Prioritizing the Factors of Corporate Governance that has An Impact on Firm Performance

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The present study, therefore, investigates prioritizing those corporate governance factors affecting firm performance, particularly with emphasis on manufacturing firms. Since corporate governance plays a key role in promoting accountability, transparency, and sustainability, knowing the most influential governance factors is deeply relevant for both managers and policymaking authorities with regard to resource allocation. Other factors that the research looked into included CEO duality, frequency of board meetings, independence of audit committee, and some elements of ownership structure. These factors were analysed in respect of determining their influence on firm performance. Out of these factors, the highest influence was made by the factor of CEO duality because concentration of power in one individual considerably influences the effectiveness of governance. It was also found that frequent board meetings contributed toward timely and strategic decision-making. Hence, audit committee independence became one of the major contributors that enhanced accountability through its non-biased monitoring of financial and operational controls. In terms of the ownership variables, institutional shareholders have the most influence, where it even further enhances governance through active and transparent participation. These findings suggest that even though many of the governance factors may be influential, concentrating efforts on those high-impact components, such as CEO duality, board frequency, and audit committee independence, is very crucial in ensuring a firm performs at its best.

1. Introduction

Corporate governance is a critical aspect of modern business management and one of the principal indicators of performance. Corporate governance has acquired new importance as global markets develop due to the integration and regulatory landscapes that develop with them. Corporate governance refers to the system of directing and controlling corporations in such a way that it incorporates practices leading toward accountability, transparency, and fairness in a company's relationship with its stakeholders. A proper framework of corporate governance will not only serve the purpose to minimize the level of risk but also set up an environment that allows sustainable growth by aligning the interests of management with those of the shareholders. An increasingly large number of studies bring to light the affirmative link between the practices of corporate governance and performance at the firm level.

However, governance is multi-dimensional and highly interactive; therefore, all the factors are not equally determinant. These are factors that pertain to board independence, executive compensation, ownership structure, and audit quality, and they affect performance in different ways. So, with many factors in corporate governance having a role in determining performance at the firm level, it is very important for managers, policymakers, and investors to direct resources where they would provide the biggest returns. While some research suggests that good corporate governance positively affects firm performance, less clear is which factors in governance are most important.

In most cases, companies adopt governance practices without the full knowledge of what proportion each component involved holds, leading to possible misallocation of resources and suboptimal governance frameworks. Therefore, there is a call to prioritize factors of corporate governance that significantly lead to firm performance. This prioritization has been made in an effort to leave out elements that are least benefiting to firms and can sustain such performance in the long run. This study attempts to prioritize factors of corporate governance that contribute significantly toward firm performance.

2. Literature Review

Corporate governance has emerged as an important determinant of firm performance. Accountability can be instituted only through proper board characteristics, audit committee composition, and ownership structure, which are necessary for facilitating transparency and accountability in the decision-making process.

BC - Board Characteristics
Board Dimensions

The size of the board is considered a significant factor affecting governance and performance of the firm. Relatively small-sized boards are more effective in making decisions than larger boards, which, while providing a broader range of skills, improve strategic control. Yermack (1996) highlighted that very large-sized boards may hinder good governance and lead to

poor firm efficiency. Present research by Ahmed et al. (2023) supports the fact that ideal board sizes achieve a balance between efficiency and diversity, thereby ensuring better performance.

CEO Duality

The dual role of a CEO also serving as board chairperson has elicited mixed responses. Agency theory postulates that this situation may create conflicts of interest, diminishing board oversight effectiveness. Conversely, stewardship theory suggests that CEO duality can result in faster decision-making within complex organizational structures. Nguyen et al. (2023) report that the influence of CEO duality on firm performance is context-dependent, differing significantly between industries.

Board Independence

Independent directors play a vital role in ensuring impartiality in governance. Fama and Jensen (1983) emphasized their role in mitigating agency conflicts, while Klein (2002) found a positive relationship between board independence and firm performance. Farooq and Ahmad (2023) provide new evidence indicating that independent directors are most effective when they possess relevant industry expertise.

