Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 10, October 2021: 3943-3955

Research Article

The Impact of Governance in Achieving Competitive Advantages

Shafiz Shahrani[1], Radzali Hassan[2], Louis Adaikalam[3]

[1]Dr., International Institute of Applied Science of Swiss School of Management, Switzerland
[2]Dr., International Institute of Applied Science of Swiss School of Management, Switzerland
[3]Dr., International Institute of Applied Science of Swiss School of Management, Switzerland
Email: Sha@shapadu.com.my, radzali.hassan@hartagroup.my, louis@alphainternational.com.my

Abstract

Governance occupied a great deal of interest from academics, practitioners, and regional and international organizations alike to the countries that provided it in solving the global crises that occurred in the countries of the world during the twentieth century. Then the interest in governance expanded after the repercussions of power and issues of corruption in the American economy in order to achieve economic growth automatically. The rules and principles of governance help institutions to efficiently manage their available resources and thus the ability to impose themselves in the market and their stability. So what are small and medium enterprises? Does governance contribute to improving the financial performance of small and medium enterprises? What are the obstacles that sound governance in small and medium enterprises may face? All these questions were addressed in this research. The results showed the importance of governance and the transparent application of its policies on the competitive advantage of companies, which is reflected in economic growth significantly.

Keywords: *Governance, Competitive Advantages, Small and Medium-Size Enterprises, Enterprise Rules and Principles, Economy*

Introduction

Small and medium-sized enterprises have dominated economic studies recently because they differ from large-sized enterprises in terms of their orientation and objectives [1]. These enterprises spread in the seventies of the last century, and had a significant impact on the economies of developed and developing countries alike, but they were also spread at the speed with which they were established during its early years, studies tended to help provide solutions that enable these institutions to survive and impose their position in the markets. Small and medium enterprises are those that are owned and managed in an independent manner, as they do not control the field of work in which they are active [2], and the institution is considered small and medium if it employs 100 workers or less and works in the field of industry, construction, and processing, or wholesale trade, retail trade, or service activity of hotels and restaurants, or transportation, storage and communication, or insurance [3], the definition of institutions has differed from one country to another according to the criteria used in any of them, so it is necessary to adapt these criteria to the peculiarities of the economic and social system prevailing in that country [4].

Large-sized enterprises in the contemporary economy occupied securities that play in reviving the economy and achieving structural development and technological progress, as well as the American economy, and reducing the unemployment rate [5]. Including companies listed in the "Four Chain" list of more than 500 industrial companies as well as the largest and most famous chain stores and mail order companies founded by organizers with limited capital and the most important keys to economic development, enterprise core resources, and institutional improvement [6].

Governance has a clear impact on the performance of institutions through a number of channels, which is represented in increasing access to external sources of funding [7], which increases the company's market value [8]. Governance contributes to the increase in the value of the company and the tendency of investors to buy shares, thus attracting more investments and reducing the risks of financial crises [9]. Governance is the main reason that helped some companies to return and achieve a competitive advantage after the financial collapses that occurred in the whole world, as well as improving the relationship with stakeholders, as governance brings the relevant parties together and works to maintain friendly relations between them through the publication of financial statements, meetings and frankness disclosure, transparency, and finally the field of improving performance and increasing efficiency [10]. It also works to spread the spirit of cooperation and responsibility in partnership with all parties to turn into a company in achieving success [11].

Governance Concept

In the wake of the political developments that the world witnessed at the end of the twentieth century, and the entry into the era of the third millennium, many changes appeared in the work and business environment, accompanied by changes in various areas and sectors, which, by their nature, imposed different challenges on organizations [12]. And it became clear that no organization, which seeks to advance itself and stay in the market, has to achieve a competitive advantage that guarantees it a high competitive ability, based in essence on the principles of governance, by promoting transparency, justice, and independence for all parties. Relevant to the organization's work and activity, which supports the organization's competitive position, and works to avoid mismanagement, or attempts at manipulation and corruption [13], as well as avoiding the risks of financial collapses, such as that which occurred during the nineties of the century in the past for many giant companies, see figure 1 [14].

