



## Global Journal of Scientific Researches

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©2017 GJSR Journal. Vol. 5(5), pp. 96-101, 31 October, 2017

E-ISSN: 2311-732X

# *The Effect of corporate governance on employee voice*

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*Received: 19 September, 2017*

*Accepted: 02 October, 2017*

*Published: 31 October, 2017*

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### ABSTRACT

For the first time in Iran, this study aims at discussing the effect of corporate governance on employee voice. Reviewing basic theories of the research shows that corporate governance has a huge effect on employee voice. Therefore, in Iran insurance organization, the relation between corporate governance and employee voice outcomes has been analyzed. The result of this research denies the positive and meaningful relation between corporate governance with employee discouragement, organization indifference and inters organization objections and then confirms the positive and meaningful relation between corporate governance with increasing employee motivation and empowering them and their teamwork.

**Keywords:** *Corporate governance, employee voice, Iran insurance co.*

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### INTRODUCTION

Fast environment changes and universal competition raise, have resulted in varied competitive place nowadays. Therefore in today troubling atmosphere, corporations need to use competitive strategies in all kind of organization aspects to survive. Due to the rising competition in insurance industries and presenting distinct services by the rivals, all the insurance companies are obliged to use competitive strategies to survive in this industry. One of the mechanism corporations can use, is to set corporate governance system. Establishing a suitable mechanism of corporate governance, is a fundamental move to utilize sources efficiently, promote responsibility, clarity and fairness in favor of all the stakeholders. Using corporate governance mechanism, insurance companies can maintain their position in this competition and also there would be a positive and meaningful relation between corporate governance and organization function progress (Klapper and Love, 2004). One of the important principles in corporate governance is to look after human resources rights. Human resources is the most important capital in every organization. In today's competitive atmosphere, taking care of this important capital could guarantee organization's growth and progress. Humanism in an organization is one of the theory principles in management scholars' debate. Taking care of human, his goals and needs has always been the center of attention among rhetorician. One of the discussions in organizations' humanism is the effect of corporate governance over employee voice. Employee voice could be both in favor of personal goals and interests and also in favor of organizations' goals which in this research, the organization aspect has been considered. In negative aspect employee voice is only heard when there's been an unjust or neglect act towards them in the organization, and in positive aspect, employee voice will be heard in time of their intense sense of motivation and teamwork.

### 2. *iterature review & Hypothesis*

Corporate governance has been in discussions since 1990 and nowadays it has been studied in a lot of fields such as accounting, financial, economics, sociology, law and etc. In different countries like Iran this subject was considered in accounting at first, then it expanded in other fields (He et al., 2015). Considering the dispersion of approaches towards corporate governance, there are a lot of definitions on these subjects and everyone based on his opinion and expertise has given a definition. For example, in Cadbury's report (2000), corporate governance has been defined as "a system which corporations are monitored and

controlled with". This approach is completely financial and signifies the investors and managers' relation(Mulyadi and Anwar, 2015).

### **2.1. Corporate governance definitions**

The term of corporate governance system is one of such terms there aren't only one definition for them and different people with different approaches give different definitions. These definitions potentially cover the whole field of activities which can have effect on financial safety of profiting corporations directly or indirectly(Fernando, 2010). If we assume the definitions of strategic corporate system in one spectrum, there are limited views in one hand, and there are expanded views in the other hand. Limited views limit the strategic system to relation between the company and its investors. This traditional financial pattern describes "representative theory"(Liao, 2010). Expanded approach sees the strategic system in a network of relations which is not only the relation between company and the investors but also includes the relation between companies and all the other stakeholders and beneficiaries. This approach describes "stakeholder's theory"(Solomon, 2007). Since corporations depend on legal rights of all groups and not just one special group, strategic system of the company is defined as monitoring, supervising and control. In other words, the corporate strategic system is codified to supervise decisions and function of head managers and to make sure of their action's compatibility with investors' distinct taste and other stakeholders(Lee, 2007). However, the very first definition was given by the famous economist Milton Friedman. As Friedman defines, corporate strategic system is monitoring a commercial unit considering the owners and investors tendency, in a way that is profitable financially and is also compatible with the basic rules of the society which includes legal and local values. This definition is based on economical concept of achieving the maximum level of market's value from profiting that emphasizes on investment(Fernando, 2010). The famous magazine Financial Times (1997) has defined corporate governance as "corporate governance could be defined in its limited definition, the corporations' relation with its stockholders and in its expanded definition is the corporation relation with the society". Organization for Economic Cooperation and Development (OECD<sup>1</sup>) defines corporation strategy system as a system that monitors and controls commercial companies. Structure of corporation strategy system specify distribution of rights and responsibilities among partners such as managers, stockholders and other stakeholders and determines pattern of decisions according to the subjects related to the corporation. Doing so, corporation strategy system also makes a structure so that it could set the corporation's main goals and also supervise its function (OECD, 1999). International Federation of Accountants (IFAC) in 2004 has defined corporate governance as: corporate governance is consist of responsibility and has used methods by directing panel and managers assigned to specify strategy path in order to guarantee reaching those goals, controlling risks and consuming resources responsibly.

