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Corporate Governance Index And Firm Performance: A Systmatic Literature Review

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ABSTRACT | *The concept of corporate governance has witnessed a surge in prominence over the past twenty years, with rising economies actively adopting and enhancing its implementation to achieve better outcomes. The objective of the review is to assess the extent to which the effects of corporate governance have impacted the performance of the firm. The present study employed scholarly journal articles, utilized a deductive technique, and incorporated the source of the review inside the reports. The researcher constructed a theoretical framework for the case study, drawing upon the insights and conclusions derived from the existing literature. The independent variable in this study is the corporate governance framework, whereas the dependent variable is the performance of the organization. The many functions fulfilled by organizational performances and the different types of corporate governance procedures exhibit both independent and interdependent characteristics. Based on the study conducted, it has been shown that various corporate governance practices have an impact on the performance of organizations. Moreover, it has been observed that the implementation of improved corporate governance processes has the potential to boost performance across all dimensions.*

KEYWORDS | *Corporate governance, organizational performance, board structure, board size.*

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INTRODUCTION

The notion of robust corporate governance has garnered significant global interest over the past two decades, leading to a multitude of research endeavors aimed at investigating its influence on organizational performance (Farooq, Ullah, & Kimani, 2016; Ibrahim & Zulkafli, 2016). According to Ibrahim and Zulkafli (2016), robust corporate governance practices may confer benefits to emerging nations by bolstering industrial competitiveness and providing resilience during periods of economic depression. Several studies have been undertaken to examine different facets of corporate governance, such as the relationship between corporate governance practices and business performance (Rashidah & Roszaini, 2005; Rashidah & Fairuzana, 2006). Furthermore, much academic study has been undertaken to examine the modification of corporate legislation and the adoption of corporate governance norms (Ow-Yong & Guan, 2000; Hee, 2003). Moreover, a number of research inquiries have been undertaken to analyze the effects of organizational culture, corporate disclosure, and corporate governance (Haniffa & Cooke, 2002; Haniffa & Cooke, 2005). Moreover, a number of scholarly investigations have been conducted to explore the relationship between corporate governance and different facets of business operations, such as financial performance (Farooq, Ullah, & Kimani, 2016), human resource management (HRM) practices, and corporate social responsibility (CSR) (Fawal & Mawlawi, 2018; Rashidah & Fairuzana, 2006; Ibrahim & Zulkafli, 2016). According to Cheah (2010), the 1997 economic crisis was attributed to insufficient corporate governance. According to Alnasser (2012), there exists a negative correlation between deficient corporate governance and business restructuring initiatives. Additionally, weak corporate governance is linked to an escalation in debt over-leveraging, a dearth of accountability and transparency in disclosure practices, and insufficient credit management.

The investigation of the influence of efficient corporate governance on the achievement of a firm in several areas is a topic of considerable research (Shahzad, Ahmed, Fareed, Zulfiqar, & Naeem, 2015). Specifically, the aforementioned studies individually investigate the overall effects, as well as the effects on human resource management, finance, marketing, operations, and corporate social responsibility. Nevertheless, there is a lack of comprehensive study that completely investigates every aspect of a solitary conceptual framework in order to evaluate the impact of corporate governance consequences on company success. The primary aim of this research is to fill the current gap in the literature by investigating the real-world application of corporate governance theories and evaluating their effectiveness.

This study employs a deductive methodology to elucidate the theoretical foundations of corporate governance and examine their practical implementation in real-life contexts. To evaluate the matter of corporate governance, the researcher undertook a systematic evaluation inside the present study, meticulously examining a range of scholarly articles and publications. The major research methodology employed in this study is doing a comprehensive review of existing literature. The primary objective of this study is to assess the pragmatic ramifications of corporate governance, while concurrently identifying and assessing the existing research void within this field of study. The objective of this study is to examine the empirical evidence pertaining to corporate governance. In conclusion, the researcher provides a summary of the findings and proposes suggestions for further investigation in this particular area of study.

