



Does Organizational Culture Bridge Corporate Governance and Firm Performance? A Moderated Mediation Conceptual Framework

Bishnu Prasad Gyawali*

PhD Scholar

Tribhuvan University, Faculty of Management, Kathmandu Nepal

bgyawali2@gmail.com,

<https://orcid.org/0009-0002-4459-9855>

Prof. Mahananda Chalise, PhD

Dean

Faculty of Management, Tribhuvan University, Kathmandu, Nepal

mahanchalise@gmail.com

<https://orcid.org/0000-0002-7210-1244>

Prof. Dilli Raj Sharma, PhD

Professor

Faculty of Management, Tribhuvan University, Kathmandu, Nepal

dr7sharma@yahoo.com

<https://orcid.org/0009-0001-4453-6849>

Pratibha Pandey

PhD Scholar

Tribhuvan University, Faculty of Humanities and Social Science, Kathmandu Nepal

ppratibhag@gmail.com,

<https://orcid.org/0009-0005-2560-4294>

Corresponding Author*

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Abstract

Background: Prior research in corporate governance has shown that corporate governance has a positive impact on firm performance through various governance mechanisms that help to resolve agency conflicts. However, empirical research has shown that there is no consistent



relationship between corporate governance and firm performance, suggesting that corporate governance may be related to firm performance through organizational processes.

Objectives: This is a conceptual study that proposes a moderated mediation model to explain how corporate governance is related to firm performance through organizational culture, moderated by institutional pressures.

Methods: This study used various theories such as agency theory, stewardship theory, resource-based view, institutional theory, and social capital theory to synthesize various perspectives to propose an integrated model. The integrated model proposes corporate governance as a structural antecedent to organizational culture and organizational culture as an antecedent to firm performance. Institutional pressures are proposed to moderate the relationship between corporate governance and organizational culture.

Findings: The integrated model proposes corporate governance to be related to firm performance through organizational culture. Strong corporate governance is likely to result in strong organizational culture through strong leadership behavior and ethical standards. Stronger institutional pressures are likely to result in stronger corporate governance being embedded in organizational culture.

Conclusion: The effectiveness of governance is not simply evaluated on the structural provisions; it also depends on the extent to which governance practices become embedded in the organizational culture. The framework accounts for the heterogeneous outcomes of governance on firm performance and provides the theoretical bases for future empirical research.

Novelty: This research contributes to the literature in the following ways: (1) it proposes organizational culture as an intervening factor in the governance-firm performance relationship, (2) it expands the resource-based view theory by adding governance as an antecedent of firm-specific intangible cultural resources, and (3) it develops the concept of moderated mediation to describe the indirect effects of institutional pressure on firm performance through organizational culture.

Keywords: Corporate governance, firm performance, institutional pressure, moderated mediation, organizational culture

1. Introduction

Corporate governance has been regarded for a long time as an important mechanism for enhancing the performance of firms. Rooted particularly in agency theory, governance structures are designed to prevent conflicts created by the separation of ownership and control by providing a fit between managerial incentives and shareholder interests and by reducing opportunistic behaviour (Jensen & Meckling, 1976). Consistent with this perspective, empirical research suggests that firms that have a higher level of governance provisions (e.g. effective monitoring mechanisms and other, stronger shareholder protections) are likely to be linked with a higher firm valuation and superior stock returns (Gompers et al. 2003). However, the wider literature reveals that there is a lot of variation in the relationship between corporate



governance and firm performance. There are many studies that show mixed and/or context dependent results as governance mechanisms do not always lead to better organizational outcomes (Bhagat & Bolton, 2008).

These inconsistencies raise an important question: why do similar governance structures produce different performance outcomes across firms? If governance mechanisms are based mainly on monitoring and incentivising alignment, then firms with better governance should regularly outperform others. Yet there is growing evidence that the effectiveness of governance depends on the internal organizational processes and conditions. In many instances, governance structures affect performance indirectly through the impact of internal dynamics as opposed to being direct determinants of firm performance (Bhagat & Bolton, 2008). This observation has led to a study of organizational mechanisms that may explain heterogeneous governance-performance relationships.

One such mechanism that has received more and more attention is organizational culture. Organizational culture is a term which means the shared values, norms and expectations of behavior that guide the actions and decisions of members in an organization (O'Reilly et al., 1991). Culture affects important organizational processes such as coordination, innovation, ethical decision-making and risk management. Studies with empirical data show that cultural characteristics are linked to employee attitudes, operational efficiency and financial performance (Hartnell et al., 2011). Field-based evidence also further suggests that executives judge corporate culture as an important driver of productivity, innovation, and long-term firm value (Graham et al., 2022). Similarly, research has shown that companies with a cultural orientation of integrity are more likely to be more profitable and have better valuation (Guiso et al., 2015), and computational analyses conducted with machine learning techniques have found strong associations between cultural orientation and operational efficiency (Li et al., 2021).

Despite the increased awareness of the strategic value of culture, there is still limited research that merges corporate governance with organizational culture. Governance scholarship has traditionally focused on structural oversight mechanisms (such as board composition, ownership structures and monitoring systems) to overcome agency problems (Jensen & Meckling, 1976). In contrast, culture research concentrates on internal norms and behavioral systems which influence organizational behavior (O'Reilly et al., 1991). Emerging studies indicate that governance structures may have an impact on ethical climate and communication between leaders that is also referred to as the organizational "tone at the top", which subsequently shapes cultural norms within organizations (Dang et al., 2024; Di Miceli da Silveira, 2022). Recent empirical evidence also shows that organizational culture may mediate the relationship between governance mechanisms and firm performance (Diaz Pelas et al., 2025). However, a thorough theoretical framework for understanding the relationships between governance structure and cultural systems and how cultural dynamics play out in terms of performance outcomes is an underdeveloped area.

