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**ISSN: 2616-8413**

*Stratford Peer Reviewed Journals and Book Publishing*
*Journal of Public Policy & Governance*
*Volume 5|| Issue 3||Page 1-10||September||2021|*
*Email: info@stratfordjournals.org ISSN: 2616-8413*

# Impact of Internal Mechanisms on Corporate Governance: Case of Glaxosmithkline Pharmaceuticals Limited, United Kingdom

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***How to cite this article:* Rosenstein, M., & Thomson, W. (2021). Impact of Internal Mechanisms on Corporate Governance of Business Organizations in United Kingdom. *Journal of Public Policy & Governance*, 5(3), 1-10. https://doi.org/10.53819/81018102t5025**

## Abstract

Corporate governance is the collection of systems, procedures and relations utilized by numerous parties to regulate and run a business. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the business, such as the board of directors, managers, shareholders, creditors, auditors, regulators and stakeholders. The study sought to examine the impact of internal mechanisms on corporate governance in GlaxoSmithKline Pharmaceuticals Limited in the United Kingdom. The study adopted the descriptive research design. The target population included employees from the management level in the company. The research instruments adopted included questionnaires. The results of the study showed that Internal Mechanisms has a positive and significant association with Corporate Governance in GlaxoSmithKline Pharmaceuticals Limited. The regression results depicted that internal mechanisms explain 26.4% of the variations in corporate governance. Further, it was established that a positive and significant relationship exists between internal mechanisms and corporate governance. The study showed that internal mechanisms included the oversight of management, independent internal audits and structure of the board of directors. The study concluded that internal mechanisms are key in determining corporate governance. The study recommended that there is a need to have clarity in corporate governance because it assists in operating the business properly since more shareholders and investors are willing to invest in the particular business. The directors and owners of the business should be people of great integrity and highly qualified to run the business in a professional way that will not bring losses or failure in the future. Employees who perform excellently should be rewarded to continue with that spirit of hard work that makes the business thrive well.

**Keywords:** *Internal mechanisms, corporate governance, Glaxosmithkline Pharmaceuticals Limited, United Kingdom*

**https://doi.org/10.53819/81018102t5025**

## 1.1 Introduction

Corporate governance is the system of regulations, techniques, and processes by which a business is routed and managed (Adekoya, 2019). It basically entails balancing the rate of interests of a business's many stakeholders, such as shareholders, senior monitoring executives, clients, distributors, financiers, the government and community. Because business administration additionally offers the structure for acquiring a firm's goals, it incorporates virtually every sphere of management, from action plans and internal controls to performance dimension and business disclosure. Governance refers particularly to the collection of guidelines, controls, policies and resolutions implemented to determine company habits. Proxy experts and investors are very important stakeholders who indirectly influence governance. The board of directors is critical in governance, and it can have major implications for equity assessment. A service' corporate governance is important to capitalists because it reveals a company direction and also business honesty (Bandsuch, Crown & Thies, 2018). Excellent governance aids businesses have trust fund with investors and community. Corporate governance assists to promote economic viability by producing a long-term investment chance for market players.

Communicating a business' corporate governance is a key part of community and capitalist relationships. Most of businesses make every effort to have a high level of corporate governance (Khan, Muttakin& Siddiqui, 2020). For several shareholders, it is not nearly enough for a business to merely be profitable; it likewise needs to demonstrate great corporate citizenship via environmental awareness, honest behavior and sound company governance techniques. It produces a clear set of policies and controls in which investors, directors and officers have actually lined up incentives. Internal corporate governance control plays an important role in making certain the success of a business organization and avoiding business fraudulence. The internal governance mechanisms mainly concentrate on boards of directors, ownership as well as control, and managerial incentive mechanisms, whereas the outside governance cover issues associated with the exterior market, regulations and laws (Cumming, Vanacker & Zahra, 2021). A corporate governance declaration can be utilized to limit abuse of power by the business' board of supervisors. Agency issues develop within a business whenever managers have incentives to pursue their very own rate of interests at shareholder expenditure. Businesses with weaker governance frameworks have greater firm issues, and businesses with greater agency troubles execute worse.