Literature review

According to Fawal and Mawlawi (2018), the concept of corporate good governance encompasses a set of concepts and policies that pertain to the integration of institutions. The standards and guidelines in question pertain to the assessment of several aspects of a company's operations, such as performance, customer efficiency, service quality review, profitability, and institutional operations. These aspects encompass a range of disciplines, including finance, accounting, economics, marketing, and promotion. Conducting a thorough and officially sanctioned review of an organization's financial records and managerial processes can be seen as an aspect of corporate governance (Claessens & Yurtoglu, 2013). According to Schleifer and Vishny (1997), the implementation of corporate governance principles facilitates the attainment of a heightened level of security for the many stakeholders of a business. From a legislative perspective, corporate governance refers to the collection of regulations and laws that are designed to uphold the decisions made inside the corporate setting (Parkinson, 1993). According to Noordin and Kassim (2015), corporate governance possesses authority and establishes an authoritative relationship with the organization. As stated by Davis (2005), the suggested paradigm shift in corporate governance applies to the structural framework, operational methods, and institutional arrangements that organizations deploy to exercise power over their resources and impose control. The explication of good corporate governance practices may be achieved via the utilization of several theoretical frameworks.

Addressing the difficulties pertaining to agency is of utmost importance for the organization, as it necessitates the resolution of questions regarding the alignment between the organization's governing principles and its agents (Kopp, 2019). According to Kopp (2019), the dominant rationale posits that shareholders and agents assume the role of executives inside the organization. The chairman and CEO possess separate spheres of power and unique sets of duties in relation to the process of decision-making. As a result, the assessment procedure will encompass the unique characteristics and traits of each individual (Jensen, 1986). Moreover, to prevent conflicts and mismanagement among emergency agents, the directors serve as a crucial control mechanism (Nicholson & Kiel, 2007). Additionally, Almadi (2016) highlights the significance of public investors and the board of directors in the advancement of the board monitoring system.

Merely analyzing the duties and obligations of owners and directors is insufficient; it also fails to outline the additional significant stakeholders inside the firms (Ibrahim & Zulkafli, 2016). Additional clarification is necessary concerning the interests of the remaining stakeholders and the resulting consequences, in order to achieve a particular level of satisfaction (Abrams, 1951). The influence of corporate governance on a company's performance has been demonstrated through the involvement of stakeholders, in contrast to the responsibilities of shareholders and directors. The firms additionally possess noteworthy stakeholders, including the government, financial institutions, creditors, clients, and workers (Ibrahim & Zulkafli, 2016). In the present day, the primary assets of a business are mostly intangible in nature and are primarily managed by experienced individuals. Consequently, these assets are not only dependent on shareholders, as highlighted by Kay (2004). According to Young (2009), the senior management and governance structure have the responsibility of optimizing the financial value of the organization and making contributions towards the expansion of assets that are unique to the firm. The aforementioned explanations provide useful insights into the reputational assumptions made by the management (Young, 2009).

The motivation of employees is a crucial element that facilitates their ability to efficiently fulfill their duties and obligations (Menyah, 2013).

In order to effectively pursue the organizational goal of achieving a substantial degree of pleasure and fulfilling corporate obligations, it is crucial for personnel to embrace a collaborative strategy rather than an individualistic one (Subramanian, 2018). The theory proposed by Menyah (2013) offers an explanation for the fundamental reasons of management conduct across various kinds of businesses.The examination of corporate governance processes mostly centers around advanced markets, as highlighted by Noordin and Kassim (2015). The bulk of concepts in this field are directed towards these markets.

The prioritization of developed economies' social, economic, and political settings over those of established economies is evident in the formulation of corporate governance standards (Mueller, 2006; Fan, Wei, & Xu, 2011). Contrarily, the examination of the relationship between business principles and agents in emerging economies mostly focuses on corporate governance norms (Hillman, Cannella, & Paetzold, 2000; Xu & Meyer, 2013). The market and corporate practices are subject to the impact of several factors, including the political, social, economic, and educational sectors. These factors play a crucial role in assisting firms in the pursuit of their strategic objectives (Peng, 2004). Emerging economies extend support to informal entities, such as family companies, whereas formal organizations and commercial groupings adhere to established corporate governance norms and procedures. The aforementioned principles involve several aspects like as accounting standards, board makeup, and management accountability to shareholders (Almadi, 2016).