Insights from the resource-based view (RBV) and social capital theory also underscore such a gap. The RBV suggests that valuable, rare, inimitable and socially complex resources are the



source of sustainable competitive advantage (Barney, 1991). Organizational culture fits these criteria due to the fact that it is deeply rooted in social relationships and the history of the organization and thus challenging for competitors to replicate. Similarly, social capital theory attests to the importance of shared norms, trust and relational networks in knowledge creation and organizational advantage (Nahapiet and Ghoshal, 1998). However, both perspectives provide a limited explanation in terms of the structural antecedents that contribute to the formation of these cultural and relational resources.

Institutional theory offers the additional insight on the role that the external pressures have on the organizational practices (DiMaggio & Powell, 1983). Organizations live in environments that are marked by coercive, normative, and mimetic pressures that frame the way that governance mechanisms are adopted and used. Yet to what degree governance reforms are internalized into meaningful organizational behaviors may differ across institutional contexts. In some environments governance reforms may be deeply embedded in shared organizational values, while in others they may be adopted for legitimacy purposes for little impact on the internal cultural dynamics.

Building on these views, this study constructs a conceptual framework of how the corporate governance may affect the firm performance indirectly through organizational culture and how it is contingent upon institutional conditions. Specifically, the paper seeks to propose a moderated mediation model where organizational culture mediates the relationship between corporate governance and firm performance and institutional pressure moderates the relationship between governance and culture. Moderated mediation theory offers a helpful framework for viewing these kinds of conditional indirect effects (Edwards & Lambert, 2007; Preacher et al., 2007).

This study makes three contributions to the literature. First, it contributes to the study of corporate governance by conceptualizing organizational culture as an important mechanism by which governance structures affect the performance of firms. Second, it extends the resource-based view by identifying corporate governance as an antecedent to the development of intangible cultural resources that may contribute to sustained competitive advantage. Third, it presents a moderated mediation perspective by emphasizing the role of institutional pressure as a contextual condition affecting the likelihood of governance practices to be translated into cultural alignment and more positive performance outcomes.

2. Literature Review and Theoretical Foundations

2.1 Corporate Governance and Firm Performance: The Limits of Structural Control

Corporate governance research has been largely based on the theory of agency, firm is seen as a meeting point of two types of contracts between principals (shareholders) and agents (managers) (Jensen & Meckling, 1976). Because in the modern Corporations, the ownership and control are separated, managers may seek to advance their interests that may be different from the interests of the shareholders. Governance mechanisms, such as board monitoring, ownership concentration and executive incentive alignment, are therefore designed to mitigate the agency conflicts and ensure that managerial decisions are in the interests of shareholders.



There is some support for this view from empirical studies. Firms that have improved governance provisions and higher protections for their shareholders tend to have higher market value as well as better stock performance (Gompers et al., 2003). However, the correlation between corporate governance and firm performance is by no means consistent. Many studies report mixed or context dependent results which indicate that governance mechanism doesn't always result in uniform performance outcome (Bhagat & Bolton, 2008). Meta-analytic evidence also suggests that the impact of governance structures such as the composition of the board are often modest and may be sensitive to context (Dalton et al., 2003).

These inconsistencies point to the fact that governance may affect firm performance indirectly through internal organizational processes in addition to only through structural monitoring. Stewardship theory supports this opinion as it suggests that managers can be stewards, their interests are linked to organizational goals (Donaldson & Davis, 1991). From this point of view, the structures of governance can contribute to the building of trust, commitment and common cause within organizations. In turn, the governance effectiveness may be dependent on internal contexts such as organisational norms and expectations for behavioural practices affecting how governance practices are understood and enacted (Jarne-Jarne et al., 2022).

2.2 Organizational Culture as a Strategic Asset

Organizational culture is defined as shared values, beliefs, and behavioral norms to guide how the members of the organization interpret the situations and respond to them (O'Reilly et al., 1991). Culture is especially important in coordination, communication, ethical decision making, and strategies of alignment that are used in organizations. Unlike formal governance mechanisms, which are perceived to operate with explicit rules and monitoring systems, culture is an informal control mechanism that is embedded in day to day practices in organizations.

A growing body of empirical research suggests the importance of culture to organizational outcomes. Meta-analyses evidence has suggested that cultural characteristics positively relate to employee attitudes and organizational effectiveness along with financial performance (Hartnell et al., 2011). Field-based studies have also suggested that corporate culture is seen by executives to be an important source of innovation, productivity, and long-term firm value (Graham et al., 2022). Additional research has found that companies with strong integrity-based cultures tend to have higher levels of profitability and market valuation (Guiso et al., 2015) but computational approaches using machine-learning techniques have found strong correlations between orientation to culture and operational efficiency (Li et al., 2021).

At the same time, scholars have underlined that the relation between culture and performance is a complex one and not universally a positive one. Some research has suggested that strong organizational cultures are potentially dysfunctional when they promote high levels of conformity, groupthink or resistance to change (Siehl & Martin, 1990; Wilderom et al., 2000). These findings point to the importance of knowing under what circumstances culture contributes to effectiveness of organizations.

From the theoretical perspective, the resource-based view (RBV) provides an interesting explanation for the potential influence of culture on the performance of the firms. According to RBV, sustainable competitive advantage is based on resources that are valuable, rare,



inimitable and socially complex (Barney, 1991). Organizational culture fits these criteria for the following reasons: Organizational culture is so embedded into social relationships and organizational history, it is very difficult for competitors to imitate. However, while RBV is useful to explain the strategic importance of culture, it is not very informative about the organizational mechanisms through which such cultural resources are formed.

