Effect of Corporate Governance Structure on the Performance of Public Enterprises in Africa

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ABSTRACT

This paper looks into the impact of the UK code corporate governance on the long term performance of companies. Among the issues that are examined in this research are the principles ingrained in the UK code of corporate governance and the impact of these principles on the performance of the company. Some of these principles include accountability, managerial effectiveness, and remuneration among others. The study employs qualitative and quantitative data analysis methods to provide an answer to the research problem at hand. In the qualitative data analysis process, content analysis is employed to find out the impact of the UK code of corporate governance on the long term performance as established by previous research studies. Quantitative research on the other hand employs questionnaires to establish the impact of the UK code of corporate governance on the long term performance of UK companies. These findings of the research reveal that indeed the UK code of corporate governance plays a very important in influencing the long term performance of companies. It is therefore recommended that all the managers as well as the board of directors of companies effectively comply with the UK code of corporate governance.

Keywords: Corporate governance, code, performance

INTRODUCTION

The UK code of corporate governance prescribes the manner in which managers in different companies ought to manage their respective companies. According to Groot (2009) different components of this code provide guidance on the manner in which managers of companies should relate to different stakeholders in the business. Cummings and Patel (2009) argue that the performance of the company heavily depends on the manner in which its managers relate with these stakeholders. One of the roles of the UK code of corporate governance is therefore to ensure that these managers have healthy relationships with stakeholders in these companies. Indeed, when managers of a company adhere to the UK code of corporate governance, one of the outcomes is the fact that relationships with stakeholders tend to improve. It is however important to point out that this assumption has not been proven using empirical research. This according to Rezaee (2008) is one of the reasons why this research has been carried out, so as to assess with clarity the impact of the UK code of corporate governance on companies’ long term performance. While it has been universally agreed that the application of the UK code of corporate governance is beneficial to a company; it has not been known with precision whether this code can lead to improved long-term performance of the company. According to Lorsch (2000) the long term performance of a company can either be in terms of an improvement in its financial stability; a reduction in the company’s employee turnover; an increase in its market share among other benefits. Consequently, in the assessment of the impact of the UK code of corporate governance on the long term performance of companies; the above are some of the issues that would be examined. Sections covered in this chapter include research aims, research methods, research questions, contribution of the research and finanally the summary of the chapter.
Research Aims

The main objective of this study is to examine the overall impact of the UK corporate code of corporate governance on the long term performance of companies. This as Zinkin (2011) discusses is important because if managers are ignorant of the role of this code, they would not be sure as to whether to apply the code or not and this would make it very challenging for the concerned authorities to manage the implementation of the code. This research also seeks to establish the particular aspects of a company’s performance that are affected by the application of the UK code of corporate governance. Since the UK code of corporate governance was established, stakeholders in different companies within this jurisdiction have had varying opinions concerning its importance. Some highly esteem the UK code of corporate governance while others do not consider it as such. This is the case in spite of the fact that the performance of companies is affected in one way or another by the UK code of corporate governance. This study therefore seeks to establish its impact on the long term performance of companies.

This chapter introduces the reader to the research paper, outlining the background of the study as well as the research questions which the study seeks to answer. The chapter begins by outlining the background of the study. This is then followed by a section that outlines the study problem which the researcher seeks to solve through this study. In this section the problem of the research clearly explained by the author. Research aims and objectives are discussed in the third section inclusive of the research questions. The last section of the paper gives information on the significance of the study. In this section, the author outlines the groups of people who would benefit from this research and the manner in which they would benefit.

LITERATURE REVIEW

The UK code of corporate governance was last reviewed in the year 2010 following the occurrence if the global financial crisis. This according to Groot (2009) was done to ensure that the banks among other listed companies have good leadership which would ensure that their financial performance is not only good but is also sustainable to the company in the long run. This is the case because the global financial crisis enabled many stakeholders in the UK business sector to realize that the combined code which was under application prior to this code was not suitable enough to curb listed companies from the malpractices that caused the financial crisis. Consequently review was conducted in the June 2010 after with the outcome being the UK code of corporate governance. In this chapter, the author examines the content of this code and followed by its impact on the performance of companies.

The UK Code of Corporate Governance

This code has a number of principles which ought to be adhered to by all managers in listed companies. There is a provision within this code for these managers to either comply with the code or give an explanation for their failure to comply. This according to Tricker’s (2012) is important because it gives the code flexibility bearing in mind the fact that the environment in which the code is to be applied is quite dynamic and therefore the company’s management may at times fail to comply with some of the provisions but still maintain good governance. The principles within the UK code of corporate governance are: leadership, effectiveness, accountability, remuneration, relations with shareholders. Each of these principles is discussed in the following sections:

Leadership

The code requires every company to be headed by an effective leadership, collectively responsible for the long-term success of the company. This therefore means that each member of the company who has a leadership role has a particular role to play in ensuring that the company has long term success. At this point it is important to note that all people with leadership roles in the organization have to play their role as effectively as possible regardless of the position they hold in these organizations. Since the code call for collective responsibility among various leaders in the organization, it is therefore crucial for all these members of the organization to work together whether they hold powerful positions or not. Under this principle, as Moore (2012) argues a clear division of responsibility is also very important. This according Monks and Minow (2012) is the case because once every leader has understood the role they play in the organization; superior performance would be realized. This is the case as opposed to a situation where the division of responsibility is not clear. In such a situation, people would find themselves in situations where tasks they undertake do not match their skills. This would definitely lead to poor performance. However, the code requires that each of the members of the company’s leadership
undertakes only the tasks which they are qualified for and thus specifically assigned to. A clear division responsible is therefore one the most important requirements under the principle of leadership in the UK code of corporate governance.

The code therefore requires that the leadership of companies have clearly defined responsibilities not only for leaders but also for members in the organization so as work can be done in a seamless manner. For instance the responsibility of the chairman of the company is to provide leadership to the company’s board of governance. According to Roger et al (2011) he or she also has the duty of ensuring that this board is as effective as possible in all aspects of its role. The chairman achieves this by ensuring that all members of the board are committed to the company’s good performance and that each of these members is well motivated to play their role in enhancing the company’s superior performance. The chairman also has the responsibility of ensuring that the policies formulated by this board are for the overall benefit of the company and especially its shareholders. Through this, the chairman would be providing god leadership to the company’s board of governance. Indeed, this is one of the most important elements of leadership as outlined by the UK code of corporate governance. According to the UK code of corporate governance, good leadership calls for the existence of a clear division of responsibility between the running of the company’s board of governance and executive responsibility for running of the company’s business. This is crucial because it enables the company’s leadership to come up with quality strategies and policies for the successful running of the business. This is only possible when the two sets of tasks are given to different parties. It is also crucial because it promotes accountability in the running of the affairs of the company. According to Loughrey (2008) members of the board on the other hand play the role of challenging and helping to develop proposals on the best strategies to be pursued by the company.