As a consequence of this phenomenon, a significant proportion of enterprises in developing countries place greater emphasis on their reputation and degree of trust, rather than relying on labor rules (Allen, 2005).

According to the research conducted by Hoskisson, Eden, Lau, and Wright (2000) as well as Xu and Meyer (2013), it is suggested that the established principles of corporate governance in industrialized nations can potentially be applied to the social, economic, and political contexts of emerging countries. This implies that the existing body of theoretical and applied research on corporate governance plays a significant role in facilitating the restructuring efforts inside emerging countries.

Methodology

The development of a complete framework relies on the theoretical foundations of corporate governance, which seek to improve the effectiveness and efficiency of a firm in terms of its profitability, productivity, customer happiness, and the public interest (Fawal & Mawlawi, 2018). The use of corporate governance practices tailored to individual industries enables the development of effective strategies that improve performance, strengthen market presence, foster stakeholder involvement, and promote awareness of institutional and market responsibilities (Andres & Vallelado, 2008). The implementation of corporate governance is expected to have a positive impact on the organization's strategic performance. To achieve the desired outcomes of lucrative, dependable, and stable performance, effective board monitoring is necessary. As a result, a specific element is employed to verify the effectiveness and success of the methods. In order to maintain the effectiveness of corporate governance, it is imperative that the board promptly responds to any issues and takes appropriate steps in accordance with the relevant laws and regulations (Fawal & Mawlawi, 2018).

The comprehensive corporate governance framework is developed by the Organization for Economic Co-operation and Development (OECD) (OECD, 2004). The framework, consisting of six components, aims to achieve many key objectives, including improving performance, expanding market share, implementing successful marketing strategies, and reducing uncertainty for all stakeholders (OECD, 2004). The aforementioned components consist of the following: The key areas that are crucial for effective corporate governance include: (1) the management and supervision of the Board of Directors; (2) the handling of company risks; (3) the provision of information and ensuring transparency; (4) the adherence to business ethics and practices; (5) compliance with legal regulations; and (6) the continuous monitoring of governance processes.

The characterization of the corporate governance system may be approached from an alternate perspective, taking into consideration the dimensions, makeup, and laws pertaining to the board of directors (Shahzad, Ahmed, Fareed, Zulfiqar, & Naeem, 2015). The influence of board size on organizational effectiveness is significant, as evidenced by studies indicating that smaller boards tend to outperform bigger boards (Lipton & Lorsch, 1992). Moreover, the makeup of the board exerts a significant impact on the company's success. According to the seminal work of Jensen and Meckling (1976), it is argued that the presence of independent members on the board is crucial for enhancing effective decision-making processes. In order to effectively manage board composition, it is necessary to have both executive and non-executive directors present (Shahzad, Ahmed, Fareed, Zulfiqar, & Naeem, 2015). The behavior of the Chief Executive Officer (CEO) has a significant impact on the accomplishments of the firm and can have long-lasting effects (Boyd, 1994).

Understanding the theoretical and practical implications of the corporate governance structure on organizational performance is of utmost importance, as indicated by the aforementioned empirical assessments.