Corporate governance is the collection of systems, procedures and relations utilized by numerous parties to regulate and to run a business (John and Senbet, 2020). Governance frameworks and principles recognize the distribution of civil liberties and responsibilities among different participants in the corporation such as the board of supervisors, managers, shareholders, lenders, auditors, regulatory authorities and various other stakeholders which consists of the guidelines and treatments for choosing in business events. Corporate governance is required because of the possibility of disputes of passions in between stakeholders, mostly between investors and upper administration or amongst shareholders. Business governance includes the processes through which firms' goals are set and followed in the context of the social, regulative and market setting. These consist of keeping track of the actions, plans, methods and choices of companies, their representatives and impacted stakeholders. Business governance techniques can be viewed as efforts to straighten the passions of stakeholders (Kock, Santalo & Diestre, 2019). Interest in the business governance methods of contemporary firms, especially in relation to accountability, boosted following the high profile collapses of a number of huge service businesses in 2001-2002.

Corporate governance reforms are frequently presented superficially and make use of as a public connections exercise, as opposed to as a tool to present the inner structures and processes that make it possible for a company to hold the depend on of its shareholders, raise the business's capacity to accessibility funding and minimize vulnerability to economic dilemmas (Di, 2018). Yet to efficiently introduce these structures and processes, a service has to completely and constantly commit to the principles of justness, transparency, responsibility and obligation. A key facet of corporate governance is making sure the circulation of external resources to firms. Corporate governance is additionally interested in searching for ways to encourage stakeholders to take on socially reliable levels of financial investment in firm-specific human and physical capital. The competitiveness and supreme success of a business is the result of team effort that embodies contributions from a range of source suppliers consisting of financiers, workers, financial institutions and also suppliers (Zhelev, 2020). Companies ought to acknowledge that stakeholders' contributions make up a useful source for building affordable and profitable business.

Several nations have enacted concepts and codes to affect business governance. Corporate governance influences the growth and functioning of funding markets and exerts a solid impact on source appropriation. It affects upon the actions and performance of companies, cutting-edge task and entrepreneurship. Governance methods differ not only across countries but also across businesses and market markets (Blossom and Van Reenen, 2017). Nonetheless, among one of the most striking distinctions in between nations' company governance systems is in the ownership and control of firms that exist throughout nations. Systems of company governance can be distinguished according to the level of possession and control and the identity of managing shareholders.

The governance framework specifies the distribution of civil liberties and responsibilities amongst different individuals in the corporation and specifies the policies and treatments for making decisions in business events (Cong and Freedman, 2019). Improvements in company governance techniques that add to far better disclosures in company coverage in-turn can facilitate better market liquidity and resources formation in emerging markets. The governance structure should recognize that the passions of the business are offered by recognizing the passions of stakeholders and their contribution to the lasting success of business. Consequently, it is in the interest of the firm to promote effective co-operation with the stakeholders, establish a governance framework to recognize the existence of these passions and also identify their relevance for the long-term success of the firm. Much better business structures profit business with better accessibility to financing, reduced expense of funding, much better performance and much more beneficial treatment of all stakeholders. This formed the motive to look at the relationship between internal mechanisms and corporate governance.

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### 1.2 Research Objective

The research objective was to look at the impact of internal mechanisms on corporate governance in Glaxosmithkline Pharmaceuticals Limited, United Kingdom

### 2.1 Literature Review

Corporate governance is seen as the entire set of procedures taken within an organization to prefer the financial representatives to participate in the productive procedure, in order to create some organizational surplus, and to establish a fair circulation between the partners, taking into consideration what they have actually offered the company. A study conducted by Ludo Horsthuis (2019) analyzes the impact of internal corporate governance mechanisms on firm performance of Dutch listed firms. The study was done in between the years 2012 and 2017; it was analyzed using OLS regressions. The results showed that the effects on firm performance differ in how performance is measured. Board size is significantly related to firm performance; negatively for accounting-based and positively for market-based/hybrid measure. Ownership concentration is significantly and positively related to accounting based measures. For insider ownership, which includes family and managerial ownership, no significant effects are found. Though, splitting up this variable into the two identities resulted in a positive relationship between family ownership and accounting-based firm performance measures. Moreover, the study finds significant positive effects of executive compensation on market-based performance measures and negative effects on accounting-based/hybrid performance measures. This study contributes to the scarce actual existing literature on this topic by using recent data from the Netherlands, and by including multiple corporate governance variables instead of only ownership structure, board structure or remuneration.