Frequency of Board Meetings

Frequent board meetings signify that boards can closely monitor the company and make timely decisions. Vafeas (1999) noted that higher meeting frequency enhances oversight. However, Ahmed et al. (2023) caution that overly frequent meetings may indicate inefficiencies in governance practices.

Audit Committee (AC)

Promoters' Shareholding

Promoter ownership often aligns management and shareholder interests, mitigating agency problems. However, high promoter concentration can lead to entrenchment issues, negatively impacting minority shareholders. Claessens et al. (2002) and Jiang et al. (2022) highlight the dual-edged nature of promoter shareholding, especially in emerging markets.

Institutional Investors

Institutional investors enforce good governance practices, ensuring transparency and long-term performance. Gillan and Starks (2000) observed a positive relationship between institutional ownership and firm performance. Similarly, Nguyen et al. (2023) highlight that institutional shareholders advocate for sustainability policies that support long-term profitability.

Ownership Structure (OS)

Audit Committee Size

A well-structured audit committee enhances financial governance. Bedard et al. (2004) found that an optimal committee size improves monitoring capabilities. However, Jiang et al. (2022) noted that very large committees may face coordination challenges, potentially impairing governance quality.

Audit Committee Independence

Independence within audit committees ensures unbiased financial reporting, reducing misreporting risks. Beasley (1996) identified a strong positive relationship between committee independence and governance effectiveness. Ahmed et al. (2023) emphasize that independent audit committees enhance investor confidence and promote firm performance.

3. Research Methodology

This study utilizes the Analytic Hierarchy Process (AHP) to evaluate and prioritize the impactof various corporate governance factors on firm performance within the manufacturing sector.The AHP method, introduced by Saaty (1980), is a structured decision-making approach that is particularly useful in handling complex decisions by organizing criteria into a hierarchy and assigning weights based on expert input. AHP enables decision-makers to quantify subjective
assessments, making it suitable for research involving intangible variables such as corporate governance practices.
The methodology is organized into several phases: criteria selection, data collection, AHP hierarchy construction, pairwise comparisons, consistency checking, and analysis of results.

1. Selection of Criteria for Corporate Governance

Based on the literature review and prior studies, three main criteria and eight sub-criteria relevant to corporate governance and firm performance were identified. The main criteria include board characteristics, ownership structure, audit committee. Sub-criteria for each maincriterion were derived from existing literature, covering factors such as board size, board independence, CEO duality, audit committee independence, and institutional shareholders.

2. Expert Selection and Data Collection

Eight experts with a deep understanding of corporate governance were selected. These expertsincluded academic researchers, corporate governance consultants, and senior executives. The experts were chosen based on their extensive experience in governance practices and their understanding of the sector’s unique requirements. Each expert was provided with a survey

containing pairwise comparisons of the criteria and sub-criteria, which they rated based on theirperceived importance for enhancing firm performance. The profile of experts chosen for the study is presented in table 1

3. Hierarchy Construction for AHP

The AHP hierarchy was structured in two levels:

Level 1: Main criteria affecting firm performance – Board Characteristics, Ownership Structure, Audit Committee.

Level 2: Sub-criteria under each main criterion, as previously identified. The hierarchy structure formulated is presented in Figure 1.

This hierarchy provides a clear framework for assessing the influence of each governance factor on firm performance.

