee's inability to be productive at their jobs Bhat, M. A (2013) <sup>[6]</sup>. This suggests that company governance has an impact on the performance of its employees. Lack of good corporate governance results in poorly designed organizational structures that do not allow for the smooth

and fluid flow of work and do not allow for the correct monitoring of employees' productivity and performance in the company. When suitable mechanisms are not in place, there is power play among employees, which results in a loss of manpower hours, which has a negative impact on staff effectiveness, productivity, and performance. Job satisfaction is influenced by one's ability to motivate, encourage, and counsel others. In this context, the study tries to determine the impact of corporate governance on the performance of employees in banks.

### Research methodology

Because the information was gathered by a questionnaire, the quantitative method was employed in the research study. Given that the questions were issued on a 5-point likert scale, and the sampling method used was simple random sampling, the researcher should have an easy time obtaining the necessary number of responses and collecting the data in a short period of time. At every particular point in time, researchers can analyze a wide range of variables. The information gathered through this type of survey comes from persons who are similar to one another in every respect except those that are being investigated. During the whole survey, this one variable will remain consistent. The primary data required for the analysis and testing of hypotheses is gathered through the use of a structured questionnaire that was produced after conducting a study of the literature in this area.

### Database

To acquire the information, a questionnaire was distributed to banking staff working in the banking sectors of the Sultanate of Oman. A simple random sample was utilized to confirm the wide range of understandings and attitudes on corporate governance among the participants. A simple random sample is a subset of a population that is selected at random. Each member of the population has an exactly equal probability of being selected when using this sampling procedure. Given that it only includes a single random selection and requires little prior knowledge of the population, this method is the most straightforward of all of the probability sampling methods. Everyone in the population has the same chance to choose as a simple random data source for researchers, and each person has the same chance. It provides everyone with the opportunity to be chosen and produces results that may be more representative of the entire population than previous methods. Further, Google Forms was used to build a survey, which is available online. All responses are recorded on a 5-point scale, with 1 representing "Strongly disagree" and 5 representing "Strongly agree." The majority of social science and management academics believe that a sample size of 200-500 respondents is sufficient for the majority of their studies (Hill and Alexander, 2000). The sample size for the current study is 253 banking personnel from NBO, Bank Muscat, and HSBC bank from the financial sectors in the Sultanate of Oman, with the majority of the participants being female.

### Variables of the study

The majority of the data in the study came from both primary and secondary sources. Employees' performance (Wesley and Pulakos, 1983; Pulakos and O'leary, 2011; Ochoti *et al.*, 2012) and company governance (Tziner and

Kopelman, 2002; Carroll and Schneier, 1982; Mathis and Jackson, 2007) were taken into consideration when developing the instrument. The online instrument used for primary data collection could include a variety of questions that we tried to use to elicit information or data from respondents in order to better understand their perspectives and ideas. The scale is comprised of two factors, which are corporate governance and employees' performance, respectively.

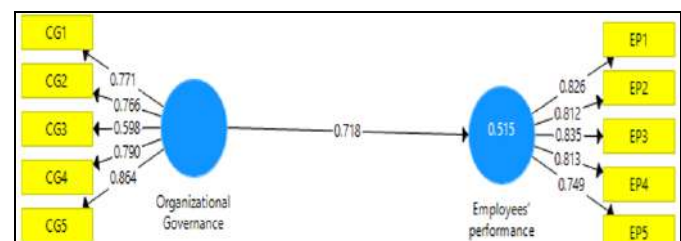
**Table 1:** Demographic statistics

Age			Education qualification		
20-22	89	35.2	Advance diploma	30	11.9
23-25	83	32.8	Bachelor	157	62.1
26-28	23	9.1	Diploma	20	7.9
28+	46	18.2	Master's degree	36	14.2
41 above	12	4.7	Others	10	4
Total	253	100	Total	253	100
Department			Gender		
Accounting	36	14.2	Female	107	42.3
HR	41	16.2	Male	146	57.7
IT	21	8.3	Total	253	100
Marketing	28	11.1			
Others	127	50.2			
Total	253	100			
Occupation					
Branch manager	14	5.5			
Cashier	15	5.9			
Others	194	76.7			
Relationship manager	30	11.9			
Total	253	100			