Figure 1. Governance Dimensions

Governance is a system for managing the company strategically to achieve its main objectives, and to monitor it comprehensively and in a positional, ethical, and committed manner [15]. To the extent that it does not converge with the interests of other relevant groups [16]. Also, consider the system through which business companies are directed and managed, and defines the rights and responsibilities between the various parties related to the company's activity, such as the board of directors, shareholders, and stakeholders, and defines the rules and procedures for making decisions related to the company's affairs [17], as well as the structure that Through which the objectives of the company, the means of achieving them, and the means of performance control are set [18]. Governance is also defined as the approach used by the company's stakeholders to monitor their own interests, and it is also an expression of the system through which the company is managed and monitored [19].

The researchers consider that governance is a set of mechanisms, procedures, laws, rules, regulations, decisions, and standards that determine the relationship between the company's management on the one hand and the shareholders, stakeholders, or parties associated with the company such as bondholders, workers, creditors, citizens on the one hand [20], [21].

another side there are three dimensions of governance which are [22], [23]:

i. Transparency: which means providing honest and objective information in all honesty, and contributes to the decision-making process in a timely and correct manner for all internal and external parties for the organization,
ii. Fairness: It is respect for the rights of stakeholders in the organization and the distribution of tasks and responsibilities among employees on the basis of justice and equality between them and
iii. Independence: The Organization for Economic Co-operation and Development (OECD) has shown that independence must include supervision and control processes.

For that, the organization shall be controlled by an independent body that is not under the management of the organization, and an independent audit committee, consisting of three to five members, may emerge from the members of the board of directors, to oversee the oversight of the administrative and financial reports.

Corporate Governance Measurements

Corporate governance is a tool to put companies on the right track by assessing performance and measuring the extent to which objectives are being achieved, and is an important part of the strategic process [24]. Improving performance through its principles and mechanisms that operate as an effective system for institutions and its good application contributes to achieving disclosure and transparency and reducing corruption and fraud and thus improving the financial performance of small and medium enterprises, making them longer life and more presence in the markets, development and progress, but institutions must be keen to improve the level of governance practice in them And the institution's commitment to the regulations and laws that help it reach safety [25].

The measure of governance depends on the members of the Regulatory Authority, organizational systems, board of directors, internal regulations and laws, general educational level, remuneration of the board of directors and managers, financial and administrative investment for companies, and clarification of the relationship between fund owners and companies' boards of directors, internal control policies for work, financial means and means, transparency and determining internal audit standards financial information and financial business comply with the standards of international accounting standards, see figure 1 [26].

Figure 1 Corporate Governance Measurements

Governance and Competitive Advantage

Governance helps to support performance, increase competitiveness, attract investments and improve the economy through improving and developing the organization's management, ensuring fair dealing with shareholders, employees, and all other parties, and supporting the principle of transparency in all transactions and operations of the organization, in a manner that enables controlling elements of corruption [27].

The competitive advantage is to achieve progress from other competitors and to widen this gap from them, through the difference between the value that the customer obtains, and the financial value that he pays for obtaining that product [28]. It also helps in generating resources and creative capabilities related to the internal environment of the organization, which can be imitated by other competing organizations.

The competitive advantage is also announcing the company's ability to excel in the areas of finance and marketing, above all its other priorities, which in turn requires understanding the general framework of the company by identifying the top management of the actual desires and needs of customers and then defining the most appropriate means and way to deliver it to their reach in the shortest time [29].

And being a process that aims to meet the needs and desires of customers in order for the customer to acquire products from goods or services and to request access to them and benefit from them. The researchers define competitive advantage as the organization’s ability to produce goods and services at a lower cost or a product that is distinct from its counterpart in the markets for customers in a distinct way, through the organization’s exploitation of its sources of strength to add value to its products in a way that other competitors are unable to implement.

The importance of the competitive advantage lies in the fact that it is an important and essential factor for the work of organizations of all kinds and their products because it is the basis around which the comprehensive competitive strategy of the organization is formulated; It is also of importance as a tool to meet the challenge that awaits the organization from the competing organizations in the relevant sector.

Most studies also indicate that there are a number of dimensions that work to achieve the competitive advantage of organizations. These dimensions include cost, quality, creativity, flexibility, delivery, reputation, design, excellence, growth, alliances, ease of use, supply, time, and technology, See Figure 3 [30].