2.3 Governance as an Antecedent of Organizational Culture

Recent research suggests that corporate governance mechanisms may have an important role to play in the definition of organizational culture. Governance structures have an impact on how leadership behaves, what are the strategic priorities and what the ethical standards should be in the inside of organizations. For instance, the boards of directors are useful in setting up ethical expectations and enhancing cultural norms by virtue of their role in oversight and leadership cues (Di Miceli da Silveira, 2022). Governance arrangements also impact on the communication of executives and strategic messaging, and what is often described as the organizational "tone at the top" (Dang et al., 2024).

Through these mechanisms, governance structures may exert their influence on internal value systems and norms of behavior that are defining organizational culture. Governance practices with a focus on transparency, accountability, and sustainability can help promote the development of cultures that encourage ethical behavior, collaboration, and long-term strategy orientation (Abdelwahed & Soomro, 2024). In this sense, mechanisms of governance may be structural antecedents of cultural systems, in the sense of influencing development, of norms and expectations shared in the organizations.

However, governance practices do not necessarily translate in the same way to cultural change. From an institutional perspective, pressures from an external perspective in the form of organizational fields, such as coercive, mimetic and normative pressures, impact the structures of governance (DiMaggio & Powell, 1983). Organizations may adopt governance practices for an attempt to retain their legitimacy in their institutional environments. Yet the extent to which these practices are internalized into meaningful cultural norms can differ greatly from organization to organization.

In some companies, governance reforms can become part and parcel of common organizational values and behavior expectations. In others, governance structures may be assumed for primarily symbolic, ceremonial reasons without having much effect on internal cultural systems. This phenomenon is often referred to as institutional decoupling and suggests that practices of governance do not always result in substantive organisational change.

Taken together, these views imply that governance mechanisms may influence the performance of firms in an indirect way by influencing the organizational culture. There is preliminary support in the emerging empirical evidence for this mediating relationship (Diaz Pelasquez et al, 2025). However, the situation on how governance practices are internalized to the cultural systems and subsequently influencing the performance of the organization has not been theorized as it ought in the governance literature.



2.4 Toward a Moderated Mediation Framework

The heterogeneous findings in governance-governance performance research seems to suggest that the effect of governance mechanisms is likely to be conditional and indirect rather than uniform across organizations. One way of investigating such complexity is using moderated mediation frameworks, in which the strength of indirect relationships can change according to the context (Edwards & Lambert, 2007; Preacher et al., 2007).

Moderated mediation models acknowledge that mediation processes may not work the same way in all settings. Instead, it is possible that the magnitude of indirect effect is sensitive to contextual moderators that affect the operation of organizational mechanisms. In the context of corporate governance, such moderators can make the difference between whether governance practices become embedded in organizational culture to any real extent.

Institutional theory offers a very helpful lens for understanding these contextual influences. Organizations that exist in an environment with heavy coercive, normative, and mimetic pressures may come under the scrutiny of regulators, investors, and professional communities (DiMaggio & Powell, 1983). Under such conditions, governance reforms may be more likely to become internalized to organizational norms and expectations for behavior. Conversely, in a low institutional pressures environments governance practices can be quite symbolic and have little effect on internal cultural systems.

In addition, the effect of culture on firm performance may differ depending on the measurement of performance. Broader operational performance indicators (innovation, adaptability, efficiency, etc.) may represent the effect of culture better than the financial metrics (Venkatraman & Ramanujam, 1986).

Taken together, these theoretical perspectives indicate that corporate governance may affect firm performance indirectly through the organizational culture and that the strength of this indirect relationship is conditional on institutional conditions. This study therefore proposes a moderated mediation design wherein organizational culture mediates the relationship between corporate governance and firm performance, while institutional pressure moderates the governance culture relation.

3. Hypotheses Development

The theoretical discussion above implies that the linkage between corporate governance and firm performance is not likely to be directly proportional. Governance mechanisms may affect the outcomes of firms by influencing internal organizational systems that guide behavior, decision, and coordination. In particular, organizational culture may serve as an important mechanism through which governance practices affect firm performance. Furthermore, the degree to which mechanisms of governance are embedded in the organizational culture of an organization may be dependent on institutional conditions. Drawing on agency theory, stewardship theory, the resource-based view, institutional theory, and social capital theory, this section formulates hypotheses that are consistent with the proposed moderated mediation framework.



3.1 Corporate Governance and Organizational Culture

Corporate governance mechanisms are devised to fulfill the function of coordinating the action of managers with the interests of shareholders and other stakeholders. According to agency theory it is the governance structures such as board oversight, concentration of ownership and incentive systems for executives that are designed to minimize the opportunities for managerial opportunism and promote greater accountability and transparency in organizations (Jensen & Meckling, 1976). While these mechanisms operate primarily through the formal monitoring and incentive alignment of the organization, there is a possibility for these mechanisms to have an impact on internalized organizational norms and expectations about behavior.

Board of directors have a significant role to play when it comes to setting ethical standards and ethical strategic priorities for organizations. Through their overseeing activities and their signals of leadership, boards can have an impact on the values that are emphasized inside the organization, for example, with regards to the expectations regarding integrity, accountability, and long-term orientation (Di Miceli da Silveira 2022). Governance structures might also affect executive communications and leadership behavior and, accordingly, the confirmation of cultural norms throughout the firm ("tone at the top") (Dang et al., 2024). In this way, governance mechanisms can have an impact of whether the shared norms within organizations are focused on collaboration, innovation and ethical behavior or, on the other hand, opportunistic behavior.