**Effectiveness**

This is also a very important principle of the UK code of corporate governance. The objective of this principle is to ensure that all members of the company, whether they have leadership roles or not are discharging their duties as effectively as possible. Consequently, one of the conditions that must be fulfilled according to the UK code is that the board and its various committees should have the appropriate skills, knowledge, independence and adequate experience in relation to the company to enable them to discharge their respective duties and responsibilities effectively. This Tricker’s (2012) is only possible if the he appointment of directors of the board follows due procedure. The process of appointment of these directors must be formal, transparent and rigorous so as to have the right people on the company’s board. It is therefore one of the requirements of the board that the appointment of directors is done in a manner that would not cast any doubts to the whole process. This is important because effective performance can only be realized if the company’s board consists of people who are adequately qualified in matters relating to the running of the company. Moreover, the level of experience of these people must be adequate because as directors, they would be required to make decisions which are of profound implications on the current and future performance of the company.

Under the principle of effectiveness, the code also requires that all directors allocate sufficient time to the company. This is important as it would enable them to discharge their duties effectively. When little time is allocated to the company chances are high that the directors in question would not perform as effectively as they ought to. According to Moore (2012) this would then negatively affect the performance of the company. Consequently, the code requires that all directors of this company allocate adequate time to the company in order to have the opportunity to contribute optimally to the success of the company. Only then would effectiveness be realized by these directors in the discharge of their duties. Effectiveness is also achieved through frequent training of directors in order to refresh their skills and knowledge. This is crucial because it enables the directors to be updated on the current developments in the company’s business world so as to be in position to handle in challenges that may face the company. Moreover, to enable them discharge their duties appropriately, the board should be supplied with relevant information in regard to the company’s operation in timely manner. This is also important because when these directors have access to quality information, they would be able to make wise decisions concerning the performance of the company and hence effective performance would be realized. Last, but not least, effectiveness would be created and sustained through ensuring that all directors are eligible for re-election subject to their satisfactory performance.

**Accountability**

According to the UK code of corporate governance, the company’s directors should maintain a high level accountability in the manner in which they handle the
company’s matters. Key issues under accountability are financial and business reporting; risk management and internal control and finally the matters related to audit committee and auditors. According to Roger et al (2011), it is the responsibility of the company’s directors to present a balanced and understandable assessment of the company’s financial performance and financial position. The information presents relate to the company’s performance as well as any other information that has the potential of influencing the public perception of the company’s financial state. The code requires that this information is presented in the most accurate and transparent manner so as to enable the company’s stakeholders make wise decisions concerning their relationship with it. Under this principle, directors are required to include in the report an explanation regarding their responsibility for the preparation of the company’s annual reports and accounts. Moreover, it is also crucial for the report to contain a statement by the auditor regarding the reporting responsibilities of the company’s directors.

The company’s directors are also responsible for determining the nature and extent of risks which they are willing to take in a bid to achieve the company’s strategic objectives. This in Groot’s (2009) sentiments is important because whether the company succeeds or not depends on the manner in which its management handles risks. It is therefore the duty of the company’s directors to ensure that the risks undertaken by the company do not cause its downfall by in the stead lead to improved financial performance. The code therefore provides that on an annual basis the company’s directors should review the effectiveness of its risk management and internal control systems. The result of this assessment should then be reported to shareholders to ensure that they have confidence in the company’s management. The review covers pertinent areas like financial, operational and compliance controls.

In ensuring that the accountability principle is adhered to, the code also requires the company’s board to maintain an appropriate relationship with the company’s auditors. In the spirit of the UK code of corporate governance, an audit committee of two or three independent non-executive directors should be established by the company’s board. In Mallin’s (2012) the roles and responsibilities of the audit committee should be clearly written for reference. These roles include monitoring the integrity of financial statements as well as any other information relating to the company’s financial performance; to review the company internal financial controls, a role that should be played by a separate board risk committee. This committee also has the responsibility to monitor and review the effectiveness of the company’s internal control audit function. Among all these other functions should be cleared written in order enables the company discharge them without any failure. This is important because when this committee discharges its functions accordingly, there would a higher level of accountability within the company which would then positively influence the performance of the company. It is therefore crucial that the accountability principle of the code is adhered to.

**Remuneration**

According to Roger et al (2011), remuneration is a very important determinant factor of the company’s financial performance. This is the case because when the ability of the company to get highly qualified personnel is pegged on its ability to offer them satisfactory salaries. Poor remuneration sends away qualified staff this leaving the company with few if any employees that can deliver superior performance. On the other hand, when the company overpays its staff and directors; chances are high that the wage bill will rise so high that in the long run the company would not have adequate funds to its operational costs. It is therefore important for the company’s management to strike a balance in the remuneration of its various employees. This would ensure that the company is able to cater for the needs of its staff while at the same attracting and retaining highly qualified personnel.

Regarding the issue of remuneration, the code requires that the remuneration offered to the company’s directors is sufficient enough to attract and retain qualified personnel but at the same time, it should not be too high for the company’s sustenance. It is also important for a significant part of the directors’ remuneration to be structured in such a way that the rewards attained are linked to corporate and individual performance. Linking remuneration to performance has the effect of motivating the company’s directors to work hard to ensure that the company performs well. This is the case because this remuneration structure would provide greater rewards for those managers who would have achieved higher performance than those with inferior performance. Since this may corporate or individual, it would encourage the directors to put in great efforts in ensuring that the company’s performance goals are achieved.

Another very important matter as far as the remuneration principle is concerned is that the fact that the policies in regard to the remuneration of the company’s directors should be formulated in a...
formal and transparent manner. Moreover, fixing the remuneration packages for individual directors should be done in an open and transparent manner. This is opinion is a very important provision if the code because it ensures that all the people whose remuneration would have been set would be satisfied with the procedure and therefore would devote themselves to work knowing clearly that the rewards are genuine and do reflect the efforts they would have made. This principle also prohibits any director from getting involved in deciding his or her own remuneration. This in Groót’s (2009) opinion is a very important principle because it ensures that all the people are within the organization are treated equally and therefore no discontent is realized within the company. This provision also prevents rogue directors from engaging in corrupt dealings that may be aimed at fleecing company’s funds. This is the case because without such a principle, rogue directors who are influential could simply go ahead or for themselves thus putting the company into financial constraints.

Relations with Shareholders

The UK code of corporate governance requires the companies’ board of directors to have a dialogue with all shareholders on the basis of mutual understanding of objectives. This in Mallin’s (2012) opinion means that a company’s board of directors should always in constant communication with shareholders, putting into serious consideration all the pertinent concerns that are raised by shareholders. The code recognizes in most cases; shareholders are in contact with the company’s chief executive officer and the finance director. However, even though this may be the case, it is very important for the chairman of the board to ensure that all the issues that raised by shareholders are communicated to all the directors. This is important because when the decisions are made regarding the future direction of the company, the shareholders views will have been put into consideration. It is therefore very important just as the code requires for the company’s chairman together with hi board members to ensure that the shareholders are constantly informed about the direction being taken by the company. The opinion of shareholders regarding the strategic direction of the company should be considered in the most practical and efficient manner. The code also requires that the chairman of the company to discuss governance and strategy with major shareholders. This according to Roger et al (2011) is important because it gives these shareholders the opportunity to take part in the management of the company, thus enabling them to monitor and even control the manner in which their funds are being managed. Maintain constant communication with shareholders as is required by the UK code of corporate governance is very important to the company’s financial performance not only in the short run but also in the foreseeable future. It is also a requirement of the code for the board to state in the annual report the steps taken to ensure that the members of the board, particularly the non-executive directors, understand the views of major shareholders about the company. The company’s board should make use of the annual general meeting to ensure that all the questions shareholders have concerning the company are handled. Moreover, during this annual general meeting, it would be advisable for the chairman of the company’s board to make sure that the chairmen of the audit, remuneration and nomination committees are available to respond to any questions that may be raised by shareholders. The code therefore requires the company’s management to try as practicable as possible to ensure that all shareholders are satisfied with the manner in which the company is being run. According to Loughrey (2008), this provision is for the benefit of the company and therefore it is only good for the company’s chairman to ensure that the code is applied. Failure to this may have some negative consequences on the company. For instance, if the company’s board fails to involve major shareholders in making crucial decisions concerning the company; they are likely to withdraw their investments from the company thus making it challenging for the company to remain a going concern. It is therefore important for this code to be adhered by a company’s board.