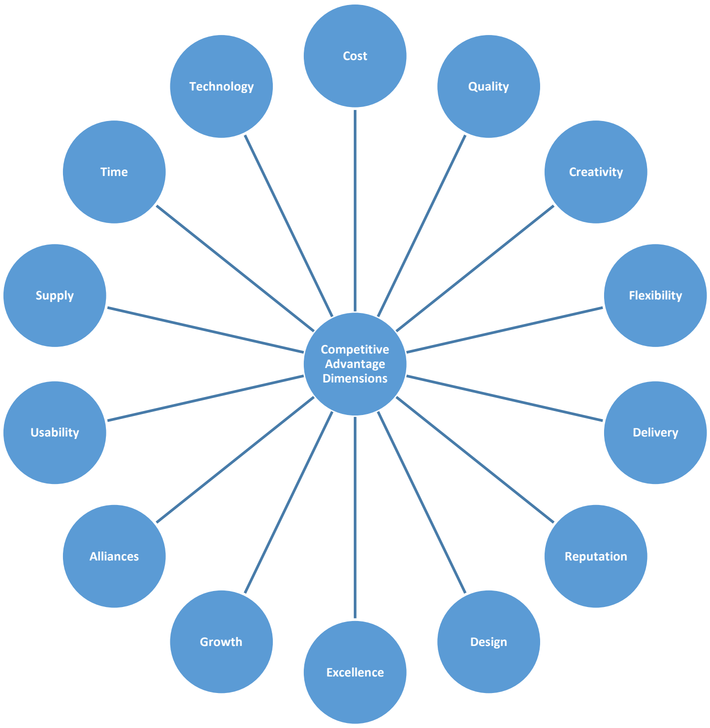

Figure 3. Competitive Advantage Dimensions

Several recent studies have chosen some dimensions in terms of their importance in competitive advantage, namely cost, quality, and creativity, see figure 4, given the consensus of the majority of studies on the importance of these three dimensions, they will be defined as follows [31]:

- Cost*:* is defined as the voluntary sacrifice of a group of economic resources to obtain tangible or intangible benefits, in the present or in the future, for the purpose of achieving specific goals.
- Quality*:* is defined as the set of marketing, engineering, and manufacturing characteristics that meet the expectations of the customer when using the product. The British Standard refers to the concept of quality as the sum total of qualities and characteristics of a product or service that can meet the needs and desires of customers.
- Creativity*:* it is defined as the process that the individual is characterized by when he encounters situations that he gets excited about and coexists with deeply and then responds to them in a manner consistent with himself, so his response comes different from the responses of others and is singular. It includes thought leadership represented in the introduction of new ideas.

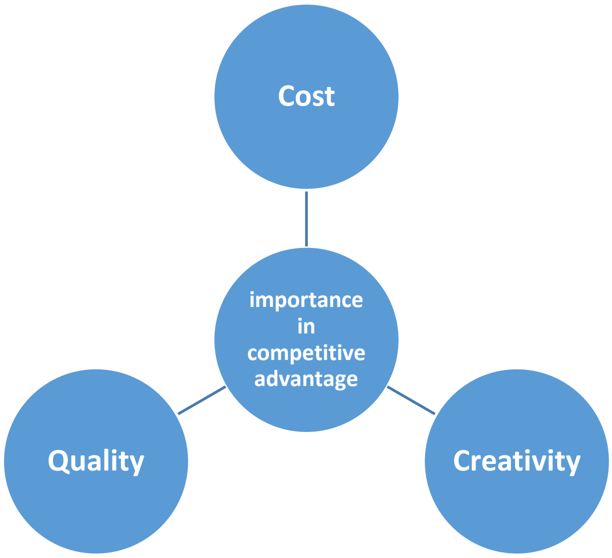

Figure 4. Importance in Competitive Advantage

A number of studies have found an impact of applying governance in achieving competitive advantage. Some studies have indicated that there is a statistically significant impact of governance in achieving competitive advantage as a result of improving the quality of decisions taken by small and medium-sized companies when applying the principles of governance.