The different age groups of employees who work in the banking industry are shown in table 1. As the table illustrates, the greatest number of replies came from employees between the ages of 20 and 22, with 35.2 percent of the total coming from this age group. As a result, the age group of (23-25) represented by the second biggest number of respondents was the employee's age group (32.8 percent). In contrast, workers aged 26 to 28 and above made up a quarter of those who answered the survey questions. There were fewer employees who were in the age range of 41 and above who answered, which is a negative trend (4.7 percent). In addition, the data in Table 1 comes from respondents who took part in surveys conducted by other departments. With 16.2 percent and 14.2 percent, respectively, of the total number of participants, it is apparent that human resources and accounting are the most popular professions. Only 28 employees were involved in the marketing department, which represented 11.1 percent of the total number of participants in the study. Furthermore, only 8.3 percent of participants worked in information technology departments, which is the lowest number in the industry. Also discovered was that 50 percent of those who answered the survey questions worked in other related departments. Furthermore, according to the data in the preceding table 1 of the sample size that responded to the Questionnaire, 15 percent of the respondents covered 5.9 percent of the total population in the survey. It appears that 253 people responded to the questionnaire, which is a good number. With a rate of 76.7 percent, other workers

outperform 194 individuals in the survey. While the relationship manager takes 30 participants with a present of 11.9 percent, the relationship manager takes 30 participants. Cashier and Branch manager, on the other hand, have the lowest number of participants, with 15 for cashier and 14 for branch manager, and the percent of cashier is 5.9 percent and the percent of branch manager is 5.5 percent. In addition, 76.7 percent of those who answered the survey stated that they were employed in other fields.

Table 1 also reveals that the majority of respondents (62.1 percent) had a bachelor's degree, with a significant percentage of respondents holding a master's degree (14.2 percent). In contrast, just a tiny number of respondents (7.9 percent) have diplomas, and the bare minimum number of respondents (4.0 percent) has other levels of education. Finally the table displays the number of male and female employees who answered in the banking and financial services sectors. According to the results, the biggest number of responses came from male employees (57.7 percent), followed by female employees (42.3 percent).



**Fig 1:** Structural model

Correlative measures are employed in order to assess the strength of a linear relationship between two variables. In general, correlation coefficients can be found in the range of -1.0 (perfect negative correlation) to 1.0 (perfect positive correlation) (a perfect positive correlation). When there is a strong connection between two variables, the correlation coefficients are closer to -1.01 or 1.0. Indicators of a lower correlation include link coefficients that are closer to zero.

**Table 2:** CFA Factor loadings

	VIF	Employees' performance	Organizational Governance
CG1	1.829		0.771
CG2	1.757		0.766
CG3	1.308		0.598
CG4	1.828		0.79
CG5	2.332		0.864
EP1	1.823	0.826	
EP2	2.128	0.812	
EP3	2.303	0.835	
EP4	2.037	0.813	
EP5	1.685	0.749	

The CFA results are within acceptable limits for employee's performance and corporate governance. Further the Variance Inflation Factor (VIF), which are the most reliable statistical methods were used. Results from the test revealed that is considerably greater than 0.1 while VIF ranges from 1.308 to 2.332 substantially less than 10.



**Table 3:** Validity and Reliability of the scale

	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>	<b>Employees' performance</b>	<b>Corporate governance</b>
Employees' performance	0.867	0.882	0.903	0.652	0.808	
Organizational Governance	0.819	0.845	0.873	0.582	0.718	0.763

The validity of a measurement relates to how well an instrument performs its function of measuring what it is intended to measure. The fact that the instrument is useful is the true reason for its existence. If the instrument does not measure what is intended to be measured, then it is worthless. In this section, a fundamental description of many different types of validity is provided. Depending on the specific scenario of the scale, the developers may choose to use one or more of the different validation techniques available. The internal consistency of items under a certain construct is shown in Table 3. It is a measure used to guarantee that items are homogeneous in nature (Cooper & Schindler, 2014) <sup>[9]</sup>. In order to determine the internal consistency of things, composite reliability is used to test for it. The appropriate criteria for composite dependability ranges from 0.903 to 0.873, with 0.873 serving as the minimal threshold value for reliability. It is satisfactory when the composite reliability value is between 0.7 and 1 (Sarstedt *et al.*, 2017) <sup>[25]</sup>. Cronbach's alpha, on the other hand, is another measure of internal consistency (Tavakol & Dennick, 2011). Cronbach's alpha value should be in the range of 0.70 to 0.80 (Ursachi *et al.*, 2015) <sup>[29]</sup>. The Cronbach's alpha values in this study range from 0.86 to 0.81, which is over the threshold value (Nunnally & Bernstein, 1994).