Theocratical structure

The extant literature on corporate governance posits that the corporate governance structure exerts a substantial influence on several aspects of business operations. The specific primary functions of the aforementioned performances include finance (Almadi, 2016), marketing (Fawal & Mawlawi, 2018), human resource management (Ibrahim & Zulkafli, 2016), operations (Nadarajan, Chanderen, Bahaudin, Elias, & Nawi, 2015), and corporate social responsibility (CSR) (Miras-Rodríguez, Martínez-Martínez, & Escobar-Pérez, 2019). Moreover, the efficacy of the corporate governance system is profoundly influenced by the administrative framework of the firm. Based on a review of relevant scholarly sources, this study proposes that the performance of firms may be considered as the dependent variable, while the corporate governance structure is regarded as the independent variable. The independent variable in this study was the corporate governance mechanism, which encompasses various factors such as board structure, board size, CEO status, transparency of management information, business practices and ethics, and legal regulations (OECD, 2004; Shahzad, Ahmed, Fareed, Zulfiqar, & Naeem, 2015). The research examines many dependent variables, including operations, human resource management, finance, marketing, and corporate social responsibility, to measure reorganizational performances. The primary aim of this paradigm was to investigate the correlation between corporate governance and organizational performance. The assessment of the efficacy of Corporate Social Responsibility (CSR) is conducted in conjunction with the evaluation of the firm's financial, operational, human resource management, and marketing performances, each of which is analyzed independently. Furthermore, the researchers are examining the impact of different corporate governance systems on many aspects of organizational performance. For instance, they are exploring how a board structure might potentially improve the financial performance of the company. This investigation is based on the theoretical and practical insights derived from previous studies.

Reviewing case studies

In order to achieve effectiveness, the majority of organizations depend on managerial decisions and organizational structure (Abrams, 1951). The scrutiny of those decisions is conducted by the governing authorities and the ownership of the firm (Edirin, Ekwueme, & Edesiri, 2015). The efficacy of the judgments made by the governing authority is influenced by the techniques they employ (Almadi, 2016).

The primary concerns in corporate governance are the CEO's role, the board's composition, and the board's framework (Chong, Guillenb, & Lope, 2009). The study conducted on the cement industry in Pakistan revealed that the composition and dimensions of the board of directors have a substantial impact on the performance of the firm (Shahzad, Ahmed, Fareed, Zulfiqar, & Naeem, 2015). Moreover, the aforementioned study demonstrates that the standing of the CEO is significantly influenced, although in a detrimental manner, with regards to the advancement of the firm (Shahzad, Ahmed, Fareed, Zulfiqar, & Naeem, 2015). The study conducted by Fawal and Mawlawi (2018) suggests that the level of transparency in management information has a crucial role in determining the success of businesses, specifically within the banking industry in Lebanon. A comprehensive analysis of the Turkish businesses included in the Fortune 500 demonstrates a significant correlation between business ethics and practices and corporate success (Bayraktarolu & Ylmaz, 2012). The performance of the Mexican organization was shown to be significantly influenced by legislative constraints, as indicated by empirical studies (Chong, Guillenb, & Lope, 2009).

The efficacy of a company's specific divisions and its overall performance can be impacted by corporate governance regulations. The whole organizational performance is comprised of the operational, marketing, HRM, financial, and CSR divisions, as outlined in the conceptual framework of the research. The performance of each component of corporate governance systems has been extensively examined by several scholars in the academic community.

The study conducted by Nadarajan, Chandren, Bahaudin, Elias, and Nawi (2015) examines the relationship between corporate governance and operational performance in Malaysian Listed Firms. The research investigates the impact of various corporate governance practices on operational performance. The relationship between the corporate governance structure and operational success has been demonstrated to be highly interdependent. The study examines several corporate governance approaches, including board independence, multiple directorships, and CEO duality. The present study examines the interrelationships between the board structure, board size, and CEO position (Nadarajan, Chandren, Bahaudin, Elias, & Nawi, 2015). The assessment of marketing success holds significant importance in the context of overall organizational performance. The findings of a research conducted on Lebanon's banking sector indicate that corporate governance has a substantial role in determining the operational efficiency of corporations (Fawal & Mawlawi, 2018). Moreover, the study highlighted the importance of the content, performance, and openness of information shown on marketing boards in influencing marketing outcomes (Fawal & Mawlawi, 2018). Research conducted by Ibrahim and Zulkafli (2016) indicates a noteworthy correlation between an organization's human resource management (HRM) practices and its corporate governance practices. This finding is supported by research examining the relationship between HRM practices, corporate governance, and organizational performance. The study examined the utilization of corporate governance practices, namely board independence, external directors, and information transparency. These practices were assessed in relation to the board's size, structure, and transparency of management information within the current study (Ibrahim & Zulkafli, 2016). Another crucial implication that warrants investigation by the researcher is the influence of corporate governance practices on the financial performance of the organization. Several studies have examined the relationship between corporate governance and financial performance, and a significant association has been identified by the majority of researchers (Noordin & Kassim, 2015; Almadi, 2016; Edirin, Ekwueme, & Edesiri, 2015).The present research focuses on Malaysian construction firms that are publicly listed, examining the variables of board size, board independence, and the presence of duality. The aim is to explore the impact of corporate governance practices on the financial performance of these enterprises (Noordin & Kassim, 2015). A recent study conducted on emerging markets explored the impact of corporate governance practices, specifically board structure, on financial success. The study examined the independent variable of board structure, which encompassed the dimensions of board size, composition, and frequency of meetings (Almadi, 2016). The present study incorporated theoretical considerations of board-related components when evaluating organizational performance in the context of corporate governance procedures. Additionally, a research conducted in the United States revealed that the adherence to corporate governance principles has a substantial influence on a company's implementation of corporate social responsibility (CSR) initiatives (Farooq, Ullah, & Kimani, 2016).