Studies have also found statistically significant effects of adopting the dimensions of corporate governance in enhancing economic competitiveness in medium enterprises. The study concluded that there is an impact of the dimensions of corporate governance in achieving competitive advantage in small-sized companies. The sustainable competitive advantage is no longer limited to product excellence and the level of development and improvement of the performance of the institution, but also to the application of governance, and knowledge of how to properly direct its mechanisms [32].

Studies have also concluded that there is an impact of a semantic application of corporate governance in raising the competitive advantage of the Small and Medium-Size Enterprises that offer their shares in the financial markets. This is due to the fact that the dimensions of corporate governance represented in transparency, accountability, justice, and responsibility have a significant impact on competitive advantage in the cases studied at the level of medium and small-sized companies. There is a positive correlation between profit and the measure of earnings per share or returns on assets. This means that incorporate governance there is a positive correlation between corporate governance and company performance.

Another study also found that the corporate governance instructions issued by central banks affect the improvement of the practices of subsidiary banks in that country and that the commitment of subsidiary banks to apply corporate governance instructions mainly affects their performance, and thus affects the national economy of that country. Corporate governance strongly affects the performance of companies in general, especially their assets, and their profits in general, and the profitability of stocks in particular. It is considered the best operational performance and market evaluation that is associated with the highest level of corporate governance application.

Findings and Discussion

This study resulted in a number of results that were explored by the research available on many official and scientific databases for some countries that implement the principle of governance, and this is with regard to the scope of research from medium and small-sized companies in those countries, and accordingly, the following is a list of these results with discussion asap accessed.

- Existing studies with regard to the dimension of transparency as one of the dimensions of governance have shown that there is an increase in the percentage of transparency. This is due to the sector's commitment to the applicable laws and regulations, which are reflected on the employees, as well as to granting medium and small-sized companies the necessary powers for employees to make decisions related to their work.
- The results related to the dimension of justice as one of the dimensions of governance showed the presence of a medium degree for the responses of the study sample, which are medium and small-sized companies. This is due to the fact that this sector covered by the study, from the point of view of previous studies at an average level, justice is applied in all its dealings, such as the prosecution of abuses, and legal accountability for any violating employee, while small-sized companies are characterized by justice, and all employees are treated fairly without distinction between their jobs.
- The results related to the dimension of independence as one of the dimensions of governance also showed the presence of a high degree of studies that achieve this dimension. This is due to the fact that workers in medium and small-sized companies have the authority and independence to perform their work in the way they see fit, in

addition to giving the management staff of these companies' complete freedom to present different and new ideas in their field of work.

- The study also showed the cost dimension as one of the dimensions of competitive advantage that there is a high degree of medium and small-sized companies that achieve this dimension. This is due to the efforts of the administrations of those medium and small-sized companies to provide their services at the lowest cost to control their market share and to provide products and health care compatible with the quality of those services and health care.
- The study also showed the indicator related to the dimension of quality as one of the dimensions of competitive advantage that there is a medium degree in achieving this dimension, due to the relative excellence of the services of medium and small-sized companies. The average degree is due to what those companies do in designing training programs for the actual training needs of employees.
- The results of the creative dimension as one of the dimensions of the competitive advantage showed that there is also a medium degree in achieving this competitive advantage. This is due to the fact that employees of medium and small-sized companies have a moderate degree of freedom to carry out their work recurrently.

In conclusion, the studies showed that the impact of the application of governance with its combined dimensions (transparency, justice, and independence) on the competitive advantage with its combined dimensions (cost, quality, and innovation) in medium and small-sized companies was significantly positive and was higher than expected.

Conclusion and Recommendations

In light of the results of this study, the researcher suggests some of the following recommendations:

- Small and medium-sized companies must continue to apply the dimensions of governance and enhance this approach, because of this effective impact in achieving competitive advantage in those companies.
- The necessity for medium and small-sized companies to educate their employees about the importance of corporate governance and its positive role in achieving competitive advantage through the implementation of awareness campaigns on the concepts of corporate governance and its effective impact.