The convergent validity of a new scale assures that it is related to other variables and that it is measuring the same construct. The average variance retrieved from the data was utilized to calculate the convergent value in this investigation. A value greater than 0.5 indicates that there has been an appropriate level of convergence in the data set (Bagozzi & Yi, 1988) <sup>[4]</sup>. AVE values for each construct in this study are more than 0.5 in this study. Illustration of the graphical representation of the measurement model assessment is in Figure 2. The discriminant validity of a construct is a measure of how one construct differs from other factors (Hair *et al.*, 2013) <sup>[20]</sup>.

The Fornell-Larcker criterion, which considers the importance of corporate governance as well as the performance of employees, was used in this study to assess discriminant validity. According to the findings of the study, the values of loading items are greater than the values of respective constructs, indicating that discriminant validity has been established.

Among the hypotheses provided for the study (H1) is that corporate governance has a favorable and statistically significant impact on employees' performance. The findings of this study demonstrate a positive and statistically significant association between corporate governance and employees' performance ( $b = 0.718p < 0.000$ ), indicating that hypothesis H1 is validated. The findings demonstrate that there is a positive association between corporate governance and employee performance because a robust and strong corporate governance system increases the productivity of the workers' productivity. Some responsibilities include properly communicating corporate governance to employees' and informing them of the value of their performance efforts to the overall effectiveness of the

organization (Biron *et al.*, 2011) <sup>[8]</sup>. Furthermore, the research was supported by Collins-Camargo *et al.* (2014) <sup>[13]</sup>. This study also discovered, in accordance with the findings of Haines and St Onge's (2012) <sup>[19]</sup>, that employees' recognition had a substantial association with corporate governance and effectiveness of the employee's performance.

### Discussion and conclusion

Corporate governance is one of the most significant things that all banking sectors should implement because it aids in the improvement of employees' performance and helps them become more self-sufficient, allowing them to complete all job obligations in an exceptionally efficient manner Bhat, M. A (2020) <sup>[15]</sup>. Corporate governance is the most important factor in the success of all businesses across the world, as well as the improvement of their overall performance in general. It is impossible to exaggerate the importance of corporate governance as a fundamental human resource method for increasing employee productivity and achieving organizational success. The results of this study show a significant relationship between corporate governance and employees' performance, as shown in the correlation table, which is ( $0.718 > 0.000$ ). Because it aids in improving employees' productivity, it is important for banks to implement corporate governance policies and practices. Additionally, corporate governance plays an important role in guiding all activities and practices in the banks, which results in an increase in the overall performance of the bank. However, certain requirements must be met before this benefit may be realized, as found in recent literature. The findings of the study match findings in previous literature that implementing a corporate governance structure improves organizational results. According to the findings of this study, corporate governance management is a beneficial instrument for evaluating performance, recognizing good performance and highly valued individuals, and identifying capabilities that need to be improved in an organization.

### Recommendations

It is important for the banking industry to pay attention to corporate governance since it aids in leading the operations of the bank and managing all of the activities that contribute to improving its overall performance. In order to succeed, banks need to devote more resources to corporate governance. This is because corporate governance establishes the norms of the organization and helps to paint a clear image of how the banking sector should operate and what actions they should take to achieve success. In the banking sector, additional corporate governance is required because it assists the employees in improving their performance and working more efficiently, it will increase the level of efficacy in the banks, employees will become more productive, and the overall performance of the bank will be high. In the administrative center, make ensure that there is equity, which implies that everyone is treated with respect and dignity. In terms of goal and impact, there may

be a degree of openness, and everybody understands what to expect in terms of repercussions and benefits. Human people have the same right of admission to opportunities as long as equity exists.

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