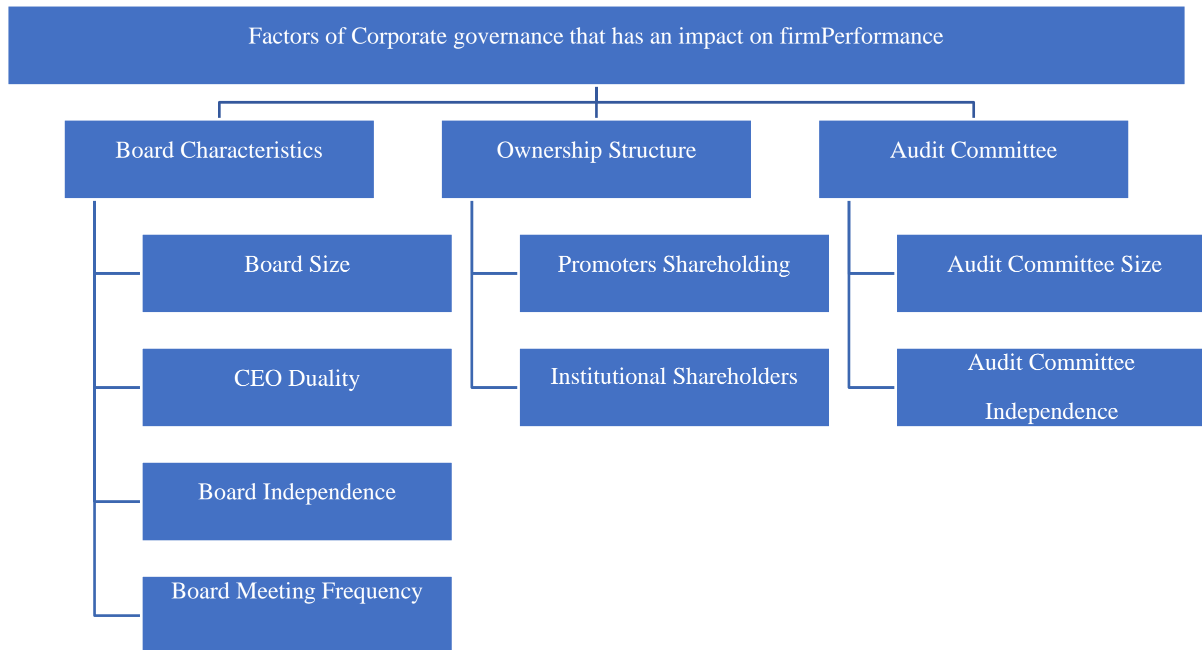

Figure 1 *Hierarchy of Factors and Sub Factors.*

4. Pairwise Comparison and Weight Assignment

Using the AHP pairwise comparison method, each expert was asked to evaluate the relative importance of each criterion and sub-criterion in influencing firm performance. The experts provided ratings on a scale from 1 (equal importance) to 9 (extremely more important), as perSaaty's scale. For instance, an expert might rate board independence as more critical than board meeting frequency within the board characteristics criterion.

5. Calculation of Weights and Consistency Check

After collecting responses from all eight experts, the pairwise comparison matrices were aggregated. MS Excel was used to calculate the normalized weight for each criterion and sub-criterion. Consistency ratios (CR) were calculated to ensure the reliability of the expert judgments. A CR of less than 0.10 was considered acceptable, as it indicates a reasonable levelof consistency in the expert evaluations. If any expert's responses had a CR higher than this threshold, they were asked to review their assessments to improve consistency.

6. Aggregation of Expert Judgments

The final weights for each criterion were obtained by averaging the weights from the consistentresponses of the eight experts. These aggregated weights represent the relative importance of each governance factor in contributing to firm performance.

The final weights derived from the AHP analysis allowed us to rank the corporate governancecriteria and sub-criteria based on their impact on firm performance. By examining these rankings, we identified which governance aspects were considered most influential by the expert group, providing insights into priority areas for manufacturing firms seeking to enhance performance through effective governance practices.

Table 1 *Profile of the Experts*

Expert	Expert Profile	Background
Expert 1	Corporate Governance Consultant	Over 15 years of experience advising firms on board composition, independence, and meeting frequency.
Expert 2	Financial Auditor	Worked with top auditing firms and consulted for large corporations on audit committee effectiveness.

Expert 3	Corporate Lawyer Specializing in Securities Law	Over 10 years of experience in advising companies on governance and ownership issues.
Expert 4	Institutional Investor Representative	Manages a large institutional investment fund that prioritizes transparent governance.
Expert 5	Chief Executive Officer (CEO) of a Publicly Listed Firm	Over 20 years in executive roles, providing a first-hand perspective on CEO duality and board dynamics.
Expert 6	Academic Researcher in Corporate Governance	Published extensively on corporate governance topics and serves as a professor in a business school.
Expert 7	Board Member with Experience in Governance Committees	Currently or formerly served on governance committees in multiple companies, offering insights into board independence.
Expert 8	Regulatory Official from a Securities Exchange Commission	Worked with securities and exchange regulatory bodies to enforce governance standards.