Comply or Explain

This is what gives this code flexibility, making it admirable and internationally. According to this provision, companies’ board members are free to either comply with a particular provision in the code or provide an explanation for their decision not comply with it. This according to Loughrey (2008) ensures that code is strict but still flexible especially those directors who have alternative means of achieving good governance. If a company’s board identifies justifiable alternative to following a provision of the code, it can apply this alternative and give the shareholder an explanation for not following the provision. This explanation must be made in a clear and careful manner to ensure that shareholders do not have any doubts as far the company’s commitment to corporate governance is concerned. In offering this explanation, the board should create room for shareholders to discuss with concerning
issues that may be important to them. For instance if the decision not to follow the provision has a particular influence on the shareholders voting intentions, then it is very important for the board to discuss with the on these issues so as clear out any doubts among the shareholders. The code also requires shareholders to respond to these explanations in a manner that promotes the spirit and letter of the UK code of corporate governance. If the explanation provided by the company’s board is not very convincing, shareholders have the right to question this course of action in order to have a clear understanding of the board’s intentions. This should however be done in a professional manner.

**Good Governance and a Company’s Long Term Performance**

Scholars have always raised questions as to whether good corporate governance has any impact on a company’s long term performance. This in Mallin’s (2012) opinion has emanated from the study of the agency theory. This theory has shown that there is indeed a close linkage between the performance of a company and some aspect of governance. Some of these aspects include the use of independent outside directors, the use of independent audit committees among others. This relationship between governance and the performance of company has raised mixed reactions among scholars because in some cases where a positive relationship has been established between good governance and better performance; other scholars have reworked the data to come up with contrary conclusions. This left scholars feeling that even though there may be a relationship between the good governance and better performance, this relationship is too weak. This compelled the Association of British Insurers to conduct and publish a study on this matter. This study led to a conclusion that indeed there is a robust causal relationship between good corporate governance and superior company performance.

In the study carried out by the Association of British Insurers, listed on the basis of the compliance to the UK Combined Code. In this particular study, the UK Combined Code was used instead of the UK code of corporate governance because the former was the one in application prior to its review. This study was conducted in 2008 and therefore the UK Combined Code was used instead of the UK code of corporate governance because the latter had not been formulated. A point was awarded for every governance failure. This then produced a numerical score for each company with a zero score representing a company which complies with all the provisions of the UK Combined Code while a score forty-two representing a company that has failed to comply with all provisions of the code. According to Das (2010) Companies were then classified into three groups using colour schemes: blue represented companies which did not have any governance failure; amber represented companies which had some concerns like abnormal salary increases while red represented companies which showed major concerns like where non-executive directors did not meet the independence criteria or in other cases where an executive director served on the audit committee.

Using governance scores for 361 companies, between 2002 and 2007, the relationship between good governance and a company’s performance was established. Return on assets and “Tobins Q” were used as performance criteria to establish the relationship between these two variables. It was established that companies with poor governance reported negative performance. These companies under performed by 2-5% a year in terms of industry-adjusted returns on assets. This study also showed that it is good corporate governance that leader to better performance and not the other way round. The study also revealed that well-governed companies reported superior performance in terms industry-adjusted returns on assets. Moreover, these companies also showed less volatility in the share price returns. According to this study, the impact of governance on performance was long term. It is therefore safe to conclude that good corporate governance has positive impact on a company’s long term performance. It is however important bring out a distinction between good governance and the UK code of corporate governance. This research does not seek to investigate the relationship between good corporate governance and company performance but rather the impact of the UK code of corporate governance on the long term performance of companies. In the ensuing sections, the author looks into the specific impacts that the UK code of corporate governance can have on the long term performance of companies.

**The UK Code and Companies’ Long Term Performance**

The effective implementation of the UK code of corporate governance has particular impacts on the company’s long term performance. These are discussed in the ensuing sections:

**Impact on Relationships with Stakeholders**

Different scholars have different views on the impact of the UK Code of corporate governance on a company’s relationship with stakeholders. According
to Moore (2012), these stakeholders include the shareholders, creditors, bankers, the government and employees among others. Some scholars like Rezaee (2008) hold the opinion that the effective implementation of the UK code of corporate governance improves relationships between the company’s managers and other stakeholders. He further discusses that effective implementation of the UK code of corporate governance results into managers adhering to the needs of the company and avoiding any situations where their interests interfere with the company’s overall performance. For instance, one of the provisions in the UK code of governance covers accountability on the part of the management. According to this provision, the company’s management has the sole responsibility of maintaining out in place effective risk management risk management policies as well as effective internal control systems. Once this provision has been effectively adhered to, many investors would have confidence that their funds are being well managed and therefore would be willing to invest further in the company. This would therefore ensure that the company has access to adequate capital as and when needed thus making it possible for the company’s management to not only formulate but also implement these policies aimed at promoting the company’s future performance. Moreover, Zinkin (2011) discusses that when code is effectively implemented, the management would have good relationships with other stakeholders like creditors and bankers. This is because these at no point would the company’s management fail to honour the company’s obligations in respect of the loans owed to the creditors, bankers and other financiers. They would result for the company’s management adherence to the provision of remuneration where by the company’s management and other board members are remunerated on the basis of their performance in the company and not being rewarded money for having done nothing for the company. According to Zinkin (2011), one of the reasons behind the collapse of companies is the fact that some executives reward themselves huge salaries at the expense of the company’s performance. When company’s executives award themselves huge salaries, the company would eventually run out of funds to continue meeting its recurrent expenditure like interest payments to the creditors and other financiers. Fortunately, owing to the effective implementation of this code, the company would be able to reward executive’s reasonable salaries, leaving the company with adequate funds for meeting such obligations. This would in the long run improve the company’s relationship with creditors thus creating more opportunities for accessing capital for the company’s long term performance. Solomon (2011) also suggests that effective implementation of the code, the company’s relationship with government, one of its key stakeholders, would be improved. This is because a company which complies with this code would by extension be complying with the various laws governing the operation of businesses in the country. For in stance if the company’s management ensures that all the interests of shareholders are taken care of accordingly, there would be very few legal suits against the company none of the company’s management personnel would have gone against the laws of the land. It is therefore very important that the companies adhere to these standards in order to have a good relationship with the government which would in return create a very conducive environment for conducting business.