From the point of view of the theory of stewardship, the structures of governance may also encourage trust based managerial behaviour rather than just the restriction of opportunism (Donaldson & Davis, 1991). Governance arrangements that place an emphasis on transparency, shared outcomes and long term perspectives can result in collective commitment and mutual responsibility in organizations. Such arrangement may increase the coherent systems of culture for providing for co-operation and alignment of organizational members.

Institutional theory has a further suggestion that the practices of governance represent broader expectation concerning the legitimacy and accountability of the organizations (DiMaggio & Powell, 1983). Firms that adopt better governance systems reflect that they conform to external standards of regulation and professional standards. These signals may help to shape the development of internal norms of culture by reinforcing the expectations of responsible leadership and ethical decision making.

Taken together, these viewpoints imply that the governance mechanisms can have an impact on the development and reinforcement of the organizational cultural systems. Governance practices that focus on transparency, accountability and strategic alignment are therefore likely to support greater strength and coherence of organizational cultures.

H1: Strong corporate governance mechanisms such as board oversight, transparency, and accountability structures are positively associated with the strength and alignment of organizational culture.

3.2 Organizational Culture and Firm Performance

Organizational culture affects the way the employees coordinate their activities and communicate with one another and response to organizational challenges. Shared values and



norms are a system of informal control to guide behavior even if there are no formal rules to govern such behavior (O'Reilly et al, 1991). Through these mechanisms, culture can have an impact on employee engagement, knowledge sharing, strategic alignment and risk taking behaviour.

Empirical research has generated a great deal of evidence of the link between culture and organisational outcomes. Meta-analytic studies indicate that certain cultural attributes are found to be positively associated with the effectiveness and performance outcomes of organizations including involvement, adaptability, consistency, and mission orientation (Hartnell et al., 2011). Field-based studies also indicate that executives view corporate culture as one of the critical drivers of innovation, productivity, and long-term firm value (Graham et al., 2022). Additional research shows the cultures of integrity are associated with increased profitability and market valuation (Guiso et al., 2015), and computational analyses show strong correlations between cultural orientation and operational efficiency (Li et al., 2021).

The resource-based view (RBV) is one theoretical explanation of such relationships. According to RBV, sustainable competitive advantage result from resources are valuable, rare, inimitable and socially complex (Barney, 1991). Organizational culture meets these criteria, as it is entrenched into social relationships and organizational history, and is difficult for competitors to copy.

Similarly, social capital theory places a lot of emphasis on the importance of shared norms and relational trust in enabling knowledge creation and collective actions in the organisations (Nahapiet & Ghoshal, 1998). Cultural systems that encourage trust, cooperation and common purpose may encourage the exchange of knowledge, innovation and strategic coordination further and improve organizational performance.

Based on these arguments, organizational culture is expected to make positive contribution in not only effectiveness of operations but also financial performance.

H2: Organizational culture is positively associated with firm performance.

3.3 Organizational Culture as a Mediating Mechanism

While corporate governance provides a framework for formal structures for monitoring and aligning incentives, the efficacy of these mechanisms will often depend on the way that governance principles are interpreted and put into practice within organizations. Governance systems can set rules and incentives but without cultural norm support such mechanisms can be symbolically or be ineffective.

Organizational culture may thus be an important mechanism through which the governance structures affect firm performance. Governance arrangements impact the leadership behaviour, ethical standards and strategic priorities that in turn influences the common norms and expectations in guiding the behaviour of employees. These cultural systems then affect coordination and sharing of knowledge and execution of strategies in organisations.

This type of mediation logic is consistent with the resource-based view which implies that governance structures might be associated with the development of valuable intangible resources for firm performance, such as organizational culture (Barney, 1991). Likewise, social capital theory means that arrangements in governance structure may affect the level of



relational trust and shared norms to foster the development of intellectual capital and collective advantage (Nahapiet & Ghoshal, 1998).

Prior research also shows that it may be that the mechanisms of governance affect performance, both directly and indirectly. Governance structures may affect the outcomes of the firm through strategic choice and distribution of resources while cultural systems affect how the strategies are implemented in the organization (Bhagat & Bolton, 2008). Accordingly, governance may have a direct and indirect impact on firm performance.

H3: Organizational culture mediates the relationship between corporate governance and firm performance.

3.4 Moderated Mediation: The Role of Institutional Pressure

How much the governance mechanisms shape the culture of the organization may be related with the institutional environments in which the firms are operating. Institutional theory states that organizations are embedded in organization environments that have coercive, normative and mimetic pressures that affect organizational behavior and practices (DiMaggio and Powell, 1983).

Coercive pressures are pressures that come from the requirements of complying with the regulation requirements and legal frameworks that require firms to practice certain governance practices. Normative pressures are the pressures that come from professional norms and expectations of the industry and this affects what are legitimate practices of governance. Mimetic pressures can be defined as those pressures where organizations mimic governance structures applied by other successful or prominent organizations. Together these pressures have an impact on the adoption as well as the implementation of governance mechanisms.

In environments with high levels of institutional pressures, governance reforms are more likely to become institutionalized in organizational routines and behavioral norms. Regulatory scrutiny, professional expectations and industry standards may provide further support to the value of transparency, accountability and ethical behaviour that boosts the power of governance mechanisms to effect cultural alignment.

On the other hand, in regimes that come paired with less intense institutional pressures, governance practices may be taken up for more symbolic and legitimacy-based reasons. In such cases governance mechanisms can be decoupled from internal organizational behaviour such that they have a limited influence on cultural systems.