In other words, corporate governance is an economical field that is responsible to, by encouraging methods like contracts, organization plans and setting rules, study how can motivate company directors to improve functioning and reaching a competitive revenue rate for company owners and do their best(Zelenyuk and Zheka, 2006). In such relation we could say that corporation strategy system discusses corporation's improvement, desirability, transparency and responsibility(Fernando, 2010). Based on another definition, corporation strategy system discusses methods to insure financial resource suppliers that they will have their investment revenues(Shleifer and Vishny, 1997) and the corporation strategy system is consist of so many methods which could be less risky to invest by raising more supervision on directing method and limiting directors' opportunist manners and improving in giving information(Ashbaugh et al., 2004).The corporate governance assures that companies utilize their investments efficiently and also considers all groups of stakeholders and community; and the directing board is responsible towards the company and stockholders. Such a system will guarantee that companies in general are active in favor of the community's welfare and are to gain the investors' trust and attract long term investments. Corporate governance structure should help to expand transparent and efficient markets and it must be compatible with law authority and it should supervise and carry out task distribution in different responsible organizations(Jarboui et al., 2015). This structure should keep the stockholders' rights and facilitate enforcing these rights. And also it should guarantee presenting strategic methods to the company, supervising directing board efficiently for the company and stockholders(de Almeida and Dalmácio, 2015). Researches and studies on this subject and the definitions of corporate governance system shows that all of the definitions have the element of responsibility in common.

As we discussed, employees are one of the most important and effective elements in forming and supporting corporate governance. Therefore, taking care of the employee should be priority to make a suitable ground for corporate governance. One of the subjects that recently has been brought up by human resource researchers is the subject of employee voice which discusses the outcomes of paying attention or not to the employees in the organization.

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<sup>1</sup> Organization for Economic Cooperation and Development

**2.2. Employee voice**

The concept of employee voice comes from Hirschman researches. He defines employee voice as “any attempt at all to change, rather than to escape from an objectionable state of affairs”. This definition includes any kind of mechanism, program or action that enables employees to express their opinion or effects their work efforts and decisions (Constantin and Baias, 2015). And also employee can express their thoughts formally or informally (Morrison and Milliken, 2000). Publicizing employee voice is when they can signify a discontent source or there is a chance to improve themselves or the organization (Hirschman, 1970). Discussion under these circumstances could be risky, because it could include resources and solutions to improve policies that are designed by employees or are responsible for or they depend on those policies personally. Considering this fact, employee voice can’t be prevented by threats or forced and it can’t be forced as job requirements (Van Dyne and LePine, 1998).

The initial motivation to talk is apparent in employees’ manner. When an employee realizes that talking could not cost but benefit him, decides to talk and publicize his voice. The conception benefits of talk mean to reward the employee formally (with money or promotion) or informally (appreciation) when they have helped the organization to solve an issue. This reward could be an answer to expressing an interesting and doable idea by the employee. In return the cost could be an occupation penalty (demotion or getting fired) or personal penalty (humiliation or losing social status). In other words, deciding to talk is the result of attention an employee receives from the organization (Donovan et al., 2016, Gao et al., 2011, Pauksztat et al., 2011).