- Working on holding training programs for employees in the field of governance in terms of training them on how to take advantage of the dimensions of governance that enable employees to enhance and develop their capabilities to exploit the available resources at the lowest costs to reach sufficiency. At the level of one department or department, achieving basic sufficiency at the level of other departments, reaching the competitive advantage at the lowest costs, and reaching the stage of outstanding performance, innovation, transparency, and quality in medium and small-sized companies.
- Holding training programs for workers in the field of competitive advantage, and training them on how to achieve its dimensions in terms of cost, quality, and innovation to obtain the largest share in the market.
- The need for medium and small-sized companies to take advantage of the competitive advantages achieved for them in a timely manner by preparing a specialized database for cost outputs and refer to them when needed to gain time, which reduces this cost and searches for this information and ensures flexibility and speed in response to providing the service.
- It is necessary for the management of medium and small-sized companies to attach more importance with regard to continuous follow-up to identify the changing needs of auditors and speed of response to them through the processes of creativity and innovation and experimenting with innovative ideas and solutions. provided by employees and put into practice.
- It is necessary that the sector of medium and small-sized companies in question continue to pay attention to the dimensions that achieve its superiority and distinction and to work on building and sustaining competitive advantages.

Finally, we find that governance has a direct impact on improving performance in small and medium enterprises by paying attention to the interests of employees, customers, and all parties. It increases the capabilities of employees from their sense of responsibility and the management's conviction of the importance of their participation and the need to improve the climate for them, which contributes to improving the performance of companies. It should be noted that the role of governance is not limited to setting rules and laws and monitoring their implementation. But it also includes providing the necessary environment to support their credibility, and this can only be achieved with cooperation between the government, the regulatory authorities, the private sector, and the actors. We also note that the governance system in small and medium-sized enterprises differs from what exists in large private institutions in the field of separating ownership from management and the role of the board of directors.

References

[1] Al-Jaidi, uncle R. (2017). “The level of governance and its impact on companies’ performance.” Ph.D. thesis H. The Arab Academy for Financial and Banking Sciences. Amman N. Jordan.

[2] Habiba, bin Zaghdeh and Abdel Hafeez, my uncle R. (2019). “The Role of Corporate Governance in Enhancing the Enterprise’s Economic Competitiveness: An Applied Study on a Tannery Corporation in Jijel (TAJ). La Al-Bashaer Economic Journal: (5).

[3] Al-Azz Mai, Jamal Obeid Muhammad d. (2020). “The Role of Corporate Governance in Raising the Competitiveness of Kuwaiti Companies.” Unpublished Master's Thesis. Al Sharq University Awsi. Oman. Jordan.

[4] Ali, Ammar Mahyoub Mohammed d. (2019). “Enhancing corporate governance using the standards of computer disclosure of the Organization for Economic Cooperation and Development in the companies of the mixed economic sector in the Republic of Yemen.” An unpublished doctoral thesis, The Arab Academy for Banking and Financial Sciences, Amman, Jordan.

[5] Fella, Shandarli Brah M. (2019). “The Contribution of Governance Mechanisms to Achieving Competitive Advantage: A Case Study of the Algerian Mobile Telephone Company (Mobilis).” Master’s Thesis, Mohamed Khidr R. University, Algeria.

[6] Al-Qahtani, Ray M. (2019). “The Governance of Saudi Universities to Achieve a Competitive Advantage in Decision-Making According to the Aspirations of Vision 2030.” Journal of Educational and Psychological Sciences: (15).

[7] Kalbona, Ahed Youss F. (2018). “The Role of Institutional Governance in Improving the Practices of Jordanian Banks: According to the Governance Guide issued by the Central Bank of Jordan in 2017. Unpublished PhD thesis. The Arab Academy for Banking and Financial Sciences. Amman, Jordan.

[8] Al-A’zemi, Jamal. (2018). “The role of corporate governance on improving the competitive ability of Kuwaiti companies”. Unpublished Master’s Thesis, Middle Eat University, Jordan

[9] Al-Haddad, Waseem. (2016). “The Effect of Corporate Governance on the performance of Jordanian Industrial Companies: An Empirical Study on Amman Stock Exchange”. International Journal of Humanities and Social Science. 1(4)

[10] Al-ju’aidi, Omar (2017). “Corporate governance level and its effect on corporate performance: An Imperial study of credit Lyonnais securities Asia on Amman Bourse”, Unpublished Doctoral Dissertation, The Arab Academy for Banking & Financial Sciences. Jordan.