Moderated mediation theory offers one way of useful to examine such conditional indirect effects (Edwards & Lambert, 2007; Preacher et al., 2007). In the present context, institutional pressure is expected to improve the relationship between corporate governance and organizational culture that will strengthen the indirect effect of governance on the firm performance (through culture).

H4: The indirect effect of corporate governance on firm performance through organizational culture is stronger under conditions of high institutional pressure.



4. Conceptual Model

This research aims to develop a conceptual framework of the interaction of the corporate governance on the firm performance through the internal organizational processes and the dependence of this relationship with the institutional context. Specifically, the framework makes a moderate mediation model in that organizational culture mediates the relationship between corporate governance and firm performance and institutional pressure mediates the relationship between corporate governance and organizational culture.

The framework includes perspectives from a number of theoretical frameworks including agency theory (Jensen & Meckling, 1976) stewardship theory (Donaldson & Davis, 1991), resource-based view (Barney, 1991), institutional theory (DiMaggio & Powell, 1983) and social capital theory (Nahapiet & Ghoshal, 1998). Together, these perspectives hint that governance structures have impacts on internal organization processes, which impact firm outcomes. In particular, governance mechanisms can have an impact on leadership behavior, norms of ethics and internal patterns of coordination that together are the organizational culture. In turn, cultural systems impact the degree to which the firms are able to coordinate activities, share knowledge and implement strategies to influence the performance of the firm.

The proposed framework is also in line with emerging empirical research, which suggests that organizational culture may function as an important mechanism between governance structures and the outcomes of the firm (Diaz Pelalec et al., 2025). At the same time, the framework acknowledges that practices of governance are situated in broader institutional environments. Institutional conditions may thus have an impact on the extent to which governance mechanism are internalised in organisational norms and routines. In this respect, the model proposed is consistent with moderated mediation approaches of studying the context-specific relationship between indirect effects and moderators (Edwards & Lambert, 2007; Preacher et al., 2007).

4.1 Structure of the Model

The conceptual model includes four key constructs:

1. Corporate Governance (independent variable)
2. Organizational Culture (mediator)
3. Firm Performance (dependent variable)
4. Institutional Pressure (moderator)

The framework proposes two primary structural relationships:

Path A: Corporate Governance → Organizational Culture

Path B: Organizational Culture → Firm Performance

The product of these two relationships constitutes the indirect effect of corporate governance on the performance of the firm through organizational culture. In addition to this indirect pathway, the model also leaves open the possibility of the direct influence of corporate governance on firm performance as strategic decision making, resource allocation, and effectiveness of monitoring. As such, the model posits that there is partial mediation, in that governance has a direct and indirect effect on performance via culture.



Institutional pressure is suggested to exert pressure on the relationship between corporate governance and organizational culture, thereby moderating the relationship. As a result, the size of the indirect impact of governance on firm performance turns out to be conditional on the level of institutional pressure.

4.2 Corporate Governance as a Structural Antecedent

Corporate governance is conceptualized as the formal system of monitoring, oversight, and aligning incentives to solve agency problems and accountability in firms (Jensen & Meckling, 1976). Governance mechanisms such as board independence, ownership structure and executive compensation arrangements shape expectations with regard to managerial behavior and strategic priorities.

Beyond their monitoring function, governance structures also have an effect on the internal environment of organizations. Boards of directors and governance systems define the way leadership communicates, the kind of expectations with regard to ethics, and the organizational "tone at the top", which then define the shared norms and expectations with regard to behavior among employees (Dang et al., 2024; Di Miceli da Silveira, 2022). Through these mechanisms, governance structures contribute in the development and reinforcement of organizational culture.

In the proposed model, corporate governance therefore is a structural antecedent of organizational culture. Governance arrangements affect internal cultural systems by the way leadership is conducted, communications patterns, and ethical standards in the organization.

4.3 Organizational Culture as the Mediating Mechanism

Organizational culture is the common values, beliefs, and behavioral norms that guide the way the members of an organization interpret the situation and respond to it (O'Reilly et al., 1991). Culture influences such key processes in organizations as coordination, innovation, communication, and ethical decision-making.

From the point of view of the resource-based view, organizational culture is an intangible and social complex resources which could be used to achieve sustain competitive advantage (Barney, 1991). Cultural systems are engrained to social relations and organizational history and are difficult for competitors to match.

Similarly, as per social capital theory, shared norms and relational trust promote knowledge exchange, collaboration and organizational learning (Nahapiet & Ghoshal, 1998). These mechanisms help the organization to better coordinate their activities and develop innovative and better solutions to strategic problems.

Empirical research also includes the evidence for importance of culture for a company's outcome. Studies have determined that organizational culture is associated with improvements in operational effectiveness as well as engagement, innovation, and financial performance (Hartnell et al., 2011; Graham et al., 2022; Guiso et al., 2015; Li et al., 2021).

Within the proposed model, organizational culture will act as a mediator which relates to the governance structures in order to impact the firm performance. Governance practices determine cultural norms and expectations and in turn these cultural systems impart to organizational effectiveness and firm outcome.



4.4 Firm Performance as a Multidimensional Outcome

Firm performance is viewed as a multi-dimensional entity with both financial and operational performance components (Venkatraman & Ramanujam, 1986). This wider view accepts that governance and culture can affect firm performance in a variety of ways and over different time horizons.

Financial performance may include indicators such as profitability, return on assets, market valuation and shareholder returns. Operational performance may contain such indicators as innovation capability, productivity, organizational efficiency, and strategic adaptability.

By taking on this multidimensional view, the framework recognizes that the impact of organizational culture on financial performance in the short run and organizational abilities in the long run may be significant.