Impact on Managerial Effectiveness

According to Tricker’s (2012), effective implementation of this code has a significant impact on the effectiveness of the company’s management. This is the case because a management team that adheres to these principles would ensure that all the business opportunities pursued are for the benefit of the company and would also conduct them in the manner that brings maximum output to the company. This is because this management would be aware that all the activities carried out and the manner in which they are carried out would be outlined to all the shareholders among other stakeholders. Rather than risk losing theory employment, members of this management team would therefore ensure that they are delivering satisfactory performance of the company. It is therefore safe to state that the effective implementation of this code brings forth effective performance of manager and therefore the company’s improved long term performance.

This however does require an empirical study in order to provide clear evidence as to whether the effective implementation of this code brings forth managerial effectiveness. According to Coyle (2004) this is case because in some situations, a company may be adhering to the UK code of corporate governance and yet the delivery of its services is not as effective as one would expect. One of the reasons that may be extended to explain this state of affairs is the fact that there many factors that may affect company’s effectiveness in its service delivery. This is also the reason why a number of previous researchers show contradicting conclusions regarding the relationship between corporate governance and a company’s performance. The fact that different
companies have different circumstances which affect their manner of service delivery is also point worth noting. Owing to these differences this research considers different companies under different economic and financial circumstances in order to come up with conclusions that are worth a consideration.

**Impact on Return on Assets among other Financial Aspects of the Company**

The UK code of corporate governance has an effect a company’s return on assets. If the code is adequately implemented by the company’s board of directors, there are high chances that the company’s return on assets would improve. This in Mallin’s (2012) is the case because one of the principles of this code is effective service delivery. This principle alone requires every member of the organization deliver high quality service to the organization in the most effective manner. Since each member of the organization would be committed to effective service delivery, there would a great improvement in the quality of service delivered by the company to its customers which would then cause an increase in customer satisfaction, customer loyalty, increased sales and hence profitability. If all factors are kept constant, then the end product would be an improved return on assets of the company. This would be very beneficial not only to the company’s shareholders but also to the management whose tenure may receive a boost a result of their exemplary performance.

Another very important principle of the code that is likely to affect the company’s return on assets is the remuneration principle. According to this principle, the level of remuneration awarded to each director should be high enough to attract and retain qualified personnel but at the same within the company’s budget constrained. This provision clearly forbids the company’s board from awarding unnecessarily high salaries to the company’s personnel. This is important because it ensures that the company’s wage bill is within a level that is manageable such that the company’s profits are maintained at a satisfactory level. It is therefore important to note that the effective application of the UK code leads to a reduction in the company’s operational costs thus making it possible for adequate profits to be generated. This in Clarke and Branson’s (2012) sentiments coupled with an increase in revenue owing to effective service delivery leads to an increase in profitability which then positively influences the company’s return on assets. The board of directors of the company in question can choose either to comply with this provision or follow an alternative provision and give an explanation for its decision not to follow the provision. It is important to note that at times it makes up a good corporate governance initiative to follow an alternative provision rather than the UK code. If in this particular case a particular move leads to more effective cost reduction while at the same time maintaining the satisfaction of members of the company then it would be advisable to observe the move. The flexibility of this code is therefore one the features that make it popular not only the business executives nut also to shareholders of different companies across the globe.

**Impact on the Company’s going Concern Nature**

The company’s going concern nature is an integral element of its long term performance. This is because the company that is a going concern is one which would be able to remain in operation in the foreseeable future. A number of conditions must be fulfilled for a company to fall into this category. Sound financial position is critical among these conditions. This according to OECD (2011) means that a company that is not in a stable financial position cannot be said to be a going concern and therefore does not have any guarantee of operating in future. Since the code requires the company’s directors to be keen on the risks undertaken by the company; it has an effect on its going concern nature. Under the accountability principle, the company’s management has the responsibility of ensuring that the company undertakes only in risks that can be handled with ease and therefore which cannot result into the downfall of the company. A company whose board adheres to this principle would be less likely to fall into financial problems. This is the case because in such a company, the management would only undertake calculated risks thus leading financial performance as opposed to those which do not.

Since the code requires a company’s board to maintain good relations with shareholders, it has a significant impact on the company’s going concern nature. This is the case because shareholders provide capital to the company and therefore when the company’s board is in good terms with them; the company would be in a position to access adequate capital for development. Such funds would then be used by the company to handle any financial challenges that may come along the way. The case would be different for a company which does not adhere to the code. In such a company, directors are likely to have very little concern for shareholders. This therefore means that the communication between the company’s board and shareholders would be at its lowest thus straining the relations between these two parties. In this case shareholders
concerns about the company would not be addressed accordingly and therefore little corporation would be realized between these two parties. In Keasey, Thompson and Wright (2005) opinion the result of this would be the withdrawal of shareholders' funds from the company thus leaving it with inadequate capital. At this point, the going concern nature of the company would be interfered with since the capital outlay would not be adequate. It is therefore important to note that since the UK code of corporate governance requires directors to maintain good relations with shareholders; its effective implementation plays a major role in ensuring that the company’s going concern nature is sustained.

**Impact on Employee Loyalty**

The loyalty of employees to accompany is determined by the manner in which these employees are treated. A company which treats its employees well enjoys their loyalty as opposed to that which does not. Good treatment of employees may be in terms of the manner in which they are remunerated, the working conditions among others. According to Tricker and Tricker (2012), the UK code of corporate governance requires a company’s board to set remunerations at levels that would attract and retain qualified staff. A company whose board adheres to this principle tends to perform better then one which does not. This is because the former attracts highly qualified and experienced employees who then deliver high quality service to the company. Since these employees are offered attractive remunerations they do not have any reason to move to another company. This therefore improves the company’s performance not only during the current period but also into the foreseeable future.

Attractive remunerations play a very important role in ensuring that the company has highly qualified employees. This in Mallin’s (2012) opinion is the case because one of the most effective incentives for work is the monetary compensation. In all companies, when employees are offered satisfactory salaries, they would devote all their efforts towards meeting organizational goals because in their opinion the organization would have met their individual goals. It is therefore worth noting that when a company’s board adheres to the UK code of corporate governance, it experience an improvement in the loyalty of its employees.

**Summary**

In this chapter, the author examines reviews the documentation of prior research that had been conducted on this topic. This is important because it enables the author to build this research on the basis of what has been done by previous researchers and scholars. The chapter begins with an introduction to the UK code discussing the various sections of this code and the role each of them plays in influencing the performance of companies. This is then followed by a critical analysis of the impact of the UK code on the performance of companies in the long run as discussed by scholars and researchers in their previous works.

**METHODOLOGY**

Research involves the collection and analyses of available data to facilitate the drawing of appropriate conclusions and recommendations. The research problem in this paper is the evaluation of the impact of the United Kingdom Code of Corporate Governance on Companies’ Long Term Performance. The previous chapters have presented the theoretical and conceptual frameworks of the research topic and they highlight the basic principles underlying this research paper. This methodology chapter seeks to highlight the philosophical aspect of the research, the approach employed and the strategy, besides describing the specific techniques to be employed in the collection, analyses and interpretation of the data prior to the process of making conclusions at the end of the paper.