**2.2.1. The outcome of listening to employee voice in the organization**

Participating employees in various meetings and consulting them and also giving responsibility to them not only increase their self-confidence but also awakens their potentials. One of the moral rewards that can be motivating is paying attention, appreciation and recognition. Rewarding system expresses organization appreciation towards the employees and by appreciating and respecting them they will be encouraged to keep up their good work (Barak and Levin, 2002, Greenberg, 1996). Other positive results of listening to employee voice are creating teamwork spirit and work ethic, decreasing change resistance, increasing efficiency and commitment to the organization. Motivation and sense of ownership which are the results of listening to employee voice, can increase work life quality, expand human values and demolish solitary culture in the organization and also decrease stress (Bryson et al., 2006, Daley and Vasu, 2005, Settles et al., 2007). Of course participation of employees in meetings could seem like wasting time for some reasons, however if the meetings are scheduled right, the progresses are checked the employees are informed and their ideas are heard by the directors, their cooperation spirit and declaring ideas would be strengthened. Thus occasionally, letting employees to choose the meeting subject can result effectively in progressing the meeting and accomplish its resolutions. One of the aspects of effective management of the criticism and suggestion system is that if it’s done properly and without suspicion by the directors and managers, it could raise the organization towards perfection (Boyas and Wind, 2010). Now, considering all has been said, a model (Figure 1) could be considered as the effective element on employee voice.

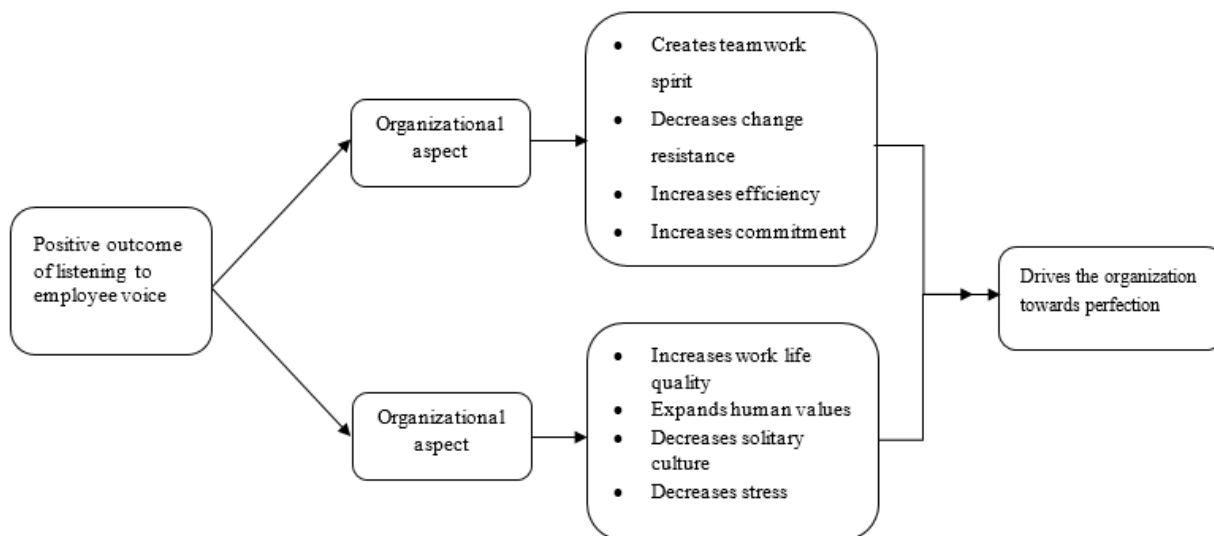


Figure 1. elements of listening to employee voice

**2.2.2. The outcomes of not listening to employee voice in the organization**

Not listening to employee voice could result in their indifference to the organization. Indifference comes from a time that after a long time of disappointment, the employee loses the hopes of achieving any of his goals and wants to be away from his source of disappointment. Each manager should remember that quarreling behavior, making excuses, and indifference are all come from disappointment and could be the reason of existing problems(Travis et al., 2011). Sometimes people object to orders like objections and strikes which are most obvious ways of showing dissatisfaction and sometimes they show it with long absences. But what makes people to give up or become indifferent is long term of deep dissatisfaction(Hagemann, 1994). The outcomes of not listening to employee voice showed in Figure 2.