Another study by Ortega (2021) on impact of corporate governance on internal mechanisms and profitability of businesses showed that lack of corporate governance and financial reporting may lead to a decrease in profitability and business closures due to poor management, lack of capital, and liquidity. Based on agency theory, the purpose of this correlational study was to investigate the relationship between corporate governance, financial reporting, and three measures of profitability; return on assets, return on equity, and net interest margin, in 80 businesses within the Midwest from 2015–2018. The data were collected from the businesses' websites. The results of the three regression analyses were not significant; however, financial reporting was a more substantial contributor ($\beta$ = -.122) than corporate governance ($\beta$= -.021) for return on equity, so business leaders should monitor and maintain robust financial reporting systems. The implications for positive social change include the potential to build confidence amongst investors, managers, employees, and board members. Business leaders with accurate business information and sound corporate governance may improve community business, leading to increased investors, strategic assumption of risk, and job growth.

Kingsley Tornyeva and Theophilus Wereko (2012) investigated the relationship between corporate governance and the financial performance of insurance companies in Ghana. The secondary data was collected from the national insurance commission and the primary data through the administration of interview questionnaires. Panel Data Methodology was used for the data analysis. The findings shows that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional

**https://doi.org/10.53819/81018102t5025**

ownership, dividend policy and annual general meeting are positively associated with the financial performance of insurance companies in Ghana. The insurance companies are encouraged to adopt good corporate governance practices to improve their financial performance and also to protect the interest of the shareholders. Most importantly the regulatory authorities must ensure compliance with good governance and apply the appropriate sanctions for non-compliance to help the growth and development of the insurance industry.

Whilst firm legislation does not give a comprehensive structure for business governance, nevertheless some aspects of business legislation are important in assisting us to understand the essential relationships in the business world. United Kingdom business regulation draws from both statute and common law. All companies incorporated in the United Kingdom undergo legal law, irrespective of their size (Rutherford, 2018). Nevertheless public interest companies undergo higher legislative needs, consisting of extra law within their specific sectors. The legislation acknowledges a minimal business as a different legal entity. Their Memorandum of Association and also Articles of Organization determine internal management of business. Boards derive their powers from their Articles of Organization, or constitution. The Articles of Association make provision for supervisors to entrust their powers to board committees and also executive supervisors (Miller, 2019). Whilst supervisors have powers to work as executive directors and participants of the board, they likewise have obligations to serve as accountable supervisors of the business in which they are employed. Supervisors are agents of their firms and subsequently have certain responsibilities and obligations to the firm, as a legal entity, and not to private investors, employees or any other third party beyond the business.

## 3.1 Research Methodology

The study adopted the descriptive research design. The target population was 400 employees working in managerial positions. The study did a sampling of 210 respondents that were selected from the target population of 400. Questionnaires were used to collect the data.

## 4.0 Research Findings and Discussion

## 4.1 Correlation Analysis

The study investigated the outcome of the association between the variables. The Pearson correlation coefficient, r, take a range of values from +1 to -1 (Bonett & Wright, 2000). A value of 0 indicates that there is no association between the variables. A value greater than 0 indicates a positive association; that is, as the value of one variable increases, the other variable also increases (Schober, Boer & Schwarte, 2018). A value less than 0 indicates a negative association; that is, as the value of one variable increases, the value of the other variable decreases (Hemphill, 2003). The stronger the association of the two variables, the closer the Pearson correlation coefficient, r, will be to either +1 or -1 depending on whether the relationship is positive or negative, respectively. The values less than 0.3 indicate weak correlation, less than 0.5 moderate associations and between 0.5 and 1 shows strong association. The results presented in Table 1 describe the correlation analysis