**Purpose of the Research**

This research paper seeks to establish how the implementation of the United Kingdom code of corporate governance by companies influences their long term performance. To achieve this objective, the author will conduct an extensive assessment of a number of listed companies in the United Kingdom. The author will also consider the extent to which the code of governance is applied and then evaluate how its application affects the performance of the various companies.

**Research Methodology**

The kind of a research method used to perform a study is a factor of the research field and it serves as a framework that directs the researcher in the collection of empirical data. Generally, there are two types of research methods that are used in scientific research. These are the qualitative and quantitative research methodologies, and these two methods determine the way in which social reality should be investigated (Bryman and Bell, 2007). With regard to the purpose of this research, the author will adopt both qualitative and quantitative research methodologies.

According to Srivastava (2011), qualitative research is methodology is a multidimensional approach that involves the application of an interpretive and naturalistic approach to the subject matter. This
means that the subject or issues are studied in the context of the meanings accorded to them by human. The qualitative approach seeks to make conclusions through elucidating the meanings and advancing the comprehension of the entire process. This approach is established on the assumption that there are many realities of a phenomenon that differ across time and place. Panneerselvam (2004) postulate that qualitative research does not take a defined framework but instead, the each research is controlled by a specific philosophical stand adopted in relation to the research of each phenomenon. The data obtained in qualitative methods is mostly oriented towards individuals and case studies and therefore exhibits individuality and uniqueness (Salkind, 2003).

On the other hand, quantitative research is concerned with investigating what can be observed and measured. According to Salkind (2003), quantitative research is an objective and formal systematic process of numerating all research data. This methodology usually describes tests and evaluates the cause and effect relationship through formal deductive mechanisms of knowledge attainment. White (2000) postulates that quantitative research basically reduces a phenomenon to numerical values and therefore allowing statistical analyses to be carried out. Further, quantitative methodologies are oriented towards generalization and moving towards the formulation of universal theories.

By adopting both research methodologies, the author will be able to combine the strengths of the two research paradigms and thereby generating more benefits while minimizing the weaknesses inherent in each method. The merging of both qualitative and quantitative facilitates contextualization of information and generates a holistic understanding of a phenomenon. Furthermore, both methods provide a complementary picture and facilitate triangulation, validation and comparison of the data obtained (White, 2000).

Research Paradigm

According to Collis and Hussey (2009), a research paradigm “is a framework that guides how research should be conducted, based on people’s philosophies and their assumption about the world and the nature of knowledge” (p.55). Research philosophy is a crucial element of any business and management research. Saunders, Lewis and Thornhill (2003) define research philosophy as an attitude about the manner in which data regarding a phenomenon is collected and analysed. The results of a research work are determined by the methodology that is used, the underlying philosophy and the research paradigms. The use of appropriate research method results into collection of appropriate data and therefore leads to drawing of appropriate conclusions. An investigator has thus to employ an appropriate mechanism of perception and interpretation in order to develop comprehensive understandings of a phenomenon. Furthermore, it is crucial for a research paradigm to be identified early in the research process since it is an adjunct in the choice of research methodology and means of collecting and analyzing data.

The two major research paradigms are positivism and interpretivism. The positivist paradigm is engrained on natural science and therefore the investigator performs the research from the dimension of observable social reality and the research findings are usually in the form of generalizations (Saunders, Lewis and Thornhill, 2003). The investigator who employs the positivist paradigm is considered to be an objective analyst who emphasizes more on a structured methodology so as to allow replication. Positivism paradigm is also more focused on quantifiable observations that allow statistical analyses. In this paradigm, the investigator is external to the research process and therefore does not influence the research problems. In addition, positivism paradigm employs huge samples and targets testing of theories, and generates precise and objective data and findings possessing great validity. For the interpretivism paradigm, the sample size is mostly small and emphasis is on the development of hypotheses (Gummesson, 2000). Further, this paradigm generates rich, subjective data and the findings are arrived at with high validity. An investigator employing the interpretivism paradigm has to acknowledge the subjective reality of the research so as to comprehend the participants’ behaviours, motivations and intentions. Boland (1995) asserts that the major philosophical foundation of interpretive paradigm is phenomenology.

To meet the objectives of this research, the author will adopt both the positivism and interpretivism paradigms. Positivism approach will allow the author to objectively quantify the impact of the implementation of the United Kingdom code of corporate governance on companies’ long term performance. Similarly, the author will employ an interpretive approach in order to come up with explanations. Moreover, the use of interpretivism paradigm will allow the exploration of the issues from diverse perspectives and facilitate full understanding of the research topic.

Research Approach

In the acquisition of new knowledge, two major research approaches are commonly employed: deductive reasoning and inductive reasoning.
Saunders, Lewis and Thornhill (2003) describe the deductive reasoning as a research approach that entails testing of theories through the utilization of specifically designed instruments for the purpose of testing research strategy. The deductive research approach begins by making a general assumption then evaluates possibilities to arrive at a specific, logical conclusion. Inductive reasoning is also a research approach in which empirical data is used to build a theory. In inductive reasoning, the researcher makes broad generations from specific observations. Deductive reasoning therefore emphasizes on scientific approaches whereas in inductive reasoning, the investigator develops insights based on the values people attach to events. Deductive research approach is also associated with the collection of quantitative data while inductive reasoning is associated with qualitative data (Marlow, 2010). In light of the purpose of the research, the research methodology to be employed and the research philosophy, this research paper adopts both approaches in order to reach logical conclusions.

**Research Strategy**

The research will be carried out in the form of a survey research design. According to Nachmias and Nachmias (2008), cross-sectional survey helps save time as it is carried out at a particular point in time. Srivastava (2011) postulates that cross-sectional surveys are descriptive in nature and therefore are easy and quick to perform compared to longitudinal research.

**Sampling Strategy**

Sampling is a mechanism of drawing inferences to the entire population by investigating a portion of the whole population (Kothari, 2004). Sampling is a scientific way of selecting sample units that would help in generating the needed estimates with associated margins of uncertainty that are brought about from studying only a portion of a population and not the entire population. Sampling facilitates inferences to be made from a sample about the population to attain research purposes (Saunders, Lewis and Thornhill, 2007). As this research is about the impact of the United Kingdom code of corporate governance on companies’ long term performance, the population of the study is composed of listed companies in the United Kingdom. This sample was considered a good representation of quoted companies in the United Kingdom because the best measure of a sample design relates to the extent to which it represents the features of the population it purports to represent (Collis and Hussey, 2009). A sample of fifty quoted companies for the period 2012 year end will be used. The respondents in the research will thus be drawn from all listed companies in the United Kingdom.

The target population for this research will be employees working in different companies in the United Kingdom. The respondents in this study will be selected through purposeful sampling. According to Brewerton and Millward (2001), purposive sampling is a non-probability sampling technique in which participants in a study are selected from a population based on the underlying interests in particular groups. To elucidate information concerning how the United Kingdom code of corporate governance impacts on the companies’ long term performance, the author will have to select respondents by virtue of being in a position to avail the required information with high accuracy. The author will therefore apply the existing knowledge on the structure of the companies to be studied to select participants on the basis of being in the management positions and therefore possess relevant information concerning the research problem.