[11] Al-Qatawneh, Ayman Suleiman Zamel, (2016). “The Impact of Corporate Governance in Achieving Competitive Advantage: A Field Study of Jordanian Pharmaceutical Companies”, European Journal of Business and Management. 7 (35): 9- 17.

[12] Ali, Ammar (2019). Unpublished Doctoral Dissertation. The Arab Academy for Banking & Financial Sciences. Jordan

[13] Anderson, Shannon W. & Dekker, Henri C. (2019). “Strategic Cost Management in supply chains, Part (2) Executional Cost management”, Accounting Horizons Journal. 23(3): 289- 305, https://doi.org/10.2308/acch.2009.23.3.289.

[14] Barney, Jay .B & Clark, Delwyn N. (edit.), (2017), “Resource – Based theory: Creating and Sustaining Competitive Advantage”. Exford University Press, UK.
[15] Benzeghda, Habiba; Amair, Abdulhihid, (2019). “The role of corporate governance in enhancing the competitiveness of the economic enterprise: An Empirical Study of the Jijel Tanning Enterprise”.Al Bashaer Economic Journal, 5(1): 266- 277 [9] Best, Armanda. (2020). Competitive Advantage in Learning Organization. McGraw-Hill, USA.
[16] Cattrysse, Jan., (2015). “Reflection on Corporate Governance and the Role of the Internal Auditor”, www.ssrn.com
[17] Dale, Barrie G.; Cooper, Cary L. & Wilkinson, Adrian. (2020). “Managing Quality & Human Resources: a Guide to Continuous Improvement”. Great Britain Blackwell, Inc.
[18] Duffy, Maureen, Nevin, (2016). “Corporate governance and client investing”. Journal of Accounting, 197(1): 43- 48.
[19] Mintzberg, Hemry; Quinn, James Brian; Lampel, Joseph & Goshal, Sumantra. (2002). “The Strategy process: Concepts, Context, Cases”, Prentice Hall, England
[20] Evans, James R. (2020). Applied production and Operations Management (4th ed.). West Group, U.S.A.
[21] Evans, James Robert. (2020). Operations management: integrated goods and service approach. South-Western, USA.
[22] Fawzy, Samiha. (220). “Assessment of corporate governance in Egypt”, Working paper no. 82, The Egyptian Center for Economic Studies, Egypt
[23] Freeland, C. (2017). “Basel Committee Guidance on Corporate Governance for banks”, Paper presented to: Corporate Governance and Reform: Paving the way to Financial Stability and Development, a Conference organized by the Egyptian Banking Institute, Cairo, May7-8.
[24] Hermanns, Severine. (2016). “Financial information and earnings quality: a literature review”. www.ssrn.com, retrieved on 20/6/2020
[25] Joshua, Ronen, (2006). “A proposed corporate governance reform: financial statements insurance”. Journal of Engineering and Technology Management, 23(1-2): 130- 146.
[26] Kalbouneh, Ahmad Yousef, (2018). “The role of corporate governance in improving the practices of Jordanian banks: In accordance with the governance guide issued by the central bank of Jordan in 2007”. Unpublished Doctoral Dissertation, The Arab Academy for Banking & Financial Sciences, Jordan
[27] Klapper, Leora F. & Love, Inessa, (2014). “Corporate Governance, Investor Protection, and Performance in Emerging Markets”. Journal of Corporate Finance. 10(5): 703- 728.
[28] Macmillan, Hugh & Tampoe, Mahen. (2001). Strategic management: Process, content and implementation. Oxford University Press, England
[29] Nginyo, James Muhinja; Ngui, Thomas Katua & Ntale, Joseph Franklin. (2018). “Corporate Governance Practices and Competitive Advantage of Kenolkobil Company Limited, Kenya”, International Journal of Business & Law Research, 6(3): 11- 23.
[30] Alqahtani, Reem, (2019). “A framework for the Saudi universities governance to achieve competitive advantage in decision making according to the aspirations of Vision 2030”, Journal of Educational and Psychological Sciences. 3(15): 51- 79.
[31] Soo, Christine; Devinney, Timothy; Midgley, David; & Deerin, Anne. (2020). “Knowledge Management: Philosophy, Processes, and Pitfalls”, California Management Review.
[32] Williamson, Oliver E. (2020). The Mechanisms of Governance, Oxford University Press, U.S.A.