Source – *Author*

Data Analysis

Computation of priority weights (W) and CR of main challenges

Step 1: Finding the sum of each column

$$\text{Matrix (A)} = \begin{bmatrix} 1 & 8 & 4 \\ 0.125 & 1 & 0.25 \\ 0.25 & 4 & 1 \end{bmatrix}$$

Table 2 *Sum of Each Column*

	Board Characteristics	Audit committee	Ownership Structure
Board Characteristics	1	8	4
Audit Committee	0.125	1	0.25
Ownership Structure	0.25	4	1
Sum	1.375	13	5.25

Source – *Author*

Calculate the Column Sums

- Board Characteristics: 1 + 0.125 + 0.25 = 1.375
- Board Characteristics: 8 + 1 + 4 = 13
- Ownership Structure: 4 + 0.25 + 1 = 5.25

Step 2: Divide Each Element by the Column Sum:

Normalize each element by dividing by the sum of its column

$$\text{Normalized Matrix (A_norm)} = \begin{bmatrix} \frac{1}{1.375} & \frac{8}{13} & \frac{4}{5.25} \\ \frac{0.125}{1.375} & \frac{1}{13} & \frac{0.25}{5.25} \\ \frac{0.25}{1.375} & \frac{4}{13} & \frac{1}{5.25} \end{bmatrix}$$

Resulting Normalized Matrix:

$$\text{(A_norm)} = \begin{bmatrix} 0.7273 & 0.6154 & 0.7619 \\ 0.0909 & 0.0769 & 0.0476 \\ 0.1818 & 0.3077 & 0.1905 \end{bmatrix}$$

Step 3: Calculate the Weighted Sum Vector

Multiply the original matrix A by the priority vector P

W = A × P

$$W = \begin{bmatrix} 1 & 8 & 4 \\ 0.125 & 1 & 0.25 \\ 0.25 & 4 & 1 \end{bmatrix} \begin{bmatrix} 0.7015 \\ 0.0718 \\ 0.2267 \end{bmatrix} = \begin{bmatrix} 2.1029 \\ 0.2154 \\ 0.7028 \end{bmatrix}$$

Calculate λmax (Principal Eigenvalue)

$$\lambda\text{max} = \text{w}\frac{w1}{p1} + \frac{w2}{p2} + \frac{w3}{p3}$$

$$\lambda\text{max} = \frac{2.1029}{0.7015} + \frac{0.2154}{0.0718} + \frac{0.7028}{0.2267} = 3.01$$

Compute the Consistency Index (CI)

CI= $\frac{\lambda max - n}{n-1}$

For n = 3n

CI = $\frac{3.01-3}{3-1}$ = 0.005

Determine the Consistency Ratio (CR)

CR = $\frac{CI}{RI}$

Where RI is the Random Index for n =3 (from AHP tables, RI = 0.58)
CR= $\frac{0.005}{0.58}$ = 0.0086

Interpret the Results
The Consistency Ratio CR=0.0086 is less than 0.10, indicating that the judgments are consistent and the priorities are reliable.
Priority Weights:

- Board Characteristics: 70.15%
- Ownership Structure: 22.67%
- Audit Committee: 7.18%

Table 3 *Computation of Priority Weights and Ranking of Main Corporate Governance Factors*

Main Factors	Board Characteristics	Audit committee	Ownership Structure	Priority	Rank
Board Characteristics	1	8	4	0.7	1
Audit Committee	0.125	1	0.25	0.07	3
Ownership Structure	0.25	4	1	0.23	2

Source – *Author*

Table 4 *Priority Weights and Ranking of Board Characteristics Factors*

Sub Factors	Board Size	CEO Duality	Board Independence	Board Meeting Frequency	Priority	Rank
Board Size	1	0.17	0.33	0.25	0.07	4
CEO Duality	6	1	3	2	0.47	1
Board Independence	3	0.33	1	0.33	0.15	3
Board Meeting Frequency	4	0.5	3	1	0.31	2

Source – *Author*

Table 5 *Priority Weights and Ranking of Ownership Structure Factors*

Sub Factors	Promoters Shareholding	Institutional Shareholders	Priority	Rank
Promoters Shareholding	1	1/3	0.25	2
Institutional Shareholders	3	1	0.75	1