The corporate governance case study reveals a notable correlation between the achievement of a business and the implementation of corporate governance procedures. Furthermore, it has been demonstrated that each practice exerts a substantial influence on the achievement of organizational success. In addition, the author conducted an analysis of the impact of corporate governance practices on the operational efficacy of various organizational functions, as well as the influence of each practice on the performance effectiveness of these functions. The case study provided ample evidence to support the assertion that adherence to corporate governance principles plays a crucial role in attaining organizational success.

Conclusion

Corporate governance is a strategic framework that aims to institutionalize and regulate the governing mechanisms inside a company. Currently, the matter at hand is of considerable importance, leading the majority of emerging nations to endeavor towards improved corporate performance (Rashidah & Roszaini, 2005; Rashidah & Fairuzana, 2006). Dissanayake, "Wasantha," and Jinadasa (2017) argue that the facilitation of performances, encompassing innovative practices that yield a competitive edge, is contingent upon internal frameworks and procedures. Therefore, while it may be possible to achieve this goal by using efficient management strategies, it is essential to have internal stakeholder drive.

As a result, developing nations are already undertaking trials to ascertain the potential effectiveness of corporate governance standards in improving the performance of their firms. The researcher underscored the importance of key corporate governance principles, including board structure, board size, CEO position, transparency of management information, business practices and ethics, and adherence to legal requirements, as evidenced by the existing literature. The author provided further details about the categorization of organizational performance into five discrete domains, as previously identified via scholarly investigations. These categories include operations, marketing, human resource management, finance, and corporate social responsibility. Upon careful analysis of previously conducted investigations, the researcher has reached the understanding that corporate governance procedures serve as a mechanism and play a vital role in evaluating organizational success. Furthermore, the study highlighted many corporate governance practices, including those related to board size, composition, CEO status, information openness, business ethics, and regulatory requirements (OECD, 2004; Fawal & Mawlawi, 2018). The investigation ultimately concluded that the performance of corporate organizations is impacted by various corporate governance practices, and that the implementation of improved corporate governance systems has the capacity to boost performance across all levels. Additional research is necessary, specifically focusing on the perspectives of stakeholders, as shown by studies that have explored corporate governance and corporate social responsibility (CSR) (Medis, Yong, Ali Khatibi, & Azam, 2016). According to a study request by Dissanayake and Jayawickramarathne (2007), there is an expectation for future research to concentrate on the service industry. Subsequently, more research might be conducted to determine the effectiveness of various corporate governance methods in impacting organizational performance. Additionally, it is possible to focus the examination of corporate governance practices specifically on the impact they have on the performance of small and medium-sized enterprises (SMEs). Additional research might be undertaken to evaluate the obstacles and intricacies linked to the implementation of a comprehensive corporate governance structure, with the objective of augmenting the organization's performance.

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