

The relationship between corporate governance and firm performance: A Review

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Abstract

The purpose of the review is to examine the effects of corporate governance (CG) measures on business performance as well as the function that management behaviour plays in the relationship between firm performance and corporate governance mechanisms as reported in various research. The findings from many literature sources suggested that having an efficient internal audit and enterprise resource planning (ERP) system could lead to effective corporate governance. This leads to the conclusion that good corporate governance improves business performance, and that successful ERP adoption and efficient internal auditing practises further strengthen corporate governance. Consequently, a large body of research has documented the impact of management behaviour on the link between corporate governance (CG) practises and business performance in emerging market economies. Because the social, political, and economic circumstances are comparable, these findings will be helpful to a number of enterprises as well as other GCC countries and their policymakers.

Keywords: *Firm Performance (FP), Corporate Governance (CG), Internal Audit (IA), Enterprise Resource Planning (ERP)*

I. Introduction

Corporate governance is the framework of policies, procedures, and guidelines that govern how an organisation is run. It includes the methods used to run a business as well as the interactions between various stakeholders, such as the shareholders, management, board of directors, and others. A company's performance is greatly impacted by its corporate governance, which affects the company's responsibility, transparency, and decision-making procedures. This article's goal is to look into the connection between business success and corporate governance.

The performance of a company has been found to be significantly influenced by its corporate governance. Corporate governance influences company performance in a number of ways. These include the board of directors' oversight and management responsibilities, the alignment of shareholders' and management's objectives, and the defence of minority shareholder rights. Making strategic choices and supervising the company's management are within the purview of the board of directors. The board is essential in overseeing and regulating the management's activities. Financial scandals, unethical behaviour, and other unfavourable incidents that could harm the company's standing and financial results can be avoided with the support of the board's oversight and control operations. According to studies, businesses with more independent and involved boards of directors have a higher chance of outperforming businesses with less successful boards (Uyar, 2022).

The congruence of shareholder and management interests is another way that corporate governance influences the functioning of the company. The function of corporate governance is to guarantee that the interests of shareholders and management are in harmony, even when there may be conflicts between the two groups. Utilising performance-based rewards, like bonuses and stock options, can help achieve this goal by inspiring management to strive for the long-term prosperity of the business. Lastly, the rights of minority shareholders are significantly protected by corporate governance. Because they could not have as much influence over the business as majority shareholders do, minority shareholders could be more susceptible to management decisions. Good corporate governance can guarantee that minority shareholders' interests are represented in the company's decision-making processes and aid to defend their rights (Ellul and Vijay, 2013).

An increasing amount of data points to a positive correlation between corporate governance and firm performance. Better corporate governance practises have been linked to increased profitability, higher stock returns, and a decreased risk of bankruptcy, according to studies. Investors are more likely to be drawn to organisations with strong corporate governance since they are calling for greater responsibility and transparency from businesses. There are a number of variables that can affect the complex relationship between corporate governance and firm performance. The efficiency of corporate governance practises can be influenced by various factors such as the company's size and complexity, the industry in which it operates, and the geographical location of the organisation. Furthermore, the relationship between corporate governance and firm

performance can also be influenced by the particular procedures and methods a business uses to implement corporate governance (Tarchouna et al., 2017).

In summary, corporate governance is essential to a company's success. Good corporate governance procedures can support the company's efforts to uphold minority shareholder rights, align management and shareholder interests, and guarantee that it operates in an ethical and transparent manner. Research indicates that organisations with superior corporate governance practises have a higher probability of outperforming those with less efficient governance practises. According to Guluma (2021), in order to enhance their performance and draw in investors, businesses must prioritise corporate governance and put into place efficient governance practises.

The term "corporate governance" is the collection of guidelines, procedures, and practises that a business's management puts in place to make sure the business runs morally and openly. The idea of corporate governance has grown significantly in significance in recent years as stakeholders and investors have come to expect greater openness and accountability from businesses. An organization's ability to succeed is greatly influenced by its corporate governance. Adopting sound corporate governance procedures can lower risks, draw in investors, and enhance the company's image. Conversely, inadequate corporate governance protocols may result in moral failings, monetary mishaps, and a deterioration of the organization's standing. In corporate governance, the board of directors is one of the main players. The board of directors is in charge of setting strategic direction and supervising the administration of the business. In addition, the board of directors is in charge of making sure the business complies with all applicable laws and regulations (Alsurrayi, and Alsughayer, 2021).

The executive management team of the corporation is a crucial element of corporate governance. The executive management group is in charge of running the business on a daily basis and carrying out its strategic aims. Making sure the business runs ethically and openly is another duty of the executive management group. The policies and processes of the organisation are also a part of corporate governance. The purpose of these policies and procedures is to guarantee that the business conducts its operations in an ethical, transparent, and compliant manner with all applicable laws and regulations. Codes of ethics, whistleblower policies, and anti-corruption policies are a few examples of policies and procedures (Hunjra et al., 2020).

Description

The relationship between corporate governance and business performance remains a crucial topic for both empirical and theoretical research in the field of corporate studies. Over the past few decades, corporate governance has gained prominence and evolved into a crucial instrument. Corporate governance practises have improved as a result of the recent global financial crises, the rapid expansion of privatisations, and the establishment of financial institutions. Improving business performance is largely dependent on effectively managed corporate governance systems. A company's ability to maintain a positive corporate image, win over shareholders, and lower the likelihood of fraudulent activity are all made possible by good corporate governance (Nguyen et al., 2014). It is assembled using several consistent processes, including external environments and internal control systems, that support commercial firms in growing successfully and implementing strong corporate governance. The fundamental goal of corporate governance is to improve the performance of businesses by designing and maintaining programmes that encourage insiders to maximise the efficiency of the business's operations and market share. It also aims to promote long-term business growth by limiting the power that insiders have over company resources.

Corporate governance encompasses the risk management practices of the organization. The purpose of risk management procedures is to detect and reduce hazards that could have an impact on a business's operations or reputation. Plans for risk minimization, risk assessments, and crisis management are a few types of risk management techniques. The financial performance of the organization can also benefit from good corporate governance practices. Businesses that follow sound corporate governance principles have a higher chance of drawing in investors, since the public wants more transparency and responsibility from businesses. Businesses with strong corporate governance policies are also less likely to get embroiled in financial scandals or moral failings, which can harm their standing in the marketplace and hinder their ability to make money (Andrieş et al., 2018).

The significance of corporate governance has increased recently, especially in the aftermath of financial scandals and moral failings. Companies who do not adopt sound corporate governance practices risk being at a competitive disadvantage as stakeholders and investors demand more responsibility and openness from them.

II. Conclusion

To sum up, a company's operations greatly depend on corporate governance. Enhanced investor appeal, enhanced company image, and decreased risk are all possible with sound corporate governance practices. Ethical failings, financial crises, and deterioration in the company's reputation can result from poor corporate governance practices. Since they are better able to draw investors, reduce risks, and enhance their financial performance, companies that follow sound corporate governance practices have a higher chance of long-term success. Corporate governance must therefore be given top priority by businesses, and sound governance procedures must be followed.

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