Source – *Author*

Table 6 *Priority Weights and Ranking of Audit Committee Factors*

Sub Factors	Audit Committee Size	Audit Committee Independence	Priority	Rank
Audit Committee Size	1	1/4	0.2	2
Audit Committee Independence	4	1	0.8	1

Source – *Author*

Global Weight Computation
The global weight was computed by multiplying the criteria weight and the corresponding sub criteria weight (Relative Preference Weight x Corresponding Local Weight)

Table 7 *Computation of Global Weight*

Factor Category	RelativePreferenceWeights	Sub- Factors	Local Weight	Global Weight	GlobalRank
Board Characteristics (BC)	0.7	Board Size	0.07	0.049	6
		CEO Duality	0.47	0.329	1
		Board Independence	0.15	0.105	4
		Board MeetingFrequency	0.31	0.217	2
Audit Committee(AC)	0.07	Promoters Shareholding	0.25	0.0175	8
		InstitutionalShareholders	0.75	0.0525	5
OwnershipStructure (OS)	0.23	Audit CommitteeSize	0.2	0.046	7
		Audit CommitteeIndependence	0.8	0.184	3

Source – *Author*

4. Findings and Discussion

The computation of priority weights and ranks for the main factors reveals that board characteristics is the most critical factor in influencing corporate governance, with the highestpriority weight (0.7) and ranking first. This implies that aspects such as board composition, diversity, and independence are seen as central to effective governance, as they directly impactoversight and strategic decision-making. Ownership structure ranks second with a priority weight of 0.23, highlighting the role of shareholding patterns (such as institutional ownership or promoter stakes) in shaping governance practices and potentially aligning firm goals with shareholder interests. Audit committee ranks third with the lowest priority weight (0.07), indicating that while the audit committee is important, its influence on overall governance effectiveness is perceived as less significant compared to board characteristics and ownershipstructure. This ranking underscore the relative importance of each factor, with board characteristics being the foremost priority in ensuring robust corporate governance.

The computation of priority weights and ranks for the sub-factors within board characteristicsindicates that CEO duality is the most influential factor, with the highest priority weight (0.47) and ranked first. This suggests that the concentration of power when one individual hold boththe CEO and board chair roles has a significant impact on governance, potentially affecting decision-making and board oversight. Board meeting frequency ranks second, with a priority weight of 0.31, indicating that the regularity of board meetings contributes meaningfully to governance effectiveness by promoting active oversight and engagement in strategic matters. Board independence ranks third with a priority weight of 0.15, underscoring the value of having independent members who bring objectivity and diverse perspectives to board decisions. Lastly, board size has the lowest priority weight (0.07) and ranks fourth, suggesting that the sheer number of board members is less crucial than other factors like independence and meeting frequency in influencing governance quality. This ranking highlights the relative importance of each sub-factor in strengthening the governance framework.

The ranking of sub-factors within ownership structure indicates that institutional shareholdersare the most influential factor, with a priority weight of 0.75 and ranked first. This suggests that the presence of institutional investors such as mutual funds, pension funds, and other largeentities plays a critical role in shaping governance practices due to their vested interest in strong oversight, transparency, and long-term performance. Promoters' shareholding, with a lower priority weight of 0.25 and ranked second, is less influential, indicating that while ownership by promoters (founders or family members) impacts governance, it does not contribute as strongly to governance effectiveness as institutional shareholders. This ranking reflects the relative strength and influence of each type of shareholder in contributing to the overall governance quality and accountability of the firm.

The prioritization and ranking of sub-factors within the audit committee indicate that audit committee independence is deemed significantly more influential than audit committee size incontributing to corporate governance effectiveness. With a higher priority score and rank, auditcommittee independence (where committee members are free from management influence) plays a critical role in ensuring objective oversight, accountability, and credibility in financialreporting and internal controls. This independence allows committee members to act without bias, fostering transparency and trust. In contrast, audit committee size, while still relevant, hasa comparatively lower priority, suggesting that the mere number of members on the audit committee is less crucial than their independence in driving governance quality and effective decision-making.