**Data Collection and Analyses Methods**

This research will employ both primary and secondary methods in the collection of data. According to Bryman and Bell (2007), primary data is information specifically collected for a specific reason from a primary source. Pertaining the research, data about the performance of companies will be collected through the use of questionnaires. Secondary data were obtained from the companies’ websites and any relevant publications concerning the research problem. Upon collection of data, analyses would be performed through quantitative and qualitative methods such as content analyses, calculation of frequency and percentages. Apart from the analysis of the percentage trend among the respondents, the researcher also computed statistical significance of relationship for each of the identified factors and the UK Corporate governance code. In effect Pearson Moment Correlation was used to test the level of significance impact of UK Corporate Governance Code and relationships with stakeholders, managerial effectiveness, return on assets, going concern natures and employee loyalty;

**DATA ANALYSIS**

**Introduction**

The analysis of data in this research has been conducted by use of both qualitative and quantitative methods. This has been done in order to ensure that the quality of the output of this research is high. The qualitative data analysis method involved the use of content analysis in which case the research examined the content of the information documented by other...
researchers on this particular subject. Research has been conducted previously to examine the impact of the UK code of corporate governance on the long term performance of listed companies. In this research, the content of these studies is analysed with the main objective of establishing the relationship if any between compliance with the UK code of corporate governance and the long term performance of companies. The author has therefore conducted an analysis of three research articles that have been carried out in the past to establish the relationship between the UK code of corporate governance and the long term performance of companies. The analysis begins by establishing the relationship if any between compliance with the UK code of corporate governance and the long term performance of companies. In this analysis process, managers from different companies in the UK are asked to give their opinion regarding the role of the impact of the UK code of corporate governance on the long term performance of the companies.

Qualitative Analysis
This is a data analysis process which is defined as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns” (Hsieh and Shannon, 2005, p. 1278). In this type of analysis, text documents form the basis of the analysis process whereby the researcher examined the information outlined in these texts in order to come up with conclusions regarding the subject matter being investigated. It is important to note that qualitative analysis involves inductive reasoning rather than deductive reasoning. In Hsieh and Shannon’s (2005) opinion the former refers to a situation in which the researcher makes specific observations from which he comes up with broad generalizations. According to Berg (2001), this process is very important especially in a research where the author is interested in making clear observations about some phenomenon. It can also be employed in a situation where a researcher intends to come up with hypotheses for the study. In this particular research, qualitative analysis has been employed in order to try and establish the existence of a relationship between compliance with the UK code of corporate governance and the long term performance of companies. The analysis begins by examining the relationship between corporate governance and the performance of companies as ascertained in previous studies. This according to Keer et al (2006) is then followed by an examination of the impact UK code of governance in the long term performance as examined in previous studies. The findings of this analysis are then outlined upon which conclusions are made.

Corporate Governance and the Performance of Companies
Before examining the impact of the UK code of corporate governance on the long term performance of companies; it is crucial to have a look at the manner in which corporate governance in its entirety affects the performance of companies. This according to Wier, Laing and McKnight (2002) is important because the main reason why the UK code of corporate governance was established was to ensure that companies employ good governance within their respective structures. It is therefore worthwhile to examine the role of this governance on the performance of these companies before looking into the importance of the UK code of corporate governance. Several studies have been conducted in the past all aiming at establishing the impact of corporate governance on the performance companies and therefore the author saw it fit to analyse the content of one of these studies. Maher and Anderson (2000) conducted a study on the impact of corporate governance on the performance of companies and their rate of economic growth. In this study, these scholars sought to understand the impact of some of the issues concerning corporate governance like the ownership structure as well as the management of firms on the performance of these firms. Various corporate governance issues have been observed to significantly affect the financial performance of companies. Depending on the manner in which the management of these companies treats these issues, the companies at hand have either been able to perform better or poorer. These issues are therefore examined in this qualitative analysis section of the study.

This according to Klapper and Love (2002) has established a close relationship between corporate governance and the performance of companies. It has been established that whenever there is an effective corporate governance system; companies in question tend to perform better than those which do not have one. It is also true that when companies have an effective corporate governance system, there is greater goodwill among different stakeholders of the companies than in the case where the system is non-existent. This therefore means that as one of the prerequisites of exemplary financial performance, compliance with the UK code corporate governance ought to be taken with serious consideration. There has been a great debate concerning the manner in which corporate governance brings forth an improvement in the performance of the company.
Indeed some scholars have cited factors like improvement in the manner in which the company is managed while others insisted on the existence of good relationships between and among various stakeholders of the company. In this particular research each of these factors is important because an improvement in the performance of the company could not possibly be achieved without effective management as well as good will from the stakeholders. This therefore compels the researcher to consider corporate governance as very important determinant factor of the performance of the company.

One way through which corporate governance brings forth an improvement in the performance of companies is by enhancing efficient management. This is done in order to ensure that the company is performing well financially. It is very crucial for the business because all the stakeholders of the business are always interested in the financial performance of the company. Shareholders are always interested in the superior performance of the company because when the company performs well the shareholders invested funds grow in value thus leading to an improvement in their financial state. On the other hand, if the company reports a poor performance, shareholders suffer because they may lose out on the dividends and at the same the value of their investments would not grow. This according to Schilling (2006) therefore calls upon the management to ensure that the all their activities are aimed at improving the financial performance of the company. Corporate governance plays a very major role in ensuring that the managers of the company to run it in a manner that is beneficial to the overall financial performance of the company. This is achieved through aligning manager’s interests with those of the shareholders. Various strategies are employed to achieve this. One of these strategies is the use of executive compensation plans. These plans are structured in such a way that those managers who perform well are rewarded with greater financial incentives than those who do not perform well. This compels these managers to work hard in order to perform well and hence earn more income.

Another approach that employed to ensure that managers are performing well is by strengthening the shareholders’ rights. This is important because it gives them greater incentives and the ability to monitor the activities if the company’s management committee. At this point it is important to note that one of the reasons why some companies with high levels of corruptions and malpractices is the lack of shareholders’ interests in the affairs of the company. When this happens, fraudulent managers take advantage of this to embezzle funds from the company besides pursuing their own selfish interests instead of focusing on the growth and sustainability of the company. It is therefore very important for the management of the company to be closely monitored to ensure that none of its members engage in activities that go against the financial welfare of the company and its stakeholders. As Patton (2002) discusses one of the key strategies that are employed to achieve this fit is by putting shareholders in a position which would enable them to effectively monitor the manner in which managers are running the company. An effective system of corporate governance is therefore very important as far as the company’s performance is concerned because it enables shareholders to effectively monitor managers thus causing them to deliver on their jobs in the most satisfactory manner.

Corporate governance plays a very important role in the performance of the companies in question. This is the case because if all the principles of the code of corporate governance are adhered to, the management of the company in question would be compelled to deliver high levels of performance. This is the case because these principles would create an environment in which accountability on the part of managers would be necessary. One of the principles of the UK code of corporate governance is accountability. This in Neuendorf’s (2002) opinion is one of the most important principles governing the manner in which managers runs the business. According to this principle, the board of directors is required to account for all the actions they take relating to the performance of the company. For instance, the risks undertaken by the company should be manageable. This therefore means that the risk assessment process of the company’s managers should be done in the manner that is not satisfactory but that also ensures that the company would be able to perform well beyond these actions. This plays a very crucial role in ensuring that the company is performing well. Consequently, it can be safely concluded that when the UK code of corporate governance is employed the company does perform well because the quality of decisions made is high.