4.5 Institutional Pressure as a Moderator

Institutional theory posits that organizations exist in environments of pressures that are coercive, normative, and mimetic affecting organizational practices (DiMaggio & Powell, 1983). These pressures may come from regulatory requirements, professional standards, industry norms, and other practices that successful firms have imitated.

In the framework suggested, the effect of institutional pressure is to moderate the relationship between corporate governance and organizational culture. This moderation is due to the fact that institutional environments shape the extent to which governance practices become internalized within organizations.

Under conditions of strong institutional pressure, firms can be under more scrutiny by regulators, investors, and professional communities. As a result, there is a greater likelihood for governance reforms to be implemented in a substantive manner and be embedded in organizational routines and shared norms.

In contrast to this, under conditions of weaker institutional pressure, governance practices may be adopted more for symbolic or legitimacy purposes. In such cases, formal governance structures may not translate into meaningful cultural change in organizations.

Consequently, institutional pressure is expected to foster close relationship between corporate governance and organizational culture. When there is high institutional pressure, governance mechanisms are more likely to affect cultural norms and expectations for behaviour. Where institutional pressure is low, the control of governance over culture could be less intense.

4.6 Moderated Mediation Logic

The framework proposed is a combination of both mediation and moderation in order to explain heterogeneous governance-performance relationships across firms. The indirect effect of corporate governance on the performance of the firms can be conceptualized as the product of two relationships:

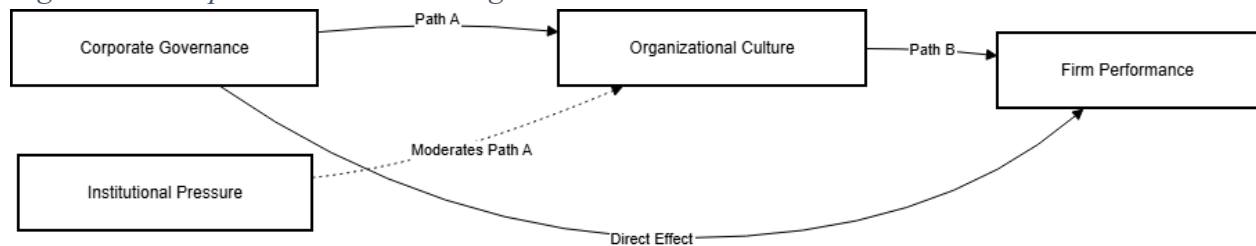
Indirect Effect = (Corporate Governance → Organizational Culture) × (Organizational Culture → Firm Performance)

Because institutional pressure moderates the relationship between the two variables, governance and culture, the magnitude of the indirect effect is dependent on the institutional environment. Under conditions of strong institutional pressure, there is a higher likelihood of governance mechanisms influencing cultural alignment which would strengthen the indirect effect on firm performance. On the other hand, under weaker institutional conditions, governance practices may be symbolic, weakening the indirect path through culture.

This moderated mediation framework assists in understanding why similar governance structures in different organizations and institutional environments may have different performance outcomes.

4.7 Conceptual Model Diagram

Figure 1 Conceptual Framework Diagram



The conceptual framework as propounded for this study is shown in figure 1. The model proposes that the corporate governance affects the organizational culture (Path A) which, in turn, affects the firm performance (Path B). Institutional pressure moderates the relationship of corporate governance with organizational culture, hence conditioning the strength of the indirect effect of governance on the performance of firms through the culture.

4.8 Model Implications

The conceptual model that is proposed provides a more integrated explanation of the relationship between corporate governance and firm performance. Rather than seeing governance as only a structural mechanism for monitoring managerial behaviour, the model emphasises the role of governance on the development of internal cultural systems that impact on organisational effectiveness.

By bringing both mediation and moderation perspectives together, the framework also explains why governance reform may produce different outcomes in different institutional environments. In this way, the model contributes to a more nuanced understanding of the joint influence of governance structures, cultural systems and institutional conditions on firm performance.

5. Empirical Research Agenda and Measurement Guidelines

The conceptual framework proposed in this study provides a number of opportunities for empirical investigation in the future. To promote empirical testing of the moderated mediation model, this section describes the possible ways in which the key constructs might be operationalized and proposes some methodological procedures for addressing the proposed relationships.



5.1 Measurement of Corporate Governance

Corporate governance can be made operational by using both structural governance indicators and composite governance indices that are commonly used in corporate governance research. Structural indicators such as board independence, board size, CEO duality, ownership concentration and alignment of executive compensation capture the functions of monitoring and incentives highlighted in agency theory.

Alternatively, researchers may use governance indexes which aggregate more than one governance provision. Examples of these are the G-Index developed by Gompers et al. 2003 and the E-Index to measure shareholder rights and governance protections. While the composite indexes offer gross measures of the quality of governance, research in the future might also look separately at specific governance mechanisms to see what their distinct effects on organizational culture might be.

5.2 Measurement of Organizational Culture

Organizational culture is a multidimensional construct, which can be measured through a number of complementary methods. One popular approach is the use of survey-based measures such as the Organizational Culture Profile (OCP) developed by O'Reilly et al. (1991) which measures values and norms that are shared within organizations. Other approaches involve culture frameworks based on such dimensions as involvement, adaptability, consistency, and mission orientation.

Recent progress in computational techniques also enables researchers to quantify culture by text-based analysis of corporate disclosures, earnings calls or internal communications. For example, machine learning-based methods have been employed to predict cultural characteristics of the texts and correlate it with firm outcomes (Li et al., 2021). Combining perceptual survey data and computational indicators may lead to a better understanding of cultural systems.