The ranking of sub-factors based on their global weights provides insights into the most influential elements of corporate governance on firm performance. CEO duality ranks as the most impactful factor, suggesting that when the CEO also serves as the board chairperson, it significantly influences governance effectiveness, potentially due to the centralization of authority affecting oversight and decision-making. Board meeting frequency is the second mostinfluential factor, indicating that regular meetings enable the board to engage actively with strategic and operational matters, fostering better governance and performance. Audit committee independence follows closely in importance, underscoring the value of having an independent committee to ensure accountability and transparency, thus enhancing trust in governance practices. Board independence is also notable, reflecting the need for diverse perspectives and unbiased oversight in corporate decisions. Factors like institutional shareholders and board size rank moderately, while promoters' shareholding and audit committee size are relatively less impactful in this context, suggesting they play supporting roles but do not drive governance effectiveness as strongly as the top-ranked factors.

5. Conclusion

The results of this study confirm that some corporate governance factors significantly influencethe operating performance of

manufacturing firms. CEO duality was top for magnitude, suggesting that when one person combines both chief executive and board chair roles, it heavilyimpacts governance effectiveness, possibly due to power concentration in one individual whocan influence decisions. The study also showed that board meeting frequency played an important role; boards that met more often could stay informed and act readily on strategic andoperational matters. Audit committee independence was noted as a vital contributor, asindependent audit committees enhance accountability and ensure unbiased financial andoperational controls. Econometric analysis indicated that, among ownership structure factors, institutional shareholders had the most significant influence, highlighting how their shareholding likely promotes transparency and strengthens governance through active participation. In contrast, promoters' shareholdings and board size were relatively less important, suggesting these factors play a supportive rather than central role in effective governance. Overall, these findings emphasize that focusing on selected high-impact governance practices is indeed essential for improving firm performance in the manufacturing sector.

Recommendation

In light of this, firms are encouraged to establish a corporate governance framework by focusing on foundational governance practices that have a significant impact onperformance. Specifically, firms should reduce CEO duality by separating the roles of chief executive officer and board chairperson, as this can enhance oversight and reduce potential conflicts of interest. Additionally, emphasizing board independence by adding more independent directors can foster diverse perspectives and objectivity in decision-making. Increasing the frequency of board meetings is also advised; regular meetings allow the board to actively engage in strategic and operational issues, responding timely to risks and opportunities. The study further recommends building strong relationships with institutional shareholders, whose influence has been shown to enhance governance standards and transparency. By concentrating on these strategic governance practices, manufacturing firms can establish a robust governance structure that supports sustainable growth, enhances accountability, and serves the best interests of shareholders and stakeholders.

Managerial Implication

The following are some of the implications of this study for managers and decision-makers inthe manufacturing sector: First, clearly distinguishing the roles of chief executive officer and board chairperson is necessary to reduce conflicts of interest and ensure balanced decision- making. Separation increases accountability and provides clearer oversight, likely resulting inbetter governance outcomes. Increasing board meeting frequency can also support a highly engaged board that, beyond staying closely involved with the firm's strategic and operational issues, can respond promptly to risks and opportunities as they arise. Managers should focus on board independence by including fully or mostly independent directors who offer objectiveinsights and diverse perspectives, essential for impartial decision-making.

Additionally, fostering good relations with institutional shareholders can be advantageous for governance, as institutional investors typically prioritize transparency and long-term value creation. Managers could benefit from leveraging these shareholders' expertise and resources to enhance governance practices. By concentrating on these high-priority governance factors, firms can strengthen their governance structure, leading to improved operational performance,increased investor confidence, and sustainable growth in the manufacturing sector.

Future Scope of the Study

Future research could extend this study by examining the impact of corporate governance on firm performance across different sectors. Additionally, future studies could incorporate longitudinal data to better understand how governance factors influence firm performance over time, capturing dynamic changes in governance practices and market conditions. Expanding the research to include private firms and SMEs within the manufacturing sector would also provide insights into how governance impacts firms of varying sizes and ownership structures. Finally, cross-country studies focusing on emerging versus developed economies could explore how cultural, regulatory, and economic differences affect the relationship between corporate governance and firm performance, offering a global perspective on governance best practices.

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