The UK Code of Corporate Governance and the Performance of Companies.

Studies have in the past been conducted to establish the relationship between the UK code of corporate governance and the performance of companies. Indeed a good number of studies show that there was a very weak link between compliance with the UK code of corporate governance and the performance of
Previous studies tried to examine the performance of the 1998 version of the UK code of corporate governance and the performance of companies. It is important to note that while previous studies tried to examine the link between these two aspects of firm performance, several doubts were raised on the approach that was consistently employed by the researchers. This can probably explain why according to the results of these studies there has been a very weak link between compliance with the UK code of corporate governance and the performance of companies. Indeed, Pudgett and Shabbir (2005) in their report stated that most of the previous studies did not take a holistic approach in measuring the performance of companies but rather based on accounting based values which could not give a true picture of the overall performance of the companies.

The aim of corporate governance systems is to reduce agency costs that are incurred as a result of the separation between the ownership and management of companies. It is therefore expected that once these costs have been eliminated, the value of the company should increase. This is why it is very surprising when previous studies establish a weak link between compliance with the code and the performance of companies. It is important to note that once the UK code of corporate governance has been fully complied with the cost of monitoring the performance of managers would be reduced because each member of this management team would be striving to pursue the interests of the company rather than selfish interests. This in the long run would lead to an improvement in the performance of the company because of a change in the manner in which managers approach the management function. This is what the researchers expected and therefore it formed their hypothesis. The study was therefore conducted with the main aim of either proving that there is a link between compliance with the UK code of corporate governance and the performance of companies or to clearly establish that there is no link between the two aspects of a firm’s management.

In this particular study, the researchers carried out a research on companies which were constituents of the FTSE 350 index for four years starting with 2000 to 2003. The researchers ensured that for a company to be studied, it had to have been a constituent of the FTSE 350 Index for each of the four years during which it was being studied. This ensured that there was consistency in the collection of data and therefore it would be possible for other researchers in future to verify the outcome of this researcher using the same data but with a different approach. 478 companies were used as the sample out of which 114 were for the year 2000; 121 for 2001; 121 for 2002; 122 for 2003. The number of countries in each year varied slightly from year to another mainly because of lack of data from companies in some years especially 2000.  A non-compliance index was then established basing on the 1998 version of the UK code of corporate governance. According to this index, the failure of a company to comply with one provision would result into the company being awarded one mark. On the other hand if the company complied with the aspect of the code; then it would not be awarded any mark. For instance, one of the provisions of the UK code of corporate governance requires directors of the company to be non-executives members who are independent. According to the index therefore the company would be awarded one mark if its directors are executives. This therefore means that this provision of the code would to have been complied with. On the other hand it would be awarded no mark if its directors are non-executives. It is also important to note that just in the same way, if the company’s executives are independent, and then the company would receive no mark as far as the non-compliance index is concerned. Contrary to this, if these directors were not independent, then the company would again be awarded a mark. This therefore ensured that all the companies which complied with the UK code of corporate governance did have higher score but only those which did not comply with the code.

It is then important to note that the performance of the company was based on the total shareholder returns. This therefore means that the performance of the company was based on the sum of capital gains and dividend yield. It was established from this research that there is an inverse relationship between the non-compliance index and the total shareholder returns. This simply means that companies which complied with the UK code of corporate governance reported higher total shareholder returns as compared to those which did comply with the code. It is therefore crucial to point out that indeed compliance with the K code of corporate governance plays a very important role in influencing the performance of companies. Once the total shareholder returns have increased, the goodwill among these stakeholders would increase thus compelling to offer more funds to the company for investing as opposed to a situation which god will is low. In the long run this affects the performance of the company. It is also important to note that once shareholder and managers of companies are in good terms, the company’s performance would more often than not improve. This is the case because of the link between these managers and shareholders in terms of acquisition of
investments and as well joint deliberations on the decision making processes.

This study seeks to investigate the impact compliance with the UK code of corporate governance on the performance of the company. A firm’s performance is divided into two sections: one is market-based performance while the other is concerned with accounting measures of performance. The study establishes a causal relationship between compliance with the code and market-based measures of performance. This is the case because forms which have low scores in the non-compliance index tend to perform much better in terms total shareholder returns as compared to those which score highly in terms of the non-compliance index. This in Schamber’s (2000) opinion therefore means that it is very important for the companies to comply with the UK code of corporate governance in order to experience an increase in their value. The studies also establishes no link between compliance and accounting based measures of performance like return on assets and returns on equity. Owing to this, the authors of this research therefore propose that even though compliance may not have an impact on the operating performance of the company; it highly influences the manner in which investors perceive the governance of the company which eventually affects the company’s value. This is important because it leads to an improvement in the long term performance of the company. Given that the design of the non-compliance index took a holistic view; it worthwhile to conclude that as far as investors are concerned, compliance ought to be implemented in the letter and spirit of the UK cod of corporate governance with the main objective of bringing forth a positive change in the manner in which large companies are governed.

**The UK Combined Code and Long Term Performance of Companies**

In a study carried out by the Association of British Insurers, companies were listed on the basis of the compliance with the UK Combined Code. In this particular study, the UK Combined Code was used instead of the UK code of corporate governance because the former was the one in application prior to its review. This study was conducted in 2008 and therefore the UK Combined Code was used instead of the UK code of corporate governance because the latter had not been formulated. A point was awarded for every governance failure. This then produced a numerical score for each company with a zero score representing a company which complies with all the provisions of the UK Combined Code while a score forty-two representing a company that has failed to comply with all provisions of the code. According to Das (2010) Companies were then classified into three groups using color schemes: blue represented companies which did not have any governance failure; amber represented companies which had some concerns like abnormal salary increases while red represented companies which showed major concerns like where non-executive directors did not meet the independence criteria or in other cases where an executive director served on the audit committee.

Using governance scores for 361 companies, between 2002 and 2007, the relationship between good governance and a company’s performance was established. Return on assets and “Tobins Q” were used as performance criteria to establish the relationship between these two variables. It was established that companies with poor governance reported negative performance. These companies under performed by 2.5% a year in terms of industry-adjusted returns on assets. This study also showed that it is good corporate governance that lead to better performance and not the other way round. The study also revealed that well-governed companies reported superior performance in terms industry-adjusted returns on assets. Moreover, these companies also showed less volatility in the share price returns. According to this study, the impact of governance on performance was long term. It is therefore safe to conclude that good corporate governance has a positive impact on a company’s long term performance. It is however important to bring out a distinction between good governance and the UK code of corporate governance. This research does not seek to investigate the relationship between good corporate governance and company performance but rather the impact of the UK code of corporate governance on the long term performance of companies.