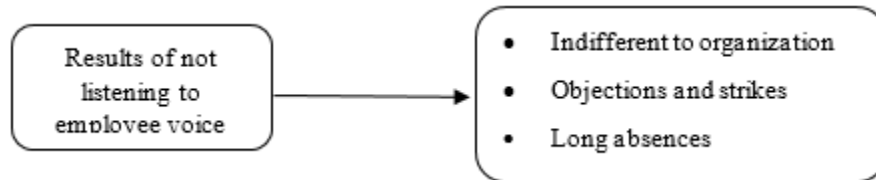


Figure 2. elements of not listening to employee voice

As we discussed, Employee voice means the discussion he makes in the organization as an objection, criticism or suggestion which means his participation in Organization. This participation could have positive or negative results. Positive results in individual aspect, could be the increase of motivation and empowering his abilities, and in group aspect, it could be a great teamwork. Therefore, negative results in individual aspect could be organization indifference, and not being motivated, and in group aspect, inter organization objections, chaos can be followed.

**2.3. Conceptual model of the research**

All the researches and studies are based on conceptual model or theory structure. Based on studying the basic theory, studies and results of recent researches, the conceptual model is showed in figure 3.

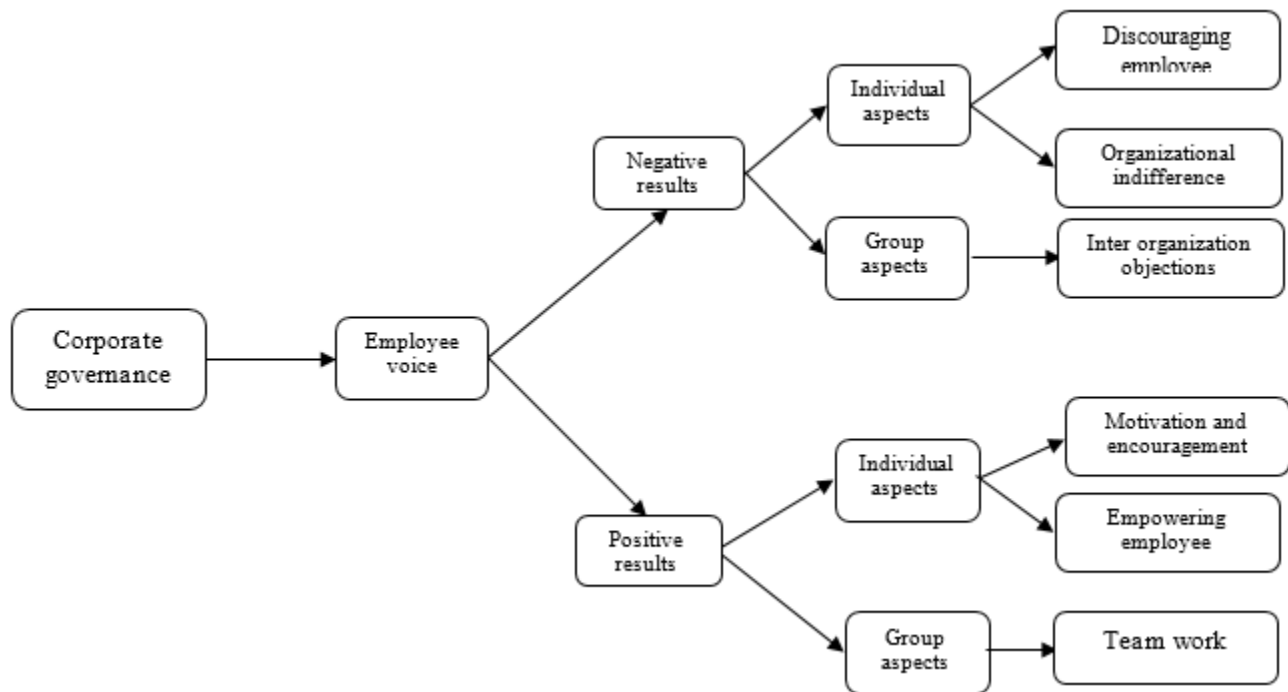


Figure 3. conceptual model

**3. Hypothesis**

- H1: corporate governance has a positive meaningful relation with discouragement.
- H2: corporate governance has a positive meaningful relation with organizational indifference.
- H3: corporate governance has a positive meaningful relation with inter organization objections.
- H4: corporate governance has a positive meaningful relation with increasing employee motivation and encouragement.
- H5: corporate governance has a positive meaningful relation with empowering employees.
- H6: corporate governance has a positive meaningful relation with employees' team work.