**Table 1: Correlation Analysis**

| | | Corporate governance | Internal mechanisms |
|---|---|---|---|
| Corporate governance | Pearson Correlation | 1.000 | |
| | Sig. (2-tailed) | | |
| Internal mechanisms | Pearson Correlation | .408** | .1.00** |
| | Sig. (2-tailed) | 0.000 | 0.000 |

The correlation results from Table 1 show that the internal mechanism is positively and significantly associated with corporate governance (r=.408, p=.000). These results concur with Paulinus, Oluchukwu and Somtochukwu (2017) findings who noted that internal mechanism is key in determining corporate governance. Investors should evaluate the quality of the internal mechanisms of corporate governance on a business to determine if the internal mechanisms provided is accurate and a true reflection of the business. Katmon and Al Farooque (2017) noted that any irregularities or alarms raised by the regulators should result in further and careful examination by investors to determine whether such issues may have an adverse impact on a business in the future. Through the implementation of corporate governance, leaders can implement the strategic goals and objectives of the business.

### 4.2 Regression Analysis

The section comprised of model fitness, analysis of variance and regression of coefficient. The results presented in Table 2 indicate the model fitness

**Table 2: Model Fitness**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .371a | 0.264 | 0.221 | 0.143038 |

The results from Table 2 shows that internal mechanisms was found to be satisfactory in explaining the corporate governance in Glaxosmithkline Pharmaceuticals Limited. This was supported by the coefficient of determination, also known as the R square of 0.264. This implied that internal mechanism explain 26.4% of the variations in the corporate governance.

The analysis of variance was conducted and the results are presented in Table 3

**Table 3: Analysis of Variance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 3.479 | 1 | 3.479 | 96.056 | .000b |
| | Residual | 4.847 | 135 | 0.018 | | |
| | Total | 8.268 | 136 | | | |

The results in Table 3 indicate that the overall model was statistically significant. The results imply that internal mechanisms (oversight of management, independent internal audits and structure of the board of directors) are good predictors in explaining the corporate governance. This was supported by an F statistic of 96.056 and the reported p-value of 0.000 which was less than the conventional probability significance level of 0.05.

The outcome of the regression of coefficients is summarized in Table 4

**Table 4: Regression of Coefficient**

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 0.249 | 0.046 | | 5.413. | 0.024 |
| Internal mechanisms | 0.403 | 0.061 | 0.123 | 6.607 | 0.001 |

Based on the results presented in Table 4, it was found that internal mechanisms was found to be positively and significantly related to corporate governance (β=.403, p=0.001). This was supported by a calculated t-statistic of 6.607 that is larger than the critical t-statistic of 1.96. The results are in agreement with the findings of Bauwhede (2019) who established positive relationship ezists between internal mechanism and corporate governance. Moreover, González, Webb, Sharmina, Hannon, Pappas and Tingey (2021) noted that proper regulation will attract more investors to come and invest in the business hence promoting the growth of businesses in United Kingdom. Good governance will lead to proper running of the business and encourage other businesses to follow the same process.

## 5.1 Conclusion and Recommendations

The study concluded that internal mechanisms are key in determining corporate governance. It was found that a positive and significant relationship exists between the internal mechanism and corporate governance. The internal mechanism includes oversight of management, independent internal audits and structure of the board of directors. The study recommended a need for the set of rules, controls, policies and resolutions for the business. This helps to know the areas where the

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*Volume 5|| Issue 3||Page 1-10||September||2021|*
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businesses are required to put in more resources and efforts for the smooth running of the business. When there is clarity in the corporate governance, it assists in properly operating the business since more shareholders and investors are willing to invest in the particular business. The directors and owners of the business should be people of great integrity and highly qualified so that they may run the business in a professional way that will not bring losses or failure in future. Employees who are performing excellent should be rewarded to continue with that spirit of hard work, making the business thrive well. Any business should only employ suitable workers for the relevant job available and avoid duplication of jobs and duties to cut on irrelevant costs that may arise due to these acts, hence causing the business to make losses.

https://doi.org/10.53819/81018102t5025

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***Volume 5|| Issue 3||Page 1-10||September||2021|***
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