5.3 Measurement of Institutional Pressure

Institutional pressure can be described as the external factors that influence organization practices and expectations. Following institutional theory, three main forms of pressure can be taken into account: coercive, normative and mimetic pressures (DiMaggio & Powell, 1983).

Coercive pressure comes from regulatory frameworks and legal requirements that are imposed by government or regulatory agencies. Normative pressure is the pressure that is derived from professional norms, industry standards, and expectations from professional associations or institutional investors. Mimetic pressure arises as mimetic firms follow governance practices that successful or leading firms in their specific industry use.

Empirical measures of institutional pressure can be regulatory intensity, industry governance standards, institutional ownership concentration or cross-country governance indices that help capture differences in regulatory environments. Researchers may also examine whether this institutional pressure is perceived by managers from the inside or measured objectively on the industry or even national level.



5.4 Measurement of Firm Performance

Firm performance could be conceptualized as a multidimensional concept which comprises of both money and functioning performance indicators (Venkatraman and Ramanujam, 1986). Financial performance measures popular in governance research are return on assets (ROA), return on equity (ROE), Tobin's Q, and market valuation measures.

Operational performance indicators could include some dimensions of innovation output, productivity, growth and efficiency. These measures, in particular, may be pertinent in efforts to document the role of organizational culture, which can more often have an effect on the process of short-term operations as well as on longer-term organizational capabilities than on short-term financial results.

Future studies may also focus on whether cultural mechanisms are more influential in long-term performance than the short-term financial outcomes, which would give more insight into the strategic role of organizational culture.

5.5 Empirical Testing of the Moderated Mediation Model

The moderated mediation framework proposed in this study may be empirically tested using a number of statistical approaches. Structural equation modeling (SEM) offers a valuable approach to simultaneously estimate the relationships between governance, culture, institutional pressure, and firm performance, as well as show the measurement error.

Alternatively, moderated mediation models can be estimated using regression-based approaches such as conditional process analysis in which researchers are able to examine conditional indirect effects. Statistical tools like the PROCESS models (e.g. Model 7) or comparable tools can be used to test whether institutional pressure moderates the relationship between governance and culture and therefore conditions the indirect effect of governance on performance.

Researchers should also consider multilevel modeling approaches in which there are institutional pressures in different industries or countries. Such methods make it possible to analyze cross-level impacts of firm-level governance structures in wider-ranging institutional contexts.

5.6 Methodological Considerations

Future empirical research should also consider possible methodological challenges of governance-performance research. One issue of concern is endogeneity in that governance structures may both determine and be determined by firm performance or organizational culture. Researchers can try to solve this problem by using longitudinal designs, instrumental variable methods, or natural experiments taking advantage of regulatory changes.

Additionally, there may be reverse causality where high-performing firms are more likely to have stronger governance structures or develop certain cultural systems. Longitudinal research, which measures governance reforms, cultural change and performance outcomes over time, may help to resolve causal relationships between these constructs.

By offering more explicit guidance regarding measurement and empirical testing approaches, the framework created in the current research endeavors to enable future research investigating



the conditional mechanisms by which corporate governance impacts organizational culture and ultimately firm performance.

6. Theoretical Contributions

This study adds to the corporate governance and organizational theory through integrating the corporate governance, organizational culture and firm performance in the framework of moderated mediation. By establishing relationships between structural governance mechanisms and internal cultural processes and institutional context, the framework provides a better basis for understanding how similar governance structures can lead to different performance outcomes across firms.

First, the study puts corporate governance back into the conceptual framework of a structural antecedent of organizational culture, rather than just a direct determinant of firm performance. Traditional governance research, though heavily based on agency theory, focuses on the role of monitoring mechanisms and the alignment of incentives as mechanisms for creating shareholder value (Jensen, & Meckling, 1976). However, empirical evidence is available that the relationship between governance and performance is often inconsistent and context dependent (Bhagat & Bolton, 2008). By introducing organizational culture as a mediating mechanism, the study explains the impact of governance structures on leadership behavior, ethical standards and shared norms that determine collective behavior and strategic execution within organizations.

Second, the study also extends the resource-based view by identifying corporate governance as an enabling condition for the development of intangible cultural resources. Organizational culture is a socially complex resource that can help sustain competitive advantage (Barney, 1991) and has been empirically linked to enhanced organizational outcomes (Hartnell et al., 2011; Guiso et al., 2015; Li et al., 2021). By conceptualizing governance as a structural determinant of culture, the framework highlights the way the arrangements in governance influence the expectations of leadership, internal coordination and shared norms that contribute to the development of valuable systems of cultural value.

Third, the study overcomes the conventional separation of corporate governance scholarship and organizational behavior research. Governance research has tended to focus on formal mechanisms of oversight, whereas organizational behavior research pays more attention to internal norms and behavioral systems such as culture (O'Reilly et al., 1991). By conceptualizing organizational culture as a mediator between governance and firm performance, this framework addresses both structural and behavioral perspectives and shows that governance affects organizational outcomes via formal and informal mechanisms.

Fourth, the study is introducing moderated mediation logic into the study of governance. Rather than presuming uniform governance-performance relationships, the framework focuses on the fact that the effects of governance can be affected by contextual conditions. By adding institutional pressure as a moderator (DiMaggio & Powell, 1983), the study explains the extent to which governance practices are internalized as cultural systems due to external institutional environments. Under the weight of institutional pressure, there is a greater probability for



governance mechanisms to become part of organizational norms and routines and therefore reinforce their indirect influence on firm performance.