**3. Research methods**

This research in aspect of goal is of applied research and in aspect of concept is survey research. In this direction, after studying basic theories and recent researches and interviewing with the experts (university instructors), the research questionnaire was designed by the researchers. Statistical population of this research is the employees of Iran Insurance organization, Yazd branch. Random sampling is used in this research. Cochran formula is used to determine the sample size. Based on these and considering the level of significance of 95% and deviation rate of 0.1, sample size was determined to be consisting of 60 people. Reliability of the questionnaire was studied by the usual compatibility index the "Cronbach's Alpha". The outcome (0.843) shows the suitable internal compatibility of research tools. In addition, the questionnaire was given to the experts and scholars for content validity and their reforms on the form and content was respectfully considered.

**3.1. Data analysis**

This research in aspect of goal is applied research and in aspect of concept is survey research which has used questionnaire to collect required data. Thus, to analyze data SPSS has been used, to test the hypothesis, Pearson correlation Test was used. The normality of the factors and their sizes should be studied to determine the statistical analysis (parametric and non-parametric). To do so Kolmogorov-Smirnov Test was used. The test results showed normality of the factors. Therefore to analyze data statistically, parametric statistic index was used. Since the LIKERT the Five factors were used in this research, number 3 is considered the medium level. Therefore, to evaluate the data, we used Pearson Correlation Test to test the hypothesis. The result of correlation showed in table 1.

Table 1. Result of Correlation Test

Research hypothesis	Pearson Test correlation	Pearson Test p- value	result
Corporate governance with employee discouragement	0.380	0.172	invalid
Corporate governance with organizational indifference	0.485	0.06	invalid
Corporate governance with inter organization objections	0.462	0.0189	invalid
Corporate governance with increasing motivation	0.752	0.032	valid
Corporate governance with empowering employees	0.667	0.02	valid
Corporate governance with team work	0.573	0.038	valid

**4. Conclusion**

Corporate governance has a 38% relation with employee discouragement, a 48% relation with organizational indifference, a 46% relation with inter organization objections, a 75% relation with increasing employee motivation, a 66% relation with empowering employees and a 57% relation with their teamwork. Since the size of p-value of Corporate governance with discouraging employees, organizational indifference and inter organization objections are more than 0.05, these hypothesis are invalid and their positive relation with Corporate governance are denied. Which means corporate governance increases motivation, commitment to the organization and decreases inter organization objection. In the other hand corporate governance p-value with increasing encouragement, empowering employees and employees' team work is less than 0.05, and we can say all of these have a positive relation with corporate governance. Therefore, 3 hypothesis H1, H2, H3 are denied and H4, H5, H6 are confirmed. The relation between corporate governance with increasing encouragement is more intense (0.752) than the others. But we can't say that the other relations have no value. Therefore, corporate governance increases motivation in organizations.

According to these results, corporate governance in organizations can be effective in increasing teamwork, empowering and motivating employees. In the other hand enforcing corporate governance policies can prevent negative results of employee voice such as discouragement, organization indifference and inter organization objection and it can raise the organizations' hope to survive in the competitive circumstances and could considered as competitive advantage.

### 5. Suggestions for the future research

- 1- Since the research has been done in Iran Insurance with a limited sample size, it's better to use a bigger sample size or other statistic populations to achieve more comprehensive results.
- 2- The relation of other effective parameters such as job satisfaction, organization commitment and fairness & etc. with corporate governance can be evaluated.
- 3- The relation between corporate governance and other effective parameters within the work environment can be studied. This research was done in a government organization, so it would be better if the next research would be done in a private organization.

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