Since compliance with the UK code of corporate governance has an impact on the manner in which companies are governed. It can therefore be positively concluded that indeed when the UK code of corporate governance is complied with; the company in question would experience an improvement in its performance. At this point, it is important to outline some of the provisions in the UK code of corporate governance that have a potential impact on the performance of companies. According to Mayring (2000), one of these provisions has to do with the principle of effectiveness. According to this principle, the board of directors within the company as well as the company’s management has a role to play in ensuring that the company performs well. This is the case because these are the people who are
charged with the duty of making decisions on matters affecting the company and therefore forging the way forward for the company. These people are therefore required to subordinate their interests to the interests of the company in order to bring forth an improvement in performance and more so a growth in the gains received by several of the company’s stakeholders. This can only be achieved if all the stakeholders of the company respect the letter and the spirit of the UK code of corporate governance.

CONCLUSIONS AND RECOMMENDATIONS
In conclusion, the UK code of corporate governance has been found to affect the long term performance of companies. This is the case because when the management of companies complies with this code, the companies in question go through a series of positive development which eventually lead to an improvement in their financial performance. When the UK code of corporate governance is complied with, the management of the concerned companies is compelled to be more accountable to the shareholders. Accountability is one of the principles ingrained in the UK code corporate governance. When the management of the companies comply with the UK code of corporate governance it would be able to deliver a high quality if output to the company. It is therefore safe conclude that the UK code plays a very important role in influencing the long term performance of these companies.

The UK code of corporate governance improves the relationship between a company’s management and its shareholders. This has been proved from the data analysis and the findings of this research. The UK code of corporate governance requires the companies’ board of directors to have a dialogue with all shareholders on the basis of mutual understanding of objectives. This in Mallin’s (2012) opinion means that a company’s board of directors should always in constant communication with shareholders, putting into serious consideration all the pertinent concerns that are raised by shareholders. The code recognizes in most cases; shareholders are in contact with the company’s chief executive officer and the finance director. However, even though this may be the case, it is very important for the chairman of the board to ensure that all the issues that raised by shareholders are communicated to all the directors. This is important because when the decisions are made regarding the future direction of the company, the shareholders views will have been put into consideration. It is therefore very important just as the code requires for the company’s chairman together with hi board members to ensure that the shareholders are constantly informed about the direction being taken by the company. The opinion of shareholders regarding the strategic direction of the company should be considered in the most practical and efficient manner. The code also requires that the chairman of the company to discuss governance and strategy with major shareholders. This is important because it creates harmony between a company’s management and its shareholders. This relationship plays a very important role in the performance of the company. This is true because shareholders are very important financiers of the company and therefore it is crucial for the management to ensure that the shareholders interests are well taken care of. Once a long term relationship has been established between the company’s management and its shareholders; the company’s long term performance is more often that not guaranteed. The UK code of corporate governance plays a very important role in improving the long term performance of the companies through improving the relationship between the management and shareholders.

The UK code of corporate governance also positively affects the long term performance of the companies through bringing forth an improvement in the effectiveness of management. This is the case because a management team that adheres to these principles would ensure that all the business opportunities pursued are for the benefit of the company and would also conduct them in the manner that brings maximum output to the company. This according to Buckland (2001) is because this management would be aware that all the activities carried out and the manner in which they are carried out would be outlined to all the shareholders among other stakeholders. Rather than risk losing theory employment, members of this management team would therefore ensure that they are delivering satisfactory performance of the company. It is therefore safe to state that the effective implementation of this code brings forth effective performance of managers and therefore the company’s improved long term performance. According to the corporate governance provisions, the management has the role to play in monitoring the performance of different people within the organization. Performance management is one of the most critical areas that concern the management and therefore it is very important for the management of the company to ensure that each personnel are performing well. The UK code of corporate governance outlines the manner in which managers to should go about their tasks in such a manner as to ensure that all the people within this organization are
performing well. This is crucial because when the management begins to work effectively, most if not all of employees within the organization would follow suit which in the long run would lead to an improvement in the performance of the company. It is also important to note that the UK code of corporate governance influences the return on assets among other financial aspects of the company. This is the case because the management plays a very important role in bringing forth an improvement in the performance of the company. The UK code of corporate governance has an effect a company’s return on assets. If the code is adequately implemented by the company’s board of directors, there are high chances that the company’s return on assets would improve. According to Mallin (2012), this is the case because one of the principles of this code is effective service delivery. This principle alone requires every member of the organization deliver high quality service to the organization in the most effective manner. Since each member of the organization would be committed to effective service delivery, there would a great improvement in the quality of service delivered by the company to its customers which would then cause an increase in customer satisfaction, customer loyalty, increased sales and hence profitability. If all factors are kept constant, then the end product would be an improved return on assets of the company. This according to Bohren and Odegaard (2003) would be very beneficial not only to the company’s shareholders but also to the management whose tenure may receive a boast a result of their exemplary performance.

The UK code of corporate governance is very important to the financial performance of the company. This is because the code has the principle of remuneration which outlines the manner in which the directors of the companies are compensated. According to this principle, the amount of payments which these directors receive is based on their performance. Managers who deliver high quality output are remunerated in a better manner than those who do not who do not perform well. In this manner, the managers would work hard to ensure that they are paid more and therefore offered higher remunerations. In the long run when this principle is effectively adhered to the management would be able to perform well and as a result into an improvement in the financial performance of the company. This will have a positive impact in the company’s return on assets as well as other financial aspects of the company’s financial performance. Hence, it can be safely concluded that compliance with the UK code corporate governance leads to an improvement in the long term performance of the company.

This research has also established that the UK code of corporate governance positively impacts on the going concern nature of the company and therefore its long term performance. The company’s going concern nature is an integral element of its long term performance. This is because the company that is a going concern is one which would be able to remain in operation in the foreseeable future. A number of conditions must be fulfilled for a company to fall into this category. Sound financial position is critical among these conditions. This according to OECD (2011) means that a company that is not in a stable financial position cannot be said to be a going concern and therefore does not have any guarantee of operating in future. Since the code requires the company’s directors to be keen on the risks undertaken by the company; it has an effect on its going concern nature. Under the accountability principle, the company’s management has the responsibility of ensuring that the company undertakes only in risks that can be handled with ease and therefore which cannot result into the downfall of the company. A company whose board adheres to this principle would be less likely to fall into financial problems. This is the case because in such a company, the management would only undertake calculated risks thus leading financial performance as opposed to those which do not. The UK code of corporate governance also impacts employee loyalty which plays a very important role in influencing the long term performance of the company.

**Recommendations**

Since it has been found that the UK code of corporate governance plays a very important role in the long term performance of the company, it is important for the management personnel indifferent companies across the globe to embrace this code. It is also crucial for the board of directors of different companies to fully embrace the UK code of corporate governance. When the board of governance complies with the UK code of corporate governance, the performance of the companies in question improves because this move compels the board as well as the management to ensure that all people within this company are delivering high quality output. It is also important for the management to ensure that the code is effectively employed because such a move would bring about an improvement in the effectiveness of the management; increased accountability as well as an improvement in the employee loyalty. According to Black, Jang and Kim (2005) each of these factors has an impact on the long term performance of the company. For instance employee loyalty is very
important in the sense that once the company has good employees, the quality of output of the company would be high and hence its overall performance. It is therefore very important for the company’s board to ensure that all the provisions of the UK code of corporate governance are adhered to.

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