Overall, by combining structural, behavioural and institutional approaches, the current study contributes to a more complete understanding of the effects that corporate governance has on firm performance and provides a theoretical basis for future empirical studies that investigate the interaction between governance structures, cultural systems and institutional environments.

7. Managerial Implications

The proposed framework has a number of implications for boards of directors, senior executives, regulators and institutional investors. By identifying organization culture as the key mechanism that links corporate governance and firm performance, the study argues that the effectiveness of governance should not be measured only by structural indicators such as independence of board of directors or mechanism for monitoring management. Instead, governance reforms need to be measured in terms of their ability to influence internal cultural systems in organizations.

Boards of Directors: Board of directors are not only a critical role in watching the management, but its creation of organizational culture. The practices of governance influence leadership communication, ethical expectations and the "tone at the top", and consequently shape common norms and standards of behavior within firms in the organization (Dang et al., 2024; Di Miceli da Silveira, 2022). Boards therefore should monitor cultural alignment as well as financial performance and be certain that incentive systems reinforce organizational values and assess if or not leadership behavior is consistent with an organization's governance principles. Incorporation of cultural assessments or culture audits in governance reviews may help ensure that governance policies are in fact being embedded in organizational practices.

Managers should also understand organizational culture as a strategic resource and not just a symbolic management aspect. From the resource based view, culture is an intangible asset that enables the coordination, innovation and ethical decision making (Barney, 1991; Graham et al., 2022). Governance mechanisms should therefore be matching the cultural objectives, e.g. by designing incentive mechanisms that reward value consistent behavior and strengthen long-term strategic orientation.

The framework also highlights the importance of the institutional context. In the case of environments with strong regulatory and professional pressures, governance reforms are more likely to be internalized in organizational norms and routines (DiMaggio & Powell, 1983). In weaker institutional environments, however, mechanisms of governance may be symbolic, unless organizations make a real effort to incorporate them in internal cultural systems.

Finally, the findings have implications for institutional investors and policy makers. Investors who are measuring the quality of governance should not only focus on the formal governance structures, but also on alignment around culture and ethical climate. Similarly, considerations by policymakers making governance regulations are to acknowledge that formal rules can have an indirect effect on firm performance by affecting internal cultural systems that support accountability and responsible leadership.



8. Limitations and Future Research

Despite its contributions, there are some limitations of this study which provide possibilities for further study. First of all, the study is conceptual in nature and thus requires an empirical validation. Although the framework is based on proven theories such as agency theory, stewardship theory, the resource-based view, institutional theory, and social capital theory, the proposed moderated mediation model requires empirical testing of the model by using empirical data. The future research should be study on the indirect effect of corporate governance on the performance of the firm through organizational culture using multi source of data. Governance quality may be measured using governance indices (Gompers et al., 2003) whereas organizational culture may be measured using survey-based instruments (O'Reilly et al., 1991), cultural frameworks (Hartnell et al., 2011) or text-based computational methods (Li et al., 2021). Longitudinal research designs would be particularly useful for analyzing the temporal relationship of governance reform, cultural change, or outcomes of performances.

Second, it is also difficult to measure organizational culture, due to the complex and multidimensional nature of culture. Survey measures may reflect values as perceived but not behaviors actually while text based methods may reflect leadership tone but not deeper cultural alignment. Future studies could take multi-method methodologies with perceptual, behavioral and computational indicators of culture, and may also differentiate between cultural strength, cultural content and cultural alignment.

Third, although this study focuses on the significant source of moderation as institutional pressure, there are other kinds of factors contextual to the relationship between the governance and culture that may have an impact. Future research may examine other boundary conditions such as ownership structure, leadership characteristics, extent of dynamism of industry or cross-national environments of governance. In addition, the current framework conceptualizes culture on organizational level, but culture may also function on multiple levels within organizations. Multilevel research designs could be employed to analyse the governance and cultural dynamics relationship across different organisational levels.

Finally, the issues of reverse causality and other explanations should be addressed in future studies. Strong cultural systems may have governance practice influence and may thus contribute to dynamic feedback loops between governance and culture. Researchers should also take into account competing mechanisms through which governance may influence firm performance, such as strategic decision-making, or the allocation of resources. Examining these alternative pathways would add to an even finer theoretical understanding of the relationships between governance and performance.

9. Conclusion

This study answers a question that has been raised in the corporate governance literature for a long time: Why do similar governance structures lead to different performance results across firms? While the conventional views focus on monitoring and incentive alignment, these different kinds of mechanisms alone cannot fully account for the heterogeneous results of prior



studies. This paper builds a conceptual framework in which organizational culture is seen as a major mechanism for linking corporate governance to firm performance.

By conceptualizing governance as a structural antecedent of internal cultural systems, the framework moves away from a direct structural control and instead moves toward an indirect behavioral influence. Governance mechanisms influence the tone of leadership, ethics and norms shared among others, which in turn influence coordination, execution of strategy and collective behavior within organizations. In this way, organizational culture is an embedded and socially complex resource for long-term value creation.

The study also develops a moderated mediation perspective, which emphasizes the role of institutional pressure. Governance mechanisms are only likely to result in meaningful cultural alignment and improved performance in environments with strong institutional pressures, while in weaker institutional environments governance reforms may be largely symbolic.

Overall, the framework implies that it is not possible to assess the effectiveness of governance by reference to structural provisions alone. The impact of it depends on how practices of governance become embedded in organizational culture. By combining structural, behavioral and institutional points of view, this study provides a more complete explanation of how governance affects firm performance and provides a basis for future empirical research on these relationships.

Transparency Statement: The authors confirm that this study has been conducted with honesty and in full adherence to ethical